Longhurst Group

LONGHURST GROUP LIMITED
(A Company Limited by Guarantee)

Consolidated Financial Statements

For the year ended 31 March 2012

Company Registration Number: 3958380

Contents

	Page
Board Members, Executive Officers, Principal Advisors and Bankers	4 - 5
Report of the Board	6 - 8
Operating and Financial Review	9 - 20
Report of the Independent Auditors	21 - 22
Income and Expenditure Account	23
Statement of Total Recognised Surpluses and Deficits	24
Balance Sheet	25
Cash Flow Statement	26
Notes to the Financial Statements	27 - 56

Board members and executive staff

Board Members:
Mr D Armes (Chairman)
Ms L Bowen
Mr J Farrar
Ms C McEwen (Vice Chair)
Mr S McFarlane MBE
Ms J Reader-Sullivan
Mr J Robson FCIH
Mr R Rudd
Ms R Weaver
Mr D Young MBE, JP

Executive Officers:

Mr R V Walder BSc, FCIH	Group Chief Executive
Ms J Doyle DMS, MBA, ACIH	Managing Director – Spire Homes and Group Deputy Chief Executive
Mr R Griffiths FCCA	Executive Director – Group Financial Services
Mr M A Hardy BA (Hons), MBA, FCIH	Managing Director- Longhurst and Havelok Homes
Mr P Osborne	Managing Director –Longhurst Group
Mr J Driffill BA (Hons), MSc, MRTPI, ACIH	Managing Director - Friendship Care and Housing

Senior Managers:

Mr J Fletcher BA (Hons), MIPD	Director of Human Resources
Mr I Jackson	Director of Development POD/LG
Mrs J Matthews	Director of Marketing
Mrs K North ACA	Director of Operational Finance
Mr K Edwards	Director of Operational Finance
Mrs K A Wood MAAT	Director of Group Treasury
Mrs Y Lowe PGDipMS, MCMI, MCIH	Director of ICT
Mrs Z Wortley BA (Hons)	Group Strategy Director

Registered Head Office:
Leverett House
Gilbert Drive
Endeavour Park
Boston
Lincolnshire PE21 7TQ

Principal Bankers:
Lloyds TSB Bank Plc
Market Place
Boston
Lincolnshire

Auditors:
Beever and Struthers
Chartered Accountants and Statutory Auditor
St George's House
215 - 219 Chester Road
Manchester M15 4JE

Solicitors:

Chattertons
28 Wide Bargate
Boston
Lincolnshire PE21 6RT

Trowers and Hamlins
Heron House
Albert Square
Manchester M2 5HD

Langleys
Newporte House
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London WC2R 1JN

Registered with the Homes and Community Agency No: L4277

Report of the board of management

The Directors of Longhurst Group Limited are delighted to present the twelfth Annual Report and Audited Accounts for year ended 31 March 2012. Consolidated and Company Accounts have been prepared for the year ended 31 March 2012.

Background

Longhurst Group is a leading provider of affordable housing, care services and supported housing across the East and West Midlands. Longhurst Group Limited was first registered at Companies House on 23 March 2000 and started trading during the 2000/01 financial year.

The Group was formed with the assistance of the Board of Longhurst Housing Association Limited (now Longhurst & Havelok Homes). The initial Group structure consisted of Longhurst Housing Association, East Northamptonshire Housing Limited - later known as Spire (LG) Homes - and Home from Home (Lincs) Limited.

A new subsidiary of the Group, Keystone Developments (LG) Limited, was formed on 11 September 2001. This company widened the Group's activities, allowing housing for sale to be developed in partnership with other member companies.

Havelok Housing Association (later Havelok Homes) joined the Group on 1 October 2003, to grow the organisation and benefit from central support services.

During 2005, negotiations were conducted with fch Housing and Care of Birmingham (later Friendship Care and Housing) about potential Group membership. Following regulatory approval of the business cases, Friendship Care and Housing formally joined Longhurst Group on 15 May 2006.

From 2006 to 2008, Longhurst Group worked with Nottingham Community Housing Association in a development Consortium. In 2008, the two partners formalised this arrangement by creating POD, a joint venture LLP owned equally by both organisations.

On 1 October 2009, company members Longhurst Homes and Havelok Homes amalgamated to form a new subsidiary, Longhurst and Havelok Homes.

During 2010 Friendship were selected as preferred partner by Beechdale Community Housing Association. The partnership proposal was for both organisations to amalgamate and this was formally approved by the Boards of Friendship and Beechdale at the end of 2010. The amalgamation was completed on the 28th April 2011 and the new organisation has retained the name Friendship Care and Housing Limited.

Corporate Mission and Objectives

The Group's strategy and objectives are set out in a business plan, reviewed annually and approved by the Board.

The Group mission remains unchanged – "to lead and inspire growth based on excellence in service provision". The corporate strategy is based on three key objectives:

Growth – this includes organic development as well as growth achieved through acquiring new homes and diversifying services

Excellence – we will continually strive for the highest quality in our systems and performance, and through the way we innovate

Communications – by securing the necessary technical infrastructure and operational frameworks, developing closer internal communications networks and clear responsibility for relationship management and using the appropriate communications channels to connect with people and support our business aspirations.

Principal Activities

The Group is a leading provider of affordable housing in the East Midlands region, now managing over seventeen thousand homes in the region.

The Company's principal role is that of parent company for the Longhurst Group of companies.

The Group consists of the following organisations:-

- Longhurst Group Limited (the parent)
- Longhurst and Havelok Homes Limited (subsidiary)
- Spire Homes (LG) Limited (subsidiary)
- Friendship Care and Housing Limited (subsidiary)

Report of the board of management (continued)

- Keystone Developments (LG) Limited (subsidiary)

Basis of consolidation
The results of the constituent members of the Group have been aggregated as this provides the most meaningful consolidated results for the Group.

The results for the Group are for the year ended 31 March 2012.

Board Members
The Members of the Board who served during the year are shown on page 4.

Disabled Employees
Applications for employment by disabled employees are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and appropriate training made available. It is the policy of the group that training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employees
The group places considerable value on the involvement of its employees and continues its practice of keeping them informed on matters involving them as employees and on the various factors involving performance of the group. This is achieved through regular formal and informal meetings, briefings and the intranet.

Statement of Directors' Responsibilities in Respect of the Accounts
The Board is required to prepare financial statements for each financial year that give a true and fair view of the Company's state of affairs, and income and expenditure for that period.

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

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

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time, the financial position of the Company and enable it to ensure that the financial statements comply with the Companies Acts.
The Board is also responsible for safeguarding Company assets and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities, by establishing, and maintaining a satisfactory system of control over the Company's accounting records, cash holdings and all its receipts and remittances.

As far as the Directors are aware:

- there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Directors' Statement on Internal Controls
The Board acknowledges its ultimate responsibility in ensuring that the Company has an effective system of internal controls in place. The system of internal controls is designed to manage key risks and provide reasonable assurance that planned business objectives are achieved and well-managed.

It is the Board's responsibility to establish and maintain appropriate systems of internal control for Longhurst Group. The Group Board also has overall responsibility for ensuring that the appropriate level of internal control is in place throughout all Group companies. Such systems of control can only provide reasonable and not absolute assurance against material financial misstatement or loss. The Group Board is supported in its responsibility in overseeing the adequacy and effectiveness of internal controls across the Group by the Audit Committee.

The Board's approach to risk management includes the regular evaluation of the nature and extent of

Report of the board of management (continued)

the risks to which the Company is exposed. This approach is consistent with the Turnbull principles and accepted best practice. Key elements include:

i) Formal policies and procedures are in place, including the documentation of key systems and rules relating to the delegation of authorities, which allow the monitoring of controls and restrict the unauthorised use of the Company's assets.

ii) The Board has adopted a clear anti-fraud policy statement and approved a detailed fraud response plan. The policy statement has been communicated to staff and is part of the Governance Policy of the Company. The Audit Committee has reviewed the fraud register on a quarterly basis during 2011/12.

iii) The Board has approved a risk management strategy and continues to develop procedures to identify, assess and manage risks to which the Company is exposed.

iv) The Group has implemented an integrated Group wide risk management system to coordinate work on key risks across the Group and to ensure that risks are appropriately managed and reported to the Board

v) Experienced and suitably qualified staff take responsibility for important business functions. Annual appraisal procedures have been established for both Board and members of staff to maintain standards of performance.

i) Forecasts and budgets are prepared which allow the Board and management to monitor the key business risks and financial objectives, and progress towards financial plans set for the year and the medium term; regular management accounts are promptly prepared, providing relevant, reliable and up-to-date financial and other information and significant variances from budgets are investigated as appropriate.

ii) All significant new initiatives, major commitments and investment projects are subject to formal authorisation procedures, through relevant sub-committees comprising Board members and others.

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

iv) Formal procedures have been established for instituting appropriate action to correct weaknesses identified by the internal and external auditors as well as issues identified by the Audit Committee and individual Boards.

The Board has reviewed the effectiveness of the system of internal control in existence in the Group for the year ended 31 March 2012 and until the date of approval of these accounts. No weaknesses were found in internal controls that resulted in material losses, contingencies, or uncertainties that require disclosure in the financial statements or in the auditor's report on the financial statements.

Political and charitable
There were no political and charitable contributions during the financial year ended 31 March 2012 (2011: Nil).

Auditors
In accordance with Section 485 of the Companies Act 2006, a resolution to re-appoint the Company's auditors, Messrs Beever and Struthers, will be proposed at the Annual General Meeting.

Approved by the Audit Committee on 20 July 2012 under delegated authority from the Board on 23 May 2012 and signed on its behalf by:

…………………………………………

R V Walder
Company Secretary

Date: 20 July 2012

Operating and Financial Review

Longhurst Group, as the parent, led by a Group Chief Executive provides strategic direction, support and corporate services to all member companies. This helps Group members to share expertise, avoid duplication and be recognised for their distinctive strengths and local focus.

The Group has grown significantly over the past 12 years and strategic change has provided the foundations for further expansion and development.

Each year, Longhurst Group Ltd sets a budget to reflect the costs of services provided to Group members. These services, provided in accordance with service level agreements (SLAs) for each area of operation, were adhered to in 2011/12. Each SLA has been reviewed with the relevant member company to confirm its suitability.

Summary of key events for 2011/12

The year progressed against a backdrop of the economic crisis in Europe and with our Government beginning to implement its measures to reduce public spending and borrowing. Despite this uncertainty the Group's financial performance has been very sound with a significantly increased operating surplus and some important positive trends in performance generally.

In recent years the Group's member companies have invested heavily in planned repairs and improvements. As the promises to invest in transferred property have been met expenditure has now slowed and, although there are still some programmes to complete at Rutland, this will reduce further in the next few years. Combined with better procurement arrangements for our repairs programmes and new contracts delivering better value for money we expect to see further performance improvement in future.

All Group companies continue to review their cost base. During the year new strategies have been adopted and services restructured to reflect changes in the external environment. For example, L&H Homes have reviewed their residential care provision and support work to focus on specialist dementia care and non-residential support services in future. This has addressed the needs of the local market and made services viable and relevant. Spire Homes have withdrawn from some external contracts which were not economically viable and refocused resources into other business activities. Friendship has completed the amalgamation with Beechdale Community Homes, has provided new ICT systems and integrated the local delivery and back office services to reduce costs and enable the regeneration of the estate to proceed. Group wide we have completed the strategy to bring all housing ICT systems on to one platform cutting the costs of maintenance and development of the system.

The financial changes of the past year have been matched by good performance across the Group. For example:-

- L&H Homes received the Customer Service Excellence Standard (awarded by the Cabinet Office) at the start of 2012.
- Spire Homes achieved fantastic results in their Status Plus Survey and were ranked among the UK's top performers for customer satisfaction.
- Friendship developed its successful Customer Access Centre in 2011 and is using customer feedback in working towards Investors in Excellence accreditation.
- Group wide we achieved Investors in People (IiP) Silver accreditation in 2011. This puts the Group in the top 3% of all IiP recognised companies.

One direct impact of the government's response to the economic situation has been the major reductions in funding available for new development. A 65% cut nationally and a changed funding system saw the programme in the East Midlands reduce dramatically. There was also a considerable delay in implementing the new system with the result that very few new homes started on site before the Autumn of 2011 so most development activity in 2011/12 was either self-funded or completions from the existing 2008/11 programme. The Group's development activity was focused mainly on completions but still produced several hundred new homes; our new affordable programme was limited to approx. 120 rural homes for which we agreed funding from the Homes and Communities Agency (HCA) at the end of the year and a joint venture with Larkfleet Group to provide 60 leasehold homes for sale in Bourne, Lincolnshire.

The Blue Skies Consortium has recently reconfirmed its status as a preferred provider with the HCA and

Operating and Financial Review

is participating in various funding streams as part of the national affordable programme.

During the year Friendship were able to work in partnership with Birmingham City Council, Ark Housing Consultancy and George Clark of Channel 4 Television to bring an old empty property back into use as a large family home as a demonstration of how such schemes can provide much needed accommodation. Part of the funding was provided for this project by Channel 4 and the outcome was nationally broadcast.

Continued development activity

During 2011/12 Longhurst Group retained its status as a partner of the HCA. We were one of the first registered social landlords to be selected for partnering and have been proud to work closely with the government agency and its predecessor demonstrating a strong track record in exceeding established targets and supporting national objectives. However we were not successful in the initial bidding round for the 2012/15 programme.

Since 2005/06 the Group has led the Blue Skies Consortium. This partnership of 14 housing organisations provides collective strength through shared skills, expertise and resources – enabling members to access development opportunities that would not be available to them individually.

During the year, both Consortium and Longhurst Group members continued to deliver to a substantial number of homes completing a programme of 1,300 homes overall.

To summarise our achievements during 2011/12, we:-

- completed 201 homes against a target of 190 under the National Affordable Housing Programme
- completed a further 96 homes outside of the National Affordable Housing Programme
- secured funding via the HCA 2011-15 programme for 72 homes that were all started before the end of March
- started work on a further 70 homes outside of the HCA programme

Our development consultancy, POD (in equal partnership with Nottingham Community Housing Association) also continued to trade successfully during the year.

Towards the end of the financial year the Consortium was successful with further funding bids made to the HCA and a modest programme of grant funded schemes has been secured. The most significant development activity in the year has been the establishment of a new development programme of over 1,000 homes which is not reliant on grant funding and which will enable us to make a significant contribution to the housing needs of the Midlands over the next few years.

Strategy and objectives

The Group's strategic objectives are considered annually as part of the business planning process. During 2011/12 the Group Board agreed key objectives for the year ahead, and strategies that we believe will help to achieve those objectives.

The key objectives for Longhurst Group for 2012/2013, and our agreed strategies for achieving business success, are summarised in the following table.

Operating and Financial Review

Area	Objective	Strategy
Growth	• To increase the number of units owned and managed in the Group • To increase Group Turnover	• Seek new transfers of stock to existing or new member companies, where there are like-minded partners and a genuine desire to engage • Deliver on the development targets within operating companies' business plans • To find new sources of finance to fund growth objectives • Provide alternative tenure types for all future developments
Growth	To develop new retirement housing schemes and other market-related development opportunities through Keystone Developments (LG) Limited	• To deliver the scheme at the Croft in Bourne, Lincolnshire • To establish a pipeline of potential schemes • To secure planning consent for the site at Humberston Road, North East Lincolnshire
Growth	• To retain preferred partnership status with the Homes and Communities Agency • To maintain the active involvement of the Blue Skies Consortium in future housing development	• Regular monitoring and review by Group development team • Keep Homes and Communities Agency up-to-date on any schemes • Regular review of targets and performance within the whole Consortium • Monitor grant levels and funding mechanisms • Identify best ways of working with partners to secure funding and develop homes • Explore new and innovative ways to develop across the Group
Excellence	To support Group members in maintaining and improving service excellence across key business areas	• Identify performance improvements and cost savings that will benefit the whole Group • Explore options that will help member companies to work together more effectively – generating cost savings, freeing up resources or leading to improved ways of working • Participate in benchmarking clubs and take note of best practice • Continue to promote and facilitate collective procurement opportunities, ensuring that value for money is integrated into performance frameworks

Operating and Financial Review

Excellence	To reduce costs and improve efficiency across the Group	• To identify further areas of our work where we can work more collaboratively on joint projects and procurement • To increase stock levels within member companies' ownership, and achieve reduced unit costs
Communication	To enhance communication, ensuring that customer feedback and choice influences service delivery across the Group, and underpins everything we do	• Completion of a group-wide intranet and enhanced customer relationship management systems • Develop a compelling proposition to attract stakeholders who share our aspirations for growth • Ensure that tenant Board members continue to influence the work of Longhurst Group and its member companies • Involve the Group's customers in the development of local offers, frameworks and performance reviews • Ensure that service standards reflect customer expectations and choice, in line with the Regulatory framework • Share best practice on community involvement and regeneration across the Group, giving all tenants an opportunity to get involved in line with their preferred methods of engagement and amount of time available to contribute

Operating and Financial Review

Financial Performance in the Year
Longhurst Group turnover and operating surplus performance for 2011/12 are shown in the table below.

	2012 £'000	2011 £'000
Income and Expenditure Account		
Turnover	**82,527**	87,434
Operating costs and cost of sales	**(66,488)**	(75,683)
Operating Surplus	**16,039**	11,751
Surplus on the sale of assets	**3,362**	7,131
Net Interest Costs	**(15,701)**	(15,002)
Tax	**(59)**	(82)
Surplus for the year after tax	**3,641**	3,798

Balance Sheet		
Housing properties at cost less depreciation	**620,345**	585,061
Social Housing Grant	**(268,463)**	(265,797)
	351,882	319,264
Other tangible Fixed Assets	**15,920**	15,221
Net Current Assets	**(343)**	(2,941)
	367,459	331,544
Creditors due after one year	**320,320**	288,006
Other long term liabilities (pensions)	**2,543**	2,047
Reserves	**44,596**	41,491
	367,459	331,544

Income and Expenditure
We are pleased to present the consolidated Group Financial Statements for the year ending 31st March 2012. The consolidated Group surplus for the year was £3.64m compared to a surplus of £3.79m in 2011.

The notes to the Financial Statements are shown in detail on pages 20 to 47, some key areas of performance during the year were:

Income
- Total Group turnover decreased from £87.4m to £82.5m. The reduced level of turnover in 2011/12 was due to a reduced level of Design and Build fees generated by Keystone Developments on services provided outside of the Group.
- Turnover from Social Housing Lettings rose from £65.7m to £69.4m as a result of more new properties coming into management.
- The operating surplus on social housing lettings increased from £11.9m in 2011 to £15.2m in 2012.

Expenditure
- Total Group operating costs decreased from £75.6m to £66.4m, in line with the reduced level of Design and Build fees generated as mentioned above.
- Net interest payable for the Group increased to £15.7m up from £15m in 2011, reflecting the increase in total debt held by the Group.
- The average cost of borrowing reduced from 5.19% in 2011 to 4.99% in 2012.

Operating and Financial Review

Beechdale Community Housing Association & Friendship Amalgamation
During 2011/12 the above two organisations amalgamated with the new entity being called Friendship Care & Housing.

The figures for 2011 have been restated to reflect this amalgamation to provide comparative figures.

Balance Sheet
The key highlights from the consolidated Group Balance Sheet are as follows:

- The historic cost of the Group's housing assets increased from £627.3m at the start of the year to £669.3m at the end of the financial year.
- The Group's total cash reserves increased to £12.1m at the end of 2011/12, up from £9.95m in 2010/11.
- The total loans outstanding across the Group increased from £288m in 2011 to £321m at the end of March 2012.
- Total Reserves across the Group amounted to £44.6m at the end of March 2012, up from £41.5m at the start of the year.

Treasury Management
The Group is financed through a combination of Social Housing Grant, short and long term loan facilities and surpluses generated through our normal business activities.

The loan facilities that are in place across the Group are all held by the asset owning Registered Providers within the Group; L&H Homes, Spire Homes and Friendship Care & Housing. Longhurst Group Ltd does not own any housing assets nor does it have any debt in its own name.

The Treasury Management function for all Group members is managed by the Group's Finance Team. The guiding principle of the Group's approach to Treasury Management is to ensure that member companies have sufficient cash to meet on-going capital and revenue commitments and to protect the Group against adverse movements in interest rates.

The Treasury strategy is reviewed annually by the Group's Finance & Treasury Committee and monitored on a quarterly basis. The Group's Treasury Management strategy states that:

- between 70% and 90% of drawn funds should be fixed or hedged for periods ranging from 2 – 30 years
- the remaining 10% - 30% should be held as variable rate debt or hedged on a short-term basis.

The Group's Treasury Policy defines Treasury Transactions that give the lender the option to cancel, as a short, medium or long term hedge depending on the next date that the lender could exercise that option.

Group Loan Facilities
At the 31st March 2012 the Group had total drawn debt of £324.3m and undrawn facilities totalling £61m.

The combined mix of fixed and variable debt across the Group is summarised in the table opposite:

Operating and Financial Review

The combined mix of fixed and variable debt across the Group

		2011/12			2010/11		
		Debt £'m	Interest Rate	Percentage of Borrowings	Debt £'m	Interest Rate	Percentage of Borrowings
Fixed Long Term	10+	106,492	5.80%	38.34%	111,550	6.08%	38.24%
Fixed Medium Term	6 to 10	46,909	5.55%	18.20%	52,943	4.94%	18.15%
Fixed Short Term	2 to 5	64,583	4.54%	18.49%	54,551	3.92%	18.70%
Medium/Long Term		14,400	5.30%	5.01%	14,580	5.30%	5.00%
Total Fixed		**232,384**	**5.37%**	**80.04%**	**233,624**	**5.27%**	**80.10%**
Variable	0 to 1	63,132	2.73%	10.06%	29,254	1.55%	10.03%
Hedged Short Term		28,827	5.09%	9.90%	28,800	5.09%	9.87%
Total Variable		**91,959**	**3.47%**	**19.96%**	**58,054**	**3.26%**	**19.90%**
Total		**324,343**	**4.83%**	**100.00%**	**291,678**	**5.10%**	**100.00%**

Operating and Financial Review

The majority of the Group's Loans have been arranged under long term facility periods. The repayment profile for the debt held across the Group is summarised in the table below.

	2012 £'m	2011 £'m
0 to 1 year	**3,822**	2,727
1 to 2 years	**4,039**	3,858
2 to 5 years	**23,572**	13,333
Greater than 5 years	**292,910**	271,760
Total	**324,343**	291,678

Loan Covenants
There are a number of different Loan Covenants in place on the individual facilities held by Group members. The key covenants measure asset cover, interest cover, gearing and cash flow performance and vary across each Group company. Compliance against Loan Covenants is monitored by the Group's Treasury Team and reported to the Group's Finance & Treasury Committee. There were no breaches of any Loan Covenants during the year.

Loan Structure
The loan facilities across the Group are all held at member company level with security provided from the housing assets owned by each company.

Loan Covenant Compliance
The loan covenants for loans held by Friendship Care and Housing and L&H Homes are primarily based on interest cover and loan gearing ratios. For Spire Homes the loan covenants are based on cash flow ratios agreed annually with the Lloyds Banking Group. Loan covenants are monitored monthly and were met throughout the year and at the year end for all loan facilities.

Restructuring Of Group Loan Facilities
During the financial year, the Group and member company Boards considered a number of reports from the Group's Treasury Advisors on the future funding options available to the Group. Following a detailed review of the options available, in late 2011 the member company boards and Group Board approved a recommendation to restructure a proportion of the existing debt held with L&H Homes and Spire Homes and to move forward with putting in a place a capital market funding structure for the Group.

At the Balance Sheet date, work to put in place a capital market funding structure for the Group was at an advanced stage with an expected completion date of mid – July.

Interest Rate Exposure
At the 31st March 2012, the Group had a negative stand-alone interest swap exposure of £26.5m (2011:£11.5m), based on £115.3m (2011:£111.3m) of notional paying fixed rate swaps. Of this only £0.6m was required to be met by cash or security. The remaining Mark to Market position of £25.9m was not required to be covered by cash or security as defined in the Credit Support Annex to the Loan Agreements. The weighted duration of swaps was 11.5 years (2011:12.3 years) and the weighted interest paid was 4.49% (2011:4.49%)

Risk management
Risk management is an important part of the overall internal control system across Longhurst Group and its member companies. The continued difficult economic climate and the fast-evolving business environment

Operating and Financial Review

reinforces the need for effective risk management (including analyses of changing government policy and its implications for the housing sector); at the same time, challenging economic conditions have created numerous business opportunities within the Group.

We have developed robust systems to identify, evaluate and manage key business risks. Any new areas of business or major projects are individually risk-assessed and reported to the Board prior to work commencing. This process includes a prudent financial assessment, sensitivity analysis and exploration of whether additional management controls or insurance is required to mitigate against significant loss.

The Group has now implemented a risk management database system across all companies, which will refine the quality of management reporting, secure even more effective co-ordination of risk management activities and provide efficiencies in the administration of risks.

The risks identified below are the five risks which are currently those seen as presenting the greatest potential impact to our operations and as such requiring extra monitoring and management.

RISK	RESPONSE
Welfare Reform Act	The changes being introduced from October 2013 will result in the housing element of benefits being paid direct to some of our tenants. A reduction in benefits will also be applied where some of our properties are deemed as being under-occupied. Controls in place include: • Potential financial impact modelled in the Business Plan • Under occupation changes will not affect elderly tenant Group. • Data profiles of tenants updated / compiled • Income collection Teams working on revised policies and procedures to mitigate these changes • IT systems are being reviewed to ensure they support these changes to the fullest extent
Constraints on future development funding	Through the 2010 Comprehensive spending Review there is now limited Social Housing Grant (SHG) available for new developments Controls in place include: • Development partnering status retained with the HCA • The Group will bid for allocations of SHG if any becomes available from unallocated affordable rent bids • Rents on new developments to let at affordable rents
Changes to pension legislation and performance of current schemes	The latest triennial valuation for the Social Housing Pension Scheme and the introduction of Auto-enrolment in late 2013 will increase costs to the Group. Controls in place include: • Consideration as to what schemes to be offered at auto enrolment • Consideration of alternative SHPS schemes • Potential increase in costs are being modelled within the Group's Business Plan to assess the overall impact

Operating and Financial Review

Care and Support Services	This is an area of our work that continues to remain financially challenging with continued cuts in Local Authority funding Controls in place include: • On-going Board review of care and support strategy • Sale of one residential care home • Inspection results and reputation for these services continue to be rated highly
Financial Markets and availability of private finance	Following the restructuring of balance sheets by UK banks and the continuing economic challenges being faced in the UK and Europe, the availability of funding is scarcer and more expensive Controls in place include: • At the Balance Sheet date the Group was in the process of gaining a credit rating and was at an advanced stage in work to issue a listed Bond • Negotiations with lenders to restructure a proportion of the Group's debt had been agreed in principle • Robust Treasury Management policies are used to manage cash and loan portfolios • Continued use of independent professional advisors

Regulation
We are immensely proud of our strong relationships with the TSA and HCA, and always welcome the opportunity for dialogue or feedback so that we can keep improving – both at Group level and within member companies. Clearly with the closure of the TSA in March 2012 and the shift of regulatory powers to the HCA our relationships and communication with these bodies will change. Nonetheless we are confident that we have built firm foundations over the years which will enable us to positively develop our relationships over the next few years.

One of the last acts of the TSA before it closed was to publish a new regulatory framework for social housing. This had been developed in the past year and represents a new direction for regulatory contact. The framework provides for three "Economic Standards" covering governance and financial viability; value for money; and rent. These standards are subject to the enforcement powers of the regulator. There are also 'Consumer Standards' covering tenant involvement, the Home, Tenancy and Community matters. Only breaches of consumer standards which create a risk of "serious detriment" will be subject to enforcement powers. Furthermore whereas "consumer standards" apply to all registered providers the economic standards only apply to private registered providers (such as housing associations).

Each of the standards is divided into "required outcomes" and "specific expectations". The emphasis throughout the framework is upon organisations taking responsibility for strategically addressing the standards and ensuring together with customers and stakeholders a transparent and accountable approach to their work. Longhurst is committed to continuing to meet all these standards and we are working on the effective means of making information publicly available to demonstrate how we are doing this.

Governance
Longhurst Group has always been aware of the importance of good governance and has worked hard to ensure that robust structures and processes of review are in place.

Operating and Financial Review

The Group has further refined the board self assessment framework following the completion of a full round of board member development interviews in 2011. Through our Board appraisals process, training needs and plans are agreed with members annually. We also reviewed our strategic direction in a series of Board Meetings and away days during 2011/12.

The format of Group Board meetings has changed to provide greater time to discuss strategy and for board development and ensuring that the service provision of the parent corporate services is open to scrutiny. We have been working closely with our member companies to provide governance support, including carrying out reviews of their current arrangements, supporting them in the consideration of board payment, reviewing board assessment processes and competencies, providing policy guidance, developing training plans, ensuring that effective succession planning measures and development/training programmes are in place.

The Group's Audit Committee and Finance & Treasury Committee supported the work of the Group Board during 2011/12. The Finance & Treasury Committee was established during in 2010 in recognition of the increasing complexity of the Group's finances and to reduce the burden of work of the Audit Committee. The Audit Committee now concentrates on work associated with Internal and External Audit, Risk Management and reviewing the work of the Business Excellence Group. Membership of the Audit Committee and Finance & Treasury Committee is drawn from across the Group and via independent members. The internal and external audit services were subject to retender during the year and this process was successfully concluded. As part of our work to seek funding from the capital markets it was agreed that the Finance and Treasury Committee would become the core of the Board of a new special purpose vehicle PLC to be formed in 2012. The new Board would continue to hold the terms of reference of the Finance and Treasury Committee as well as its new Treasury role in relation to group-wide capital funding.

Economic and Political Context

During 2011/12 the government was beginning to implement economic and social policy enacted in its initial parliamentary session. In particular the spending reductions affecting local government and capital investment in housing were given effect and this had a direct impact on our work. The housing market having rallied slightly early in the year flattened out again and unemployment rose. There was a constant backdrop of crisis and instability in the "Eurozone" which affected the UK markets throughout the period.

Most significant was the continuing difficulties for UK banks which came under pressure in the markets again and this in turn dramatically changed their willingness to lend and the price of new loans. The group had substantial facilities in place and this enabled us to work with our funders and advisors on a revised treasury strategy for the future.

Recently the economy has fallen back into recession and is at best "flat lining" rather than growing. In response the Bank of England is continuing with its policy of low and stable interest rates combined with quantitative easing and is taking measures to protect the economy from the potential for the European banking crisis to spill over into our economy. Importantly the UK economy and the pound have been seen as a relatively safe haven for investors in the European context with the result that the capital and gilt markets have on the whole dropped in price as funds have moved into the UK. Consequently the gilt markets are at historically low levels which has helped the transition from bank lending to bond funding for our sector.

Politically the coalition is holding together and looks set to govern for the full term in accordance with their original agreement. The challenges to unity within the coalition have mainly been found in areas outside economic policy and there is a strong measure of unity around their plans to reduce spending and the deficit. The first real change of fortune for the coalition came in the form of the local elections which saw substantial reversals in local government political control especially for the Liberal Democrats. If anything this seems likely to ensure that the Government will want to hold together for the full term. It is clear that the next few years will be tough both economically and politically especially if the Eurozone economy continues in crisis. We do not expect significant economic growth and we do expect the spending plans of government to be under tight control.

Operating and Financial Review

These circumstances seem likely to keep demand for our rented and low cost home ownership services high for the foreseeable future and this reflects our experience to date. Some of the factors influencing our planning are as follows:-

- We expect inflation to fall to between 2% and 3%
- We expect salaries and wages to continue to be constrained for some time
- We expect Base Rate to rise during 2013
- We expect unemployment levels to be steady over the year ahead and new jobs to be low waged especially in the Midlands
- We expect house prices to remain flat for the year ahead
- We expect the population growth in the Midlands to be high and to see a steady and substantial growth in the numbers of elderly and retired people in the East Midlands in particular

Sustainability

During the year we have focused our sustainability work around practical objectives and in research and development work to assist our development of new homes. We have been successful in securing a Knowledge Transfer Partnership with Lincoln University to employ a graduate to work on research and development of materials and systems in the provision of accommodation suitable for our customers based upon sustainability principles. We have also carried out audits of many of the services we provide to our customers and in our properties in areas such as waste disposal, lighting and general maintenance. This work has resulted in recontracting and obtaining alternative sources and methods of provision which have significantly reduced “costs in use” and, at the same time, provided much greener and sustainable use of materials etc.

We have also installed photo voltaic panels on our existing main office sites across the group and on a significant number of larger schemes. These have been effective and are reducing our use of mains electricity and saving money. We continue to encourage staff to choose green cars by incentivising our lease arrangements: we have provided driver training to help staff with both safer and greener driving techniques and our car fleet is now significantly greener and more efficient.

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 for Registered Providers.

Report of the independent auditors to the members of Longhurst Group Limited

We have audited the financial statements of Longhurst Group Limited for the year ended 31 March 2012 on pages 23 to 56. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and section 137 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditor
As explained more fully in the Statement of the Directors' Responsibilities set out on page 3, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Board Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on Financial Statements
In our opinion the financial statements:

- give a true and fair view of the state of the affairs of the Group and the Company as at 31 March 2012 and of their income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006, the Housing and Regeneration Act 2008 and the Accounting Requirements for Registered Social Landlords General Determination 2006.

Opinion on Other Matters Prescribed by the Companies Act 2006
In our opinion the information given in the Board Report and in the Operating and Financial Review for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on Which We are Required to Report by Exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Report of the independent auditors to the members of Longhurst Group Limited

In addition, we have nothing to report in respect of the following matter where the Housing and Regeneration Act 2008 requires us to report to you if, in our opinion:

- a satisfactory system of control over transactions has not been maintained.

CHRISTOPHER PORRITT (Senior Statutory Auditor)
For and on behalf of
BEEVER AND STRUTHERS
Chartered Accountants
& Statutory Auditor

St. George's House
215 - 219 Chester Road
Manchester

20 July 2012

Income and expenditure account for the year ended 31 March 2012

	Notes	Group 2012 £'000	Parent Company 2012 £'000	Group 2011 £'000	Parent Company 2011 £'000
Turnover	3	82,527	7,413	87,434	7,068
Cost of sales	3	(3,226)	-	(11,687)	-
Operating costs	3	(63,262)	(7,305)	(63,996)	(6,846)
Operating surplus		16,039	108	11,751	222
Surplus on sale of fixed assets	6	3,362	-	7,131	-
Interest receivable and other income	7	19	1	43	1
Interest payable and similar charges	8	(15,720)	-	(15,045)	-
Surplus on ordinary activities before taxation for the year	9	3,700	109	3,880	223
Tax on surplus on ordinary activities	10	(59)	(35)	(82)	(78)
Surplus for the year		3,641	74	3,798	145

All amounts relate to continuing activities.

There is no difference between the surplus on ordinary activities before taxation and the retained surplus for the year stated above, and their historical cost equivalents.

The notes on pages 27 to 56 form an integral part of these financial statements.

Statement of total recognised surpluses for the year ended 31 March 2012

	Notes	Group 2012 £'000	Parent Company 2012 £'000	Group 2011 £'000	Parent Company 2011 £'000
Surplus for the financial year		**3,641**	**74**	3,798	145
Actuarial (losses) / gains on pension schemes	**30**	**(536)**	**-**	1,823	-
Total recognised surplus / deficit for the year		**3,105**	**74**	5,621	145
Prior year adjustment		**-**	**-**	27,586	-
Total surplus recognised since the last annual report		**3,105**	**74**	33,207	145

Balance sheet as at 31 March 2012

	Notes	Group 2012 £'000	Parent Company 2012 £'000	Group 2011 £'000	Parent Company 2011 £'000
Fixed assets					
Housing properties at depreciated cost	13	620,345	-	585,061	-
Less: Social Housing and other Grants	13	(268,463)	-	(265,797)	-
		351,882	-	319,264	-
					Other fixed
assets	14	15,920	787	15,221	680
Total fixed assets		367,802	787	334,485	680
Current assets					
Properties and other assets held for sale	15	5,468	-	3,436	-
Stocks	16	-	-	10	-
Debtors	17	6,344	779	7,474	791
Investments	18	517	-	17	-
Cash at bank and short term deposits		12,130	247	9,955	464
		24,459	1,026	20,892	1,255
Less Creditors					
Amounts falling due within one year	19	(24,802)	(787)	(23,833)	(983)
Net current assets excluding pension liability		(343)	239	(2,941)	272
Pension liability	30	(2,543)	-	(2,047)	-
Net current (liabilities)/assets including pension liability		(2,886)	239	(4,988)	272
Total assets less current liabilities		364,916	1,026	329,497	952
Creditors					
Amounts falling due after more than one year	20	320,320	-	288,006	-
Capital and reserves					
Designated reserves	23	1,000	-	1,000	-
Revenue reserves	23	43,596	1,026	40,491	952
Accumulated reserves		44,596	1,026	41,491	952
		364,916	1,026	329,497	952

The notes on pages 27 to 56 form an integral part of these financial statements.

The financial statements on pages 23 to 56 were approved by the Audit Committee on 20 July 2012 under delegated authority from the Board on 23 May 2012 and were signed on its behalf by:

Director

Director

R V Walder
Company Secretary

Consolidated cash flow statement for the year ended 31 March 2012

	Notes	2012 £'000	2011 £'000
Net cash inflow from operating activities	24	24,656	22,714
Returns on investments and servicing of finance	25	(15,133)	(14,696)
Taxation		(131)	-
Capital expenditure and financial investment	25	(40,478)	(25,148)
Net cash (outflow) before use of liquid resources and financing		(31,086)	(17,130)
Management of liquid resources	25	500	-
Financing	27	32,761	18,047
Increase in cash		2,175	917
Reconciliation of net cash flow to movement in net debt			
Increase in cash	26	2,175	917
(Increase) in debt	26	(32,866)	(18,302)
Increase in liquid resources	26	500	-
Change in net borrowings due to cash flow	26	(30,191)	(17,385)
Net borrowings at beginning of period		(279,042)	(261,657)
Net borrowings at end of period	26	(309,233)	(279,042)

Notes to the financial statements for the year ended 31 March 2012

1. LEGAL STATUS

The Company is incorporated under the Companies Act 1985 as a company limited by guarantee without share capital (registered number 3958380) and is registered with the Tenant Services Authority as a Registered Provider, as defined by the Housing and Regeneration Act 2008, (registration number L4277).

2. ACCOUNTING POLICIES

Basis of accounting
The financial statements have been prepared in accordance with applicable United Kingdom accounting standards and Statements of Recommended Practice. The financial statements comply with the Companies Act 2006, the Housing Regeneration Act 2008, the Statement of Recommended Practice: accounting by Registered Social Housing Providers Update 2010 published by the National Housing Federation, and the Accounting Requirements for Registered Social Landlords General Determination 2006. The accounts are prepared under the historical cost basis of accounting.

Basis of consolidation
These financial statements are Group statements and have been prepared by consolidating the results of Longhurst Group Ltd and its subsidiary companies (see note 32) from 1 April 2011 to 31 March 2012.

Turnover
Turnover represents rental income receivable, fees and grants from local authorities and the Homes and Communities Agency, income from the sale of shared ownership and other properties developed for outright sale and other income.

Equipment - Depreciation
Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is charged on a straight line basis over the expected economic useful lives of the assets at the following annual rates:

Furniture and Fittings	15% per annum on cost
Office Equipment	20% per annum on cost
Motor Vehicles	20% per annum on cost
Computer Equipment	25% per annum on cost

Housing Properties and Depreciation
Housing properties for rent are stated at cost less accumulated depreciation and related social housing grant. Houses are transferred to completed properties when they are ready for letting.

Freehold land is not depreciated

Housing properties in the course of construction are stated at cost and are not depreciated. These are reclassified as housing properties on practical completion of construction.

Where a housing property comprises two or more major components with substantially different useful economic lives (UEL), each component is accounted for separately and depreciated over its individual useful economic life. Expenditure relating to subsequent replacement or renewal of components is capitalised as incurred.

Notes to the financial statements for the year ended 31 March 2012

Depreciation is charged on a straight-line basis after taking into account social housing grant over the assets expected economic useful life as shown below:-

Component	Useful Economic Life
Housing structure	120
Roofs	60
Heating systems	15
Windows	30
Doors	30
Electrical	30
Bathrooms	30
Kitchens	20
Lifts	15

Shared Ownership
The costs of shared ownership properties are split between current and fixed assets on the basis of the first tranche portion. The first tranche portion is accounted for as a current asset and sale proceeds shown in turnover. The remaining element of the shared ownership property is accounted for as a fixed asset and subsequent sales treated as sales of fixed assets. The fixed asset element of the shared ownership property is split into land and structure, any social housing grant received is allocated against the structure element, and the net cost after grant is depreciated over 120 years.

Loan Finance Issue Costs
These are written off evenly over the life of the related loan. Loans are stated in the balance sheet at the amount of the net proceeds after issue, plus increases to account for any subsequent amounts written off. Where loans are redeemed in the year, any redemption penalty and any connected loan finance issue costs, are recognised in the income and expenditure account in the year in which the redemption took place.

Social Housing and Other Grants
Where developments have been financed wholly or partly by Social Housing and Other Grants, the grant received is allocated only against the land and structure components of the asset.

Social Housing Grant received for items of cost written off in the Income and Expenditure Account are matched against those costs as part of turnover.

Social Housing Grant is repayable in certain circumstances and in that event is a subordinated, unsecured, repayable debt.

The net housing association grant received and not spent is included in current liabilities, taking into account all properties under construction.

Social Housing Grant can be recycled by the Group under certain conditions, if a property is sold or another relevant event takes place. In these cases, the Social Housing Grant can be used for projects that meet the requirements of the HCA's Capital Funding Guide. However, Social Housing Grant may have to be repaid if certain conditions are not met.

Capitalisation of Interest and Administration Costs
Interest on loans financing development is capitalised up to date of the completion of the scheme and only when development activity is in progress.

Specific administration costs relating to development activities are capitalised based on an apportionment of

Notes to the financial statements for the year ended 31 March 2012

the management time spent on this activity. Non specific administration costs relating to the development department have not been capitalised.

VAT
The Company charges VAT on some of its income and is able to recover part of the VAT it incurs on expenditure. All amounts disclosed in the accounts are inclusive of VAT to the extent that it is suffered by the Group and not recoverable.

Properties managed by agents
Where the Company carries the majority of the financial risk on property managed by agents, all the income and expenditure arising from the property is included in the Income and Expenditure Account.

Where the agency carries the majority of the financial risk, the Income and Expenditure Account includes only that income and expenditure which relates solely to the Company.

In both cases, the assets and associated liabilities are included in the Company's balance sheet.

Sale of housing properties
Properties developed for outright sale are included in turnover and cost of sales. Properties not developed for outright sale are divided into first tranche sales and other sales. The appropriate proportion of costs of housing properties that are built with the intention of full or partial sale, including equity share and shared ownership properties, are disclosed as current assets and stated at the lower of cost or net realisable value.

First tranche sales proceeds and the relative proportion of the property cost are recognised in turnover and cost of sales respectively. Subsequent tranches are not included within turnover and cost of sales but are shown as a separate item after the operating surplus in the income and expenditure account. All other sales of fixed asset properties are dealt with in this way.

Where a property is part of a distinct development scheme with mixed tenure elements, the surplus recognised on the elements sold is limited to the surplus calculated on the entire scheme. For the elements that are retained as fixed assets, the surplus or deficit is calculated by reference to the assets' existing use value for social housing.

Impairment
Reviews for impairment of housing properties are carried out on an annual basis and any impairment in an income generating unit is recognised by a charge to the income and expenditure account. Impairment is recognised where the carrying value of an income generating unit exceeds the higher of its net realisable value or its value in use. An income generating unit could be a single property, but it is normally a group of properties whose income and expenditure can be separately identified.

Improvements to properties and major repairs
The Group capitalises expenditure on housing properties that results in an increase in net rental income over the life of the property. This increase may be a result of an increase in rental income, reduction in maintenance costs or significant extension of the life of the property.

Major repairs expenditure of a capital nature has been capitalised in line with the above.

Major repairs expenditure of a revenue nature is reflected in the income and expenditure account together with any related grant funding.

Notes to the financial statements for the year ended 31 March 2012

Leased Assets
Within the housing stock of Longhurst and Havelok Homes Limited there are a number of properties held on short-term leases. The lease costs are written off to the income and expenditure account as incurred.

Pension Scheme
The Group operates four defined benefit schemes. As the Pensions Trust is unable to identify the Group's underlying share of assets and liabilities, the Group has therefore accounted for contributions made to the Social Housing Pension Scheme as if it were a defined contribution scheme. In respect of the pension schemes with Northamptonshire County Council, Leicestershire County Council and West Midlands Pension Fund, the liabilities are shown in the accounts in line with FRS17.

Deferred Tax
The payment of taxation is deferred or accelerated because of timing differences between the treatment of certain items for accounting and taxation purposes. Except as noted below, full provision for deferred income is made under the liability method on all timing differences that have arisen, but not reversed by the balance sheet date.

In accordance with FRS 19, deferred tax is not provided for gains on sale of non- monetary assets, if the taxable gain will probably be rolled over.

Deferred tax is measured at the tax rates that are expected to apply in the periods when the timing differences are expected to reverse, based on tax rates and law enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

Stock and Work In Progress
Stock and work in progress are stated at the lower of cost and net realisable value.

Current Asset Investments
Current asset investments are included in the Balance Sheet at Market Value.

Disposal Proceeds Fund
Voluntary Purchase Grant net disposal proceeds are credited to this fund which appears as a creditor until spent.

Recycling of Capital Grant
Where Social Housing Grant is recycled, as described above, the SHG is credited to a fund which appears as a creditor until spent.

Loan Interest Costs
The full costs of deferred interest rate and indexation loans are shown in the Income and Expenditure Account.

Corporation Tax
The Group pays corporation tax at the rate applicable at 31 March 2012.

Support Income and Costs including Supporting People Income and Costs
Supporting People (SP) contract income received from Administering Authorities is accounted for as SP income in the turnover note 3. The related support costs are matched against this income in the same note.

Support charges included in the rent are included in the income and expenditure from social housing lettings note 4 and matched against the relevant costs.

Notes to the financial statements for the year ended 31 March 2012

Designated Reserves
A mixed funded major repairs reserve has been established to provide for the cost of future major repairs on properties developed with fixed SHG following the Housing Act 1988.

Operating Leases
Rentals paid under operating leases are charged to the Income and Expenditure Account as incurred.

Commitment to the Supply of Qualifying Works
Spire Homes (LG) Limited received the transfer of 1,242 properties from Rutland County Council District Council on 9 November 2009. As part of the transfer, the Council has made a commitment to Spire Homes (LG) Limited to have the properties refurbished and modernised and brought into a good state of repair. Immediately prior to transfer, the Council contracted with Spire Homes (LG) Limited to carry out the refurbishment works on its behalf. The Council's obligation to carry out the works is in effect matched by Spire Homes (LG) Limited's obligations to bring the properties into a good state of repair. As a specific right of set off exists, a net basis has been adopted in respect of these obligations and neither the assets or liabilities have been recognised.

Notes to the financial statements for the year ended 31 March 2012

3. TURNOVER, OPERATING COSTS AND OPERATING SURPLUS

	2012			
	Turnover	**Cost of Sales**	**Operating costs**	**Operating surplus/(deficit)**
	£'000	**£'000**	**£'000**	**£'000**
SOCIAL HOUSING LETTINGS (note 4)	**69,358**	**-**	**(54,145)**	**15,213**
OTHER SOCIAL HOUSING ACTIVITIES				
Managed operations	**1,926**	**-**	**(2,192)**	**(266)**
Supporting People Contract Income	**3,251**	**-**	**(3,331)**	**(80)**
Development – Other	**841**	**-**	**(594)**	**247**
Development – First tranche shared ownership sales	**3,319**	**(3,179)**	**(140)**	**-**
Management Services	**328**	**-**	**(326)**	**2**
Other Activities	**1,512**	**(47)**	**(321)**	**1,144**
	11,177	**(3,226)**	**(6,904)**	**1,047**
NON-SOCIAL HOUSING ACTIVITIES				
Lettings – market rented	**97**	**-**	**(74)**	**23**
Community Based Activities	**1,283**	**-**	**(1,456)**	**(173)**
Design & Build Agreements	**25**	**-**	**-**	**25**
Other	**587**	**-**	**(683)**	**(96)**
	1,992	**-**	**(2,213)**	**(221)**
TOTAL	**82,527**	**(3,226)**	**(63,262)**	**16,039**

	2011			
	Turnover	Cost of Sales	Operating costs	Operating surplus/(deficit)
	£'000	£'000	£'000	£'000
SOCIAL HOUSING LETTINGS (note 4)	65,654	-	(53,700)	11,954
OTHER SOCIAL HOUSING ACTIVITIES				
Managed operations	1,979	-	(2,287)	(308)
Supporting People Contract Income	2,937	-	(2,987)	(50)
Development – Other	1,059	-	(899)	160
Development – First tranche shared ownership sales	2,473	(2,495)	(217)	(239)
Management Services	338	-	(361)	(23)
Other Activities	1,391	(172)	(551)	668
	10,177	(2,667)	(7,302)	208
NON-SOCIAL HOUSING ACTIVITIES				
Sale of properties	150	(188)	-	(38)
Lettings – market rented	159	-	(109)	50
Community Based Activities	1,756	-	(2,021)	(265)
Design & Build Agreements	8,864	(8,832)	-	32
Other	674	-	(864)	(190)
	11,603	(9,020)	(2,994)	(411)
TOTAL	87,434	(11,687)	(63,996)	11,751

Notes to the financial statements for the year ended 31 March 2012

3. TURNOVER, OPERATING COSTS AND OPERATING SURPLUS - PARENT COMPANY

	2012			2011		
	Turnover £'000	**Operating Costs £'000**	**Operating (Deficit)/ Surplus £'000**	Turnover £'000	Operating Costs £'000	Operating (Deficit)/ Surplus £'000
OTHER SOCIAL HOUSING ACTIVITIES						
Development	**1,338**	**(1,379)**	**(41)**	1,465	(1,343)	122
General Management	**947**	**(901)**	**46**	963	(1,000)	(37)
Health & Safety	**245**	**(292)**	**(47)**	203	(198)	5
IT	**1,735**	**(1,676)**	**59**	1,465	(1,426)	39
Marketing	**503**	**(488)**	**15**	471	(407)	64
Human Resources	**727**	**(782)**	**(55)**	710	(713)	(3)
Group Financial Services	**1,877**	**(1,787)**	**90**	1,750	(1,758)	(8)
Other	**41**	**-**	**41**	41	(1)	40
	7,413	**(7,305)**	**108**	7,068	(6,846)	222

The parent Company's turnover for 2012 and 2011 relates predominantly to the provision of central services to other subsidiaries in the Group. A small proportion of turnover is generated from external organisations. The parent company's operating costs relate to staff and other overhead costs.

Notes to the financial statements for the year ended 31 March 2012

4. TURNOVER, OPERATING COSTS AND OPERATING SURPLUS/(DEFICIT) FROM SOCIAL HOUSING LETTINGS - GROUP

	General Needs Housing £'000	2012 Supported Housing and Housing for older people £'000	Residential Care Homes £'000	Low Cost Home Ownership £'000	2012 £'000	2011 £'000
Income from social housing lettings						
Rents receivable net of identifiable service charges	52,509	3,719	2,705	1,838	60,771	56,911
Service charges	1,982	1,289	-	215	3,486	3,155
Charges for support services	21	845	-	-	866	959
Net rents receivable	54,512	5,853	2,705	2,053	65,123	61,025
Revenue grants from Local Authorities and other agencies	-	483	3,538	-	4,021	4,055
Other	214	-	-	-	214	574
Total income from social housing lettings	54,726	6,336	6,243	2,053	69,358	65,654
Expenditure						
Management	10,199	2,129	1,249	663	14,240	12,011
Services	3,796	1,893	5,928	89	11,706	12,452
Routine Maintenance	10,319	1,106	148	11	11,584	11,889
Planned Maintenance	2,703	191	15	-	2,909	2,908
Major repairs expenditure	2,814	391	2	-	3,207	5,616
Rent losses from bad debts	551	26	(22)	(2)	553	510
Property Lease Costs	254	-	-	-	254	365
Depreciation of Housing Properties	8,734	618	151	156	9,659	8,333
Write down of Current Assets	-	-	-	44	44	123
Lease amortisation	29	-	-	-	29	31
Past service pension gain	-	-	-	-	-	(536)
Other Costs	(40)	-	-	-	(40)	(2)
Total expenditure on social housing lettings	39,359	6,354	7,471	961	54,145	53,700
Operating surplus on social housing lettings	15,367	(18)	(1,228)	1,092	15,213	11,954
Rent losses from voids	727	289	160	3	1,179	1,387

5. GROUP ACCOMMODATION IN MANAGEMENT AND DEVELOPMENT

	2012 No.	2011 No.
Units in Management owned by the Group		
General housing	**12,706**	12,529
Supported and Sheltered Housing	**2,030**	2,063
Shared Ownership	**1,011**	978
Care Homes	**230**	227
Leasehold Schemes for the elderly	**974**	977
Total Social Housing Properties	**16,951**	16,774
Market Rented Properties	**13**	12
Student Accommodation	**18**	41
Total Non-Social housing	**31**	53
Units in Management on stock not owned by the Group	**722**	709
Total owned and managed	**17,704**	17,536

At 31 March 2012 the Group owned 79 units (2011: 78 units) which were managed by agents (Parent Company: Nil).

6. SURPLUS ON SALE OF FIXED ASSETS

The fair value of employer assets and the expected rate of return were:

	Shared Ownership Staircasing £'000	Right to Buy and Voluntary Sales £'000	Total 2012 £'000	Total 2011 £'000
Proceeds of Sale	**887**	**6,948**	**7,835**	11,177
Less: Cost of Sales	**(754)**	**(3,719)**	**(4,473)**	(4,046)
	133	**3,229**	**3,362**	7,131

7. INTEREST RECEIVABLE AND OTHER INCOME

	Group 2012 £'000	Parent Company 2012 £'000	Group 2011 £'000	Parent Company 2011 £'000
Interest receivable and similar income	**19**	**1**	43	1

Notes to the financial statements for the year ended 31 March 2012

8. INTEREST PAYABLE AND SIMILAR CHARGES

	Group 2012 £'000	**Parent Company 2012 £'000**	Group 2011 £'000	Parent Company 2011 £'000
Repayable within 5 years by instalments	**5,568**	**-**	4,069	-
Repayable wholly or partly in more than 5 years by instalments	**10,090**	**-**	10,919	-
Other	**573**	**-**	579	-
Less: Interest payable capitalised on housing properties under construction	**(511)**	**-**	(522)	-
	15,720	**-**	15,045	1
Interest rate used to determine the amount of finance costs capitalised during the period	**4.99%**	**N/A**	5.19%	N/A

9. SURPLUS ON ORDINARY ACTIVITIES BEFORE TAXATION

	Group 2012 £'000	**Parent Company 2012 £'000**	Group 2011 £'000	Parent Company 2011 £'000
This is stated at after charging/(crediting):				
Depreciation of housing properties	**9,493**	**-**	8,333	-
Depreciation on other tangible fixed assets	**1,097**	**403**	1,062	352
Bad debts	**553**	**-**	510	-
Auditors remuneration (inclusive of VAT):				
In their capacity as auditors	**86**	**6**	117	9
In respect of other services	**8**	**8**	23	23
(Surplus) on disposal of fixed assets	**(3,362)**	**-**	(7,131)	-
Operating lease charges re HAMA shortlife properties	**140**	**-**	365	-

Notes to the financial statements for the year ended 31 March 2012

10. TAX ON SURPLUS ON ORDINARY ACTIVITIES

(a) Analysis of the tax charge in the year

	Group 2012 £'000	Parent Company 2012 £'000	Group 2011 £'000	Parent Company 2011 £'000
Current Tax:				
Corporation Tax at 26%	64	40	83	79
Under/(over) provision in previous years	(5)	(5)	5	5
	59	35	88	84
Deferred Tax:				
Origination and reversal of timing differences	-	-	(6)	(6)
Tax on UK surplus on ordinary activities	59	35	82	78

(b) Current tax reconciliation

	Group 2012 £'000	Parent Company 2012 £'000	Group 2011 £'000	Parent Company 2011 £'000
Surplus on ordinary activities before tax	3,700	109	3,880	223
(Deficit)/surplus on ordinary activities multiplied by the standard rate of corporation tax in the UK of 26% (2011: 28%)	962	28	955	61
Effects of:				
(Profits)/losses arising in non taxable entities	(908)	-	(897)	-
Expenses not deductible for tax purposes (primarily property depreciation and capital items included in expenditure)	3	3	555	12
Movement on deferred tax other fixed assets	9	9	16	6
Adjustments to tax charge in respect of previous periods	(5)	(5)	5	5
Increase in losses c/fwd	-	(528)	-	
Capitalised interest	-	(17)	-	
Marginal relief	(2)	-	(1)	-
Current tax charge for the year	59	35	88	84

Notes to the financial statements for the year ended 31 March 2012

10. TAX ON SURPLUS ON ORDINARY ACTIVITIES

(a) Analysis of the tax charge in the year

	Group 2012 £'000	Parent Company 2012 £'000	Group 2011 £'000	Parent Company 2011 £'000
Current Tax:				
Corporation Tax at 26%	64	40	83	79
Under/(over) provision in previous years	(5)	(5)	5	5
	59	35	88	84
Deferred Tax:				
Origination and reversal of timing differences	-	-	(6)	(6)
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(b) Current tax reconciliation

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Increase in losses c/fwd	-	(528)	-	
Capitalised interest	-	(17)	-	
Marginal relief	(2)	-	(1)	-
Current tax charge for the year	59	35	88	84

Notes to the financial statements for the year ended 31 March 2012

11. STAFF COSTS

Group and Parent Company

	Group 2012 £'000	**Parent Company 2012 £'000**	Group 2011 £'000	Parent Company 2011 £'000
Staff costs, including the Executive Officers:				
Wages and salaries	**20,821**	**4,330**	20,127	3,963
Social security costs	**1,541**	**355**	1,391	313
Other pension costs	**1,433**	**345**	1,364	338
	23,795	**5,030**	22,882	4,614

(b) Current tax reconciliation

	Group 2012	**Parent Company 2012**	Group 2011	Parent Company 2011
The average monthly number of persons (including the Executive Officers) employed during the year expressed as full time equivalents	Number	Number	Number	Number
Office staff	377	131	395	125
Wardens, caretakers and cleaners	497	-	510	-
Total employees	874	131	905	125

Notes to the financial statements for the year ended 31 March 2012

12. DIRECTORS

Directors are defined as the Board Members together with the Executive Officers who are employed by the Longhurst Group Limited identified on Page 1.

	2012 Number	2011 Number
The number of Executive Officers, including the highest paid executive, who received emoluments	**3**	3

	2012 £'000	2011 £'000
Emoluments, including pension contributions and benefits in kind		
Board Members	**49**	48
Executive Officers	**382**	378
	431	426

	2012 £'000	2011 £'000
The emoluments of staff disclosed above (excluding pension contributions) include amounts paid to :	**Mr R V Walder**	Mr R V Walder
The highest paid Director (the Chief Executive):	**149**	151

The Chief Executive is an ordinary member of the Social Housing Pension Scheme. Contributions are payable in line with other members of the Longhurst Group Limited and no enhanced or special terms apply. A contribution by the Company of £10,353 (2011: £10,147) was paid in addition to the personal contribution of the Chief Executive. The amount of pension paid during the year has decreased as a new method of collection now levies a lump sum on the Group as well as contributions based on earnings.

Benefits in kind relate to leased cars, professional subscriptions and health care insurance.

Notes to the financial statements for the year ended 31 March 2012

13. TANGIBLE FIXED ASSETS – HOUSING PROPERTIES (GROUP)

Cost	Housing properties held for letting £'000	Housing properties under construction £'000	Shared ownership housing properties £'000	Shared ownership housing properties under construction £'000	Total £'000
At 1 April 2011	567,201	11,384	42,011	6,719	627,315
Reclassification	357	16	(357)	(16)	-
Additions	6,852	27,253	4	6,997	41,106
Schemes completed in year	29,695	(29,251)	2,952	(3,396)	-
Replacement of components in the year	9,751	-	-	-	9,751
Transfers	-	-	-	-	-
Disposals	(7,847)	-	(751)	(246)	(8,844)
At 31 March 2012	**606,009**	**9,402**	**43,859**	**10,058**	**669,328**
Depreciation					
At 1 April 2011	41,238	-	1,015	1	42,254
Component Replacement	(959)	-	(14)	-	(973)
Charged in year	9,341	-	153	(1)	9,493
Released on disposal	(1,782)	-	(9)	-	(1,791)
At 31 March 2012	**47,838**	**-**	**1,145**	**-**	**48,983**
Depreciated Cost at 31 March 2012	**558,171**	**9,402**	**42,714**	**10,058**	**620,345**
Social housing and Other grants					
At 1 April 2011	240,578	7,855	15,349	2,015	265,797
Disposals – SHG recycled	(4,041)	-	(266)	-	(4,307)
SHG - Received	38	6,463	-	472	6,973
Schemes completed in year	10,644	(10,644)	827	(827)	-
At 31 March 2012	**247,219**	**3,674**	**15,910**	**1,660**	**268,463**
Net book value At 31 March 2012	**310,952**	**5,728**	**26,804**	**8,398**	**351,882**
At 31 March 2011	285,385	3,529	25,647	4,703	319,264

Notes to the financial statements for the year ended 31 March 2012

13. TANGIBLE FIXED ASSETS – HOUSING PROPERTIES (CONTINUED) (GROUP)

Expenditure on works to existing properties	2012 £'000	2011 £'000
Replacement of components	9,751	12,098
Amounts charged to Income & Expenditure Account	3,207	5,616
	12,958	17,714

The Net Book Value of these properties is made up as follows:	2012 £'000	2011 £'000
Freehold	349,798	317,128
Long leasehold	1,752	1,775
Short leasehold	332	361
	351,882	319,264

The total accumulated SHG received or receivable at the Balance Sheet date from capital or revenue sources was £281,164k (2011: £274,191k).

14. TANGIBLE FIXED ASSETS – OTHER (GROUP)

COST	Scheme Furnishings And Equipment £'000	Freehold Offices £'000	Computer Equipment £'000	Motor Vehicles £'000	Office Furnishings and Equipment £'000	Total Other Fixed Assets £'000
At 1 April 2011	1,376	15,276	5,582	230	958	23,422
Additions	115	273	675	-	759	1,822
Disposals	(302)	-	(631)	(12)	(239)	(1,184)
At 31 March 2012	**1,189**	**15,549**	**5,626**	**218**	**1,478**	**24,060**
CAPITAL GRANTS						
At 1 April 2011 and 31 March 2012	**-**	**150**	**-**	**-**	**-**	**150**
DEPRECIATION						
At 1 April 2011	811	1,761	4,497	206	776	8,051
Charge for the period	163	99	623	10	202	1,097
Disposals	(285)	-	(627)	(12)	(234)	(1,158)
At 31 March 2012	**689**	**1,860**	**4,493**	**204**	**744**	**7,990**
NET BOOK VALUE						
At 31 March 2012	**500**	**13,539**	**1,133**	**14**	**734**	**15,920**
At 31 March 2011	565	13,362	1,085	24	182	15,221

Notes to the financial statements for the year ended 31 March 2012

14. TANGIBLE FIXED ASSETS – OTHER (PARENT COMPANY)

COST	Computer Equipment £'000	Office Furniture Fittings £'000	Total £'000
At 1 April 2011	2,759	57	2,816
Additions	499	11	510
Disposals	(1,611)	(23)	(1,634)
At 31 March 2012	**1,647**	**45**	**1,692**
DEPRECIATION			
At 1 April 2011	2,098	38	2,136
Charge for the year	394	9	403
Disposals	(1,611)	(23)	(1,634)
At 31 March 2012	**881**	**24**	**905**
NET BOOK VALUE			
At 31 March 2012	**766**	**21**	**787**
At 31 March 2011	**661**	**19**	**680**

Notes to the financial statements for the year ended 31 March 2012

15. PROPERTIES AND OTHER ASSETS HELD FOR SALE (GROUP)

Group and Parent Company

	2012 £'000	2011 £'000
Properties held for sale:		
Completed	**2,740**	1,960
In course of construction	**2,728**	1,476
At 31 March 2012	**5,468**	3,436

16. STOCKS (GROUP)

	2012 £'000	2011 £'000
Stocks	**-**	10

17. DEBTORS

	Group 2012 £'000	**Parent Company 2012 £'000**	Group 2011 £'000	Parent Company 2011 £'000
Amounts falling due within one year				
Rental debtors	**4,110**	**-**	3,750	-
Less: Provision for bad and doubtful debts	**(1,914)**	**-**	(1,644)	-
	2,196	**-**	2,106	-
Prepayments and accrued income	**1,792**	**290**	2,306	337
SHG receivable	**1,247**	**-**	591	-
Other debtors	**1,043**	**10**	1,821	11
Deferred Tax	**66**	**66**	72	72
Corporation Tax overpayment	**-**	**-**	-	-
Intercompany debtor	**-**	**413**	578	371
	6,344	**779**	7,474	791

18. CURRENT ASSET INVESTMENTS

	Group 2012 £'000	**Parent Company 2012 £'000**	Group 2011 £'000	Parent Company 2011 £'000
Short term money market deposits	**517**	**-**	17	-

Notes to the financial statements for the year ended 31 March 2012

19. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 2012 £'000	**Parent Company 2012 £'000**	Group 2011 £'000	Parent Company 2011 £'000
Housing loans	**3,822**	**-**	2,727	-
Funders interest	**3,033**	**-**	2,320	-
Rents and service charges received in advance	**971**	**-**	1,031	-
Trade creditors	**3,653**	**336**	5,124	409
Other taxation and social security costs	**683**	**175**	645	172
Recycled Capital Grant Fund (note 21)	**1,900**	**-**	1,425	-
Disposal Proceeds Fund (note 21)	**-**	**-**	-	-
Accruals and deferred income	**7,447**	**164**	6,790	78
Other Creditors	**561**	**12**	1,451	10
Funds held in trust (Sinking Fund)	**2,673**	**-**	2,195	-
Corporation tax	**59**	**35**	125	121
Inter company creditors	**-**	**65**	-	193
	24,802	**787**	23,833	983

20. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR (GROUP)

	2012 £'000	2011 £'000
Housing loans	**318,058**	286,287
Recycled Capital Grant Fund (note 21)	**2,262**	1,719
Disposal Proceeds Fund (note 21)	**-**	-
	320,320	288,006
Amounts repayable by instalments:		
Repayable within one year	**3,822**	2,727
Repayable between one to two years	**4,039**	3,858
Repayable between two to five years	**23,572**	13,333
Repayable after five years	**292,910**	271,760
	324,343	291,678
Add: Loan premium	**-**	-
Less: issue costs	**(2,463)**	(2,664)
	321,880	289,014

Loans from banks and building societies are secured by specific charges on the Group's housing properties. The loans are repayable at varying rates of interest. The average rate of interest at 31 March 2012 was 4.99% (2011: 5.19%).

Notes to the financial statements for the year ended 31 March 2012

21. RECYCLED CAPITAL GRANT FUND (RCGF)

	TOTAL £'000
Opening Balance at 1 April 2011	3,144
Grants recycled	1,520
Recycled grant utilised	(518)
Interest Accrued	16
Closing Balance at 31 March 2012	**4,162**

22. SHARE CAPITAL

The Company is limited by guarantee and has no equity or non-equity share capital. Members of the Company guarantee to contribute a maximum of £1 should there be a call on their guarantee.

23. RESERVES – GROUP

Designated Reserves (Group)

	Total £'000
Major repairs reserve at 1 April 2011 and 31 March 2012	**1,000**

Revenue Reserve (Group)

	Revenue Reserve £'000
Revenue Reserve at 1 April 2011	40,491
Surplus for the year	3,641
Actuarial gains	(536)
Revenue Reserve at 31 March 2012	**43,596**

Revenue Reserve (Parent Company)

	Revenue Reserve £'000
Revenue Reserve at 1 April 2011	952
Surplus for the year	74
Revenue Reserve at 31 March 2012	**1,026**

Notes to the financial statements for the year ended 31 March 2012

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

	2012 £'000	2011 £'000
Operating surplus for the year	**16,039**	11,751
Depreciation charges	**10,590**	9,395
Movement in properties and other assets in the course of sale	**(291)**	763
Movement in stocks	**145**	1,586
Movement in debtors	**722**	(3,100)
Movement in creditors	**(2,549)**	2,065
(Surplus)/deficit on sale of other fixed assets	**-**	254
Net cash inflow from operating activities	**24,656**	22,714

25. ANALYSIS OF CHANGES IN CASH AND EQUIVALENTS

	2012 £'000	2011 £'000
Returns on investments and servicing of finance		
Interest received	**24**	42
Interest paid	**(15,157)**	(14,738)
	(15,133)	(14,696)
Capital expenditure and financial investment		
Purchase of housing properties	**(52,801)**	(47,110)
Sale of housing properties (net of cost of sales)	**7,660**	10,426
SHG received	**5,736**	12,611
Purchase of other fixed assets	**(1,073)**	(1,075)
	(40,478)	(25,148)
Management of liquid resources		
Short term deposits	**500**	-
Financing		
Increase in debt due after one year	**(32,761)**	(18,047)

26. ANALYSIS OF NET BORROWINGS

	At 1 April 2011 £'000	Cash Flows £'000	Other Changes £'000	At 31 March 2012 £'000
Cash at bank and in hand excluding short term deposits	9,955	2,175		12,130
Short term deposits	17	500	-	517
Housing & non - housing loans < 1 year	(2,727)	(1,095)	-	(3,822)
Housing & non - housing loans > 1 year	(286,287)	(31,739)	(32)	(318,058)
Total	(279,042)	(30,159)	(32)	(309,233)

Notes to the financial statements for the year ended 31 March 2012

27. ANALYSIS OF CHANGES IN FINANCING

	2012 £'000	2011 £'000
Loans received	**37,432**	22,800
Loans repaid	**(4,188)**	(4,657)
Issue costs incurred / (amortised)	**(483)**	(96)
Balance at 31 March 2012	**32,761**	18,047

28. CAPITAL COMMITMENTS

	Group 2012 £'000	**Parent Company 2012 £'000**	Group 2011 £'000	Parent Company 2011 £'000
Capital expenditure				
Capital expenditure contracted for but not provided for in the accounts	**22,969**	**-**	43,667	-
Expenditure authorised by the Board but not contracted	**18,071**	**-**	8,615	-
	41,040	**-**	52,282	-

Future capital expenditure will be part funded by social housing grant and borrowing:

	Group 2012 £'000	**Parent Company 2012 £'000**	Group 2011 £'000	Parent Company 2011 £'000
Social Housing Grant	**2,932**	**-**	7,808	-
Private Finance	**38,108**	**-**	44,474	-
	41,040	**-**	52,282	-

Spire Homes (LG) Limited received the transfer of 1,242 properties from Rutland County Council District Council on 9 November 2009. As part of the transfer, the Council has made a commitment to Spire Homes (LG) Limited to have the properties refurbished and modernised and brought into a good state of repair. Immediately prior to transfer, the Council contracted with Spire Homes (LG) Limited to carry out the refurbishment works on its behalf. The Council's obligation to carry out the works is in effect matched by Spire Homes (LG) Limited's obligations to bring the properties into a good state of repair. As a specific right of set off exists, a net basis has been adopted in respect of these obligations and neither the assets or liabilities have been recognised. At 31 March 2012 the gross values of the balances that have been offset are £20,710,270, with VAT of £4,130,331 arising on the works totalling £24,840,601.

Notes to the financial statements for the year ended 31 March 2012

29. OTHER FINANCIAL COMMITMENTS

Group

At 31 March 2012 the Group was committed to making the following annual payments under non-cancellable operating leases in the year to 31 March 2013.

	Group 2012 £'000	**Parent Company 2012 £'000**	Group 2011 £'000	Parent Company 2011 £'000
Land and Buildings				
Operating leases which expire:				
Within 1 year	**39**	**-**	39	-
Within 2 to 5 years	**174**	**-**	174	-
Over 5 years	**80**	**-**	80	-
	293	**-**	293	-
Equipment and Vehicles				
Operating leases which expire:				
Within 1 year	**57**	**25**	57	26
Within 2 to 5 years	**660**	**388**	660	345
Over 5 years	**3**	**-**	3	-
	720	**413**	720	371

30. PENSIONS

Social Housing Pension Scheme

Longhurst Group participates in the Social Housing Pension Scheme (SHPS). This Scheme is a multi-employer defined benefit scheme which is contracted out of the state scheme. Longhurst Group has elected to operate a final salary with a 1/60 accrual rate and the career average revalued earning with a 1/60 accrual rate benefit for active members as at 1st April 2007. For new entrants to the scheme from 1st April 2007, the career average revalued earnings structure is the only option available.

During the year under review, Longhurst Group paid contributions at the rate of 6.95% for the final salary scheme and 7.25% for the career average scheme plus a monthly lump sum to fund past deficit amounts. Contributions by members varied between 6.05% and 11.25% depending on their age.

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

The Trustee commissions an actuarial valuation of the Scheme every 3 years. The main purpose of the valuation is to determine the financial position of the Scheme in order to determine the level of future contributions required so that the Scheme can meet its pension obligations as they fall due.

Notes to the financial statements for the year ended 31 March 2012

The last formal valuation of the Scheme was performed as at 30 September 2011 by a professionally qualified actuary using the Projected Unit Method (These results are still provisional). The market value of the Scheme's assets at the valuation date was £2,062 million. The valuation revealed a shortfall of assets compared with the value of liabilities of £1,035 million, equivalent to a past service funding level of 67%.

Following a change in legislation in September 2005, there is a potential debt on the employer that could be levied by the Trustee of the scheme. The debt is due in the event of the employer ceasing to participate in the scheme, or the scheme winding up. The estimated amount of employer debt on withdrawal liability for Longhurst Group as at 30th September 2011 has been calculated as £52,495,883.

The results of the valuation are provisional at this point in time and confirmation will be available in the autumn of 2012.

Growth Plan

Longhurst Group participates in the Pension Trust's multi-employers Growth Plan. The plan is funded and is not contracted out of the state scheme.

The rules of the Growth Plan state that the proportion of obligatory contributions, to be borne by the member and the member's employer, shall be determined by agreement between them. Longhurst Group paid contributions at the rate of 0% during the accounting period. Members paid contributions at varying rates during the accounting period. As at the Balance Sheet date, there were five active members of the plan employed by Longhurst Group. Longhurst Group continues to offer membership of the plan to its employees.

The Trustee commissions an actuarial valuation of the Growth Plan every 3 years. The last formal valuation of the scheme was carried out at 30th September 2011 by a professionally qualified actuary, using the Technical Provisions valuation Method. The market value of the Scheme's assets at the valuation date was £780m, compared to past service liabilities of £928m. The valuation therefore revealed a shortfall in assets of £148m, equivalent to a funding level of 84%.

The estimated amount of employer debt on withdrawal liability for Longhurst Group Ltd as at 30 September 2011 has been calculated as £161,497

Spire Homes (LG) Limited

Spire Homes (LG) Limited contributes to the Northamptonshire County Council Pension Fund (NCC) and the Leicestershire County Council Pension Fund (LCC) schemes which are defined benefit schemes.

Contributions

The defined benefit scheme employers' contributions for the year ended 31 March 2012 were £138k (2011: £121k) and the employers contribution rate has been fixed at 36.9% (NCC) and 18% (LCC) of pensionable pay until 31 March 2012.

Assumptions

The major assumptions used by the actuary in assessing scheme liabilities on a FRS 17 basis were:

	At 31 March 2012 %	At 31 March 2011 %
Rate of increase in salaries	**4.8**	5.1
Rate of increase in pensions in payment	**2.5**	2.8
Discount rate	**4.8**	5.5
Inflation assumptions	**3.6**	3.6

Notes to the financial statements for the year ended 31 March 2012

30. PENSIONS (CONTINUED)

Fair value and expected returns on assets
The fair value of the expected rate of return were:

	Fair Value 31 March 2012 £'000	**Expected Return 31 March 2012 %**	Fair value 31 March 2011 £'000	Expected Return 31 March 2011 %
Equities	**2,344**	**6.2**	2,460	7.5
Bonds	**670**	**3.5**	577	4.9
Property	**237**	**4.4**	233	5.5
Cash	**110**	**4.6**	56	4.4
	3,361		3,326	

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

	Value at 31 March 2012 £'000	Value at 31 March 2011 £'000
Fair value of assets related to the Company	**3,361**	3,326
Value placed on liabilities related to the Company	**(5,087)**	(4,681)
Value placed on unfunded liabilities related to the Company	**(1,726)**	(1,355)
Deficiency related to the Company	**(3)**	(3)
Net pension liability	**(1,729)**	(1,358)

Recognition in the profit or loss

	2012 £'000 NCC	**2012 £'000 LCC**	**2012 % of Pay NCC**	**2012 % of Pay LCC**
Current service costs	**37**	**34**	**20.4**	**19.2**
Interest cost	**214**	**41**	**118.9**	**23.2**
Expected return on employer assets	**(179)**	**(49)**	**(99.4)**	**(27.7)**
Total	**72**	**26**	**39.9**	**14.7**
Actual return on plan assets	**48**	**4**		

	2011 £'000 NCC	2011 £'000 LCC	2011 % of Pay NCC	2011 % of Pay LCC
Current service costs	55	36	25.0	20.01
Interest cost	255	48	116.4	26.7
Expected return on employer assets	(185)	(46)	(84.5)	(25.6)
Past service cost / (gain)	(435)	(101)	(198.6)	(56.1)
Total	(310)	(63)	54.1	14.9
Actual return on plan assets	176	55		

Notes to the financial statements for the year ended 31 March 2012

30. PENSIONS (CONTINUED)

Reconciliation of defined benefit obligation	**2012 £'000**	2011 £'000
Opening defined benefit obligation	**4,684**	5,969
Current service cost	**71**	91
Interest cost	**255**	303
Contribution by members	**23**	26
Actuarial losses / (gains)	**234**	(961)
Past service costs / (gains)	**-**	(536)
Estimated benefits paid	**(177)**	(208)
Closing defined benefit obligation	**5,090**	4,684

Reconciliation of fair value of employer assets	**2012 £'000**	2011 £'000
Opening fair value of employer assets	**3,326**	3,233
Expected return on assets	**228**	231
Contributions by members	**23**	26
Contributions by the employer	**138**	121
Contributions in respect of unfunded benefits	**-**	-
Actuarial gains / (losses)	**(177)**	(77)
Unfunded benefits paid	**-**	-
Benefits paid	**(177)**	(208)
Closing defined Benefit Obligation	**3,361**	3,326

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

	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Actuarial gains / (losses)	**(411)**	884	(1,166)	(74)	(418)
Actuarial gains / (losses) recognised in STRSD	**(411)**	884	1,166)	(74)	(418)
Cumulative actuarial gains and losses	**(988)**	(577)	1,461)	(295)	(221)

Amounts for the current and previous accounting periods

	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Fair value of employer assets	**3,361**	3,326	3,233	2,347	3,000
Present value of defined benefit obligation	**(5,090)**	(4,684)	(5,969)	(3,886)	(4,436)
Surplus / deficit	**(1,729)**	(1,358)	(2,736)	(1,539)	(1,436)
Experience Gains / Losses on assets	**(177)**	(77)	(714)	(891)	(541)
Experience Gains / Losses on liabilities	**-**	-	(3)	-	(194)

Notes to the financial statements for the year ended 31 March 2012

30. PENSIONS (CONTINUED)

Principal Actuarial Assumptions (per annum)

	2012 %	2011 %
Discount Rate	4.8	5.5
Expected return on asset	5.5	6.8
Rate of increase in salaries	2.5	2.8
Rate of increase in pensions in payment: RPI subject to a maximum of 5% pa		

Post retirement mortality	Males	Females
Is based on the average future life expectancies at age 65		
Current Pensioners	21.4 years	23.3 years
Future Pensioners	23.4 years	25.5 years

Friendship Care and Housing Limited

Friendship Care and Housing Limited contributes to the West Midlands Pension Fund scheme which is a defined benefit scheme.

Contributions

The defined benefit scheme employers' contributions for the year ended 31 March 2012 were £85k (2011: £nil) and the employers contribution rate has been fixed at 15.10% of pensionable pay until 31 March 2012.

Assumptions

The major assumptions used by the actuary in assessing scheme liabilities on a FRS 17 basis were:

	At 31 March 2012 %	At 31 March 2011 %
Rate of increase in salaries	4.75	5.35
Rate of increase in pensions in payment	3.00	3.60
Discount rate	5.50	5.65
Inflation assumptions	3.00	3.60

Fair value and expected returns on assets

The fair value of employer assets and the expected rate of return were:

	Plan Assets at 31 March 2012 £'000	Expected Return 31 March 2012 %	Plan Assets at 31 March 2011 £'000	Expected Return 31 March 2011 %
Equities	1,627	7.00	1,568	7.50
Government Bonds	233	3.50	221	4.40
Other Bonds	185	5.05	160	5.40
Property	297	6.40	257	6.50
Cash	31	0.50	47	0.50
Total	2,373		2,253	

Notes to the financial statements for the year ended 31 March 2012

30. PENSIONS (CONTINUED)

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

	Value at 31 March 2012 £'000	Value at 31 March 2011 £'000
Fair value of assets related to the Company	**2,373**	2,253
Value placed on liabilities related to the Company	**(3,187)**	(2,942)
Value placed on unfunded liabilities related to the Company	**(814)**	(689)
Deficiency related to the Company	**-**	-
Net pension liability	**(814)**	(689)

Recognition in the profit or loss	**2012 £'000**	2011 £'000
Current service costs	**79**	83
Interest cost	**161**	201
Expected return on employer assets	**(155)**	(143)
Past service cost / (gain)	**-**	-
Total	**85**	141
Actual return on plan assets	**62**	184

Reconciliation of defined benefit obligation	**2012 £'000**	2011 £'000
Opening defined benefit obligation	**2,942**	3,533
Current service cost	**79**	83
Interest cost	**161**	201
Contribution by members	**27**	25
Actuarial losses / (gains)	**32**	(848)
Past service costs / (gains)	**-**	-
Estimated benefits paid	**(54)**	(52)
Closing defined benefit obligation	**3,187**	2,942

Reconciliation of fair value of employer assets	**2012 £'000**	2011 £'000
Opening fair value of employer assets	**2,253**	2,096
Expected return on assets	**155**	143
Contributions by members	**27**	25
Contributions by the employer	**85**	-
Contributions in respect of unfunded benefits	**-**	-
Actuarial gains / (losses)	**(93)**	41
Benefits paid	**(54)**	(52)
Closing fair value of employer assets	**2,373**	2,253

Notes to the financial statements for the year ended 31 March 2012

30. PENSIONS (CONTINUED)

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

	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Actuarial gains / (losses)	**(125)**	939	(563)	105	(289)
Actuarial gains / (losses) recognised in STRSD	**(125)**	939	(563)	105	(289)
Fair value of employer assets	**2,373**	2,253	2,096	1,599	2,048
Present value of defined benefit obligation	**(3,187)**	(2,942)	(3,533)	(2,351)	(2,780)
Deficit	**(814)**	(689)	(1,437)	(752)	(732)

Principal Actuarial Assumptions (per annum)

	2012	2011
Discount Rate	**5.50%**	5.65%
Expected return on asset	**6.79%**	6.88%
Rate of increase in salaries	**4.75%**	5.35%
Rate of increase in pensions in payment: RPI subject to a maximum of 5% pa	**3.00%**	3.60%

Post retirement mortality	Males	Females
Is based on the average future life expectancies at age 65		
Current Pensioners	21.3 years	24.2 years
Future Pensioners	22.8 years	25.8 years

CONSOLIDATED ANALYSIS OF AMOUNT RECOGNISED IN STATEMENT OF TOTAL RECOGNISED SURPLUSES AND DEFICITS (STRSD)

	2012 £'000
Spire Homes - Actuarial gains / (losses)	**(411)**
Friendship -Actuarial gains / (losses)	**(125)**
	(536)

Notes to the financial statements for the year ended 31 March 2012

31. RELATED PARTIES

It is the Group's policy that the tenancies of any tenant member of the Board are on normal commercial terms, and they are not able to use their position to their advantage.

At the date of these financial statements there were no Board Members that were Councilors or employees of related local authorities.

Longhurst Group Limited has taken advantage of the exemption conferred to it in FRS8 not to disclose related party transactions with its wholly owned subsidiaries (note 32).

32. GROUP SUBSIDIARIES

Longhurst Group Limited is the parent company of the Longhurst Group of companies. It provides services to the subsidiary companies within the Group and also receives services from its subsidiary companies.

The following companies are wholly owned subsidiaries of Longhurst Group Limited.

i) **Longhurst and Havelok Homes Limited**
Registered under the Industrial & Provident Societies Act 1965, the principal activity of this association is the provision of social housing.

ii) **Spire Homes (LG) Limited**
Registered under the Companies Act and a Registered Charity, the principal activity of this association is the provision of social housing.

iii) **Jubilee Teetotal Homes**
Registered under the Industrial & Provident Societies Act 1965, the principal activity of this charity is the provision of housing for elderly people, Jubilee Teetotal Homes is a subsidiary of Longhurst and Havelok Homes.

iv) **Keystone Developments (LG) Limited**
Registered under the Companies Act, the principal activity of this company is to build housing for sale.

v) **Friendship Care and Housing Limited**
Registered under the Industrial & Provident Societies Act 1965, the principal activity of this association is the provision of social housing.

vi) **Beechdale Community Development Limited**
Registered under the Industrial & Provident Societies Act 1965, the principal activity is to hold legal ownership of an office building and land which were previously part of Beechdale Community Housing Association Ltd, BCDL is a subsidiary of Friendship Care & Housing.

Longhurst
Group

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A member of the National Housing Federation.

For further information please call us on:
0845 30 90 700

To find out more about us first, please visit our website:
www.longhurst-group.org.uk