

Sentinel Housing Association Limited
Board Report
And
Consolidated Financial Statements
31 March 2009

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Report of the Board

The Board presents its report and the audited financial statements of Sentinel Housing Association Limited (Sentinel) for the year ended 31 March 2009.

In addition to the results of Sentinel the financial statements include consolidated information to reflect the performance of Sentinel's subsidiary, Vestal Developments Limited (Vestal).

Throughout the financial statements the consolidated results and those of the Association are shown separately where different. Consolidated information is shown under the heading "Group". In very many cases however the information is the same so that it is only reported once.

Principal Activities

Sentinel's statement of purpose is:

Striving to be the best housing association in the region, working with communities as part of the local economy to provide good affordable homes that people want.

Sentinel (the Association) is a Registered Social Landlord (RSL) with principal activities of:

- provision, management and maintenance of rented social housing
- acquisition and development of new homes
- provision of properties for shared ownership, Homebuy and rent at market rents
- provision of a domiciliary care service for elderly and other members of the community.

Sentinel is also the lead association in the Sappling partnership. Sappling comprises five developing Housing Associations and Groups operating in Hampshire, Surrey & West Sussex. It has been highly successful in delivering a significant development programme with substantial Social Housing Grant allocations and establishing a procurement consortium to maximise cost efficiencies.

We want our customers to be fully involved in the shaping and delivery of all our services and developments. To this end we have 5 resident members of the Board, a new representative consultative body – Sentinel Tenants and Residents Association (STARA) and have recently completed a customer profiling survey. We will continue to seek new ways to expand this involvement in the future.

Financial Performance

Operating Results

The financial statements for 2008/9 have been prepared under the Statement of Recommended Practice – Accounting by Registered Social Landlords 2008 (SORP). Accounting practice requires that the prior year results shown as comparatives to this year must also be restated in line with the SORP requirements.

The most significant change in the SORP was the treatment of sales and surpluses on the initial (first tranche) sale of shared ownership properties.

Also during the year some of our development projects have suffered a diminution in value due to the fall in house prices and the impact on shared ownership sales value. Where this has occurred we have made an impairment provision to reduce the holding value of individual projects to their value in use. The total charge in the year for this amounted to £3,007k.

The effect on the comparatives and this year's results of these for the Group are summarised below:-

Report of the Board

Financial Performance (continued)

Operating Results (continued)

	2009	2008
	£000	£000
<u>Turnover</u>		
Previous accounting requirement	36,780	34,880
First Tranche Shared ownership sales	1,732	7,804
Turnover per SORP 2008	<u>38,512</u>	<u>42,684</u>
<u>Operating Surplus</u>		
Previous accounting requirement before Impairment	11,521	9,788
Development project impairment provision	(3,007)	-
Previous accounting requirement after Impairment	<u>8,514</u>	<u>9,788</u>
Surplus on First Tranche Shared ownership sales	132	1,538
Revised Operating Surplus	<u>8,646</u>	<u>11,326</u>
Surplus on other property disposals	441	1,020
Net interest payable	(4,976)	(5,663)
Net Surplus before tax	<u>4,111</u>	<u>6,683</u>

Assets

The value of our housing properties at 31 March 2009 was £412m. This is based on a full valuation by Drivers Jonas at 31 March 2007 adjusted for additions at cost and value of disposals.

This valuation is £231m above the net book value included in the balance sheet.

Rents

Sentinel's policy is to set rent at target levels plus 5%. Where existing rents are not in line with this they are adjusted annually by the change in the retail price index as notified by the Housing Corporation plus $\frac{1}{2}\%$ plus or minus £104 per annum. Newly acquired, developed and re-let properties are let at target rent plus 5%.

Right to Buy or Acquire and Social Homebuy

Tenants who transferred from Hart and Basingstoke councils have a preserved right to buy their homes. Those who became tenants since transfer do not have the right to buy but may have the right to acquire their home if it was funded by Social Housing Grant since 1 April 1997. During the year a total of 3 properties were sold under the right to buy (5 in 2007/08). The maximum right to buy discount for tenants is £38,000 apart from the Hart District Council area where it is £16,000.

Report of the Board

Maintenance and Asset Management

The Association has an asset management strategy in place in order to plan maintenance works (major repairs) and takes into account the environment, neighbourhoods and the condition of its properties.

Housing properties are well maintained with 96% meeting Decent Homes Standard at the year end. Sentinel carries out a significant cyclical maintenance programme through a range of specialist contractors to ensure that all regular maintenance works are carried out as necessary, including statutory safety checks and servicing.

Sentinel currently has a substantial annual programme of major repair and refurbishment works, which are planned on the basis of stock condition surveys and Decent Homes compliance. 2009 expenditure under this programme totalled £6.1m (£6.2m 2008). This programme is also aimed at reducing the future level of repairs, increasing energy efficiency ratings and achieving full compliance with the Decent Homes Standard by 2010.

Governance

The Board

The Board Members who served between the date of the last Report and this are listed below:

	Charles Kaye, Chairman	
	Patrick Symington, Vice Chairman	
**	Richard Wylie,	
	Dennis Battle	
	Derek Childs	
	Brian Etheridge	
	Paul Frankum	- to 11 September 2008
	William Hall	
**	Lynda Hance	
	Kathy Hine	
	Sheila Jenkins	
**	Julian Macro	- to 11 September 2008
	Tony Mitchell	- appointed 11 September 2008
	Jane Cooke	
**	Robert Barton	
	Toby Rougier	
	John Barker, Chairman Designate	- co-opted 21 May 2009

Except where otherwise stated, all of the above members served throughout the year. Sheila Jenkins is also an employee of Sentinel Housing Association Limited.

** These Board members also served as directors of Vestal during the year.

The Chairman is due to retire in September 2009. We commenced recruitment of the new Chair in January 2009. With the support of consultants we carried out a comprehensive recruitment exercise through external advertising to attract the very best external candidates. The selection process was then conducted by the Board. Through this process John Barker has been selected as Chairman Designate and co-opted to the Board with effect from 21 May 2009. He will stand for election as a Board member at the Annual General Meeting (AGM) in September. If his appointment as a Board member is approved by the AGM his appointment as Chairman will be put to a meeting of the Board immediately following the AGM.

Report of the Board

Governance (continued)

Committees

There are two committees of the Sentinel Board:

- Audit Committee
- Remuneration and Nominations Committee

Executive

At 31 March 2009 Sentinel's Executive was as follows:

Martin Nurse	BSc, DMS, MCMI.	- Chief Executive
Val Bagnall	BA, MBA	- Executive Director
Lionel Haynes	BSc, FCA, MBA.	- Finance Director
Bill Flood	BA, MCloH	- Executive Director

Members of the Executive do not hold any interest in the share capital of the Association. They act as executives under authority delegated by the Board. Val Bagnall and Bill Flood are also directors of Vestal Developments Limited.

Code of Governance

The Association has adopted the principal recommendations contained in the National Housing Federation's Code of Governance published in 2004.

Statement of Board's Responsibilities

As a Registered Social Landlord, the Association is legally required to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the surplus or deficit for that period. In preparing these 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 Association 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 Group and enable it to ensure that the financial statements comply with the Industrial and Provident Societies Acts 1965 to 2002, the Housing Act 1996, the Accounting Requirements for Registered Social Landlords General Determination 2006, and the Statement of Recommended Practice: Accounting by Registered Social Landlords 2008.

The Board has general responsibility for instituting adequate systems of internal control and for taking such steps as are reasonably open to it to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Report of the Board

Governance (continued)

Statement on Internal Controls

The Board has overall responsibility for establishing and maintaining the Group's system of internal control and reviewing its effectiveness.

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

In meeting its responsibilities, the Board has adopted a risk-based approach to internal controls, which are embedded within the normal management and governance process. This approach includes the regular evaluation of the nature and extent of risks to which the Group is exposed and is consistent with the principles set out in the Housing Corporation's circular 07/07: internal controls assurance.

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

- Identification and evaluation of key risks

The Board takes a strong lead on business critical strategic risks. It has direct responsibility for the associated risk map which is based on the corporate plan and which it reviews in depth annually. In addition a strategic risk panel has been set up. This comprises representative members of the Board and the Executive. Its role is to monitor emerging risks to ensure the strategic risk map remains current and up to date.

The executive and management team monitor operational risks. A Risk Panel, which consists of a cross-section of staff, meets regularly with the purpose of embedding a culture of risk management into day-to-day operations by proactively co-ordinating the process of risk evaluation, management and control across the Group. There is a formal and ongoing process of management review in each area of the Group's activities. The Executive regularly considers and receives reports on significant development risks facing the Group through the Investment Panel. The Chief Executive is responsible for reporting to the Board any significant risks identified by the management.

- Monitoring and corrective action

A process of control, self-assessment and management reporting on control issues provides hierarchical assurance to successive levels of management and to the Board. This includes a procedure for ensuring that corrective action is taken in relation to any significant control issues, particularly those that may have a material impact on the financial statements or delivery of our services.

- Environment and control procedures

The Board reviews the Group's Corporate Plan each year. The Board retains responsibility for a defined range of issues covering strategic, operational, financial and compliance issues including treasury strategy and new investment projects. The Board has adopted and disseminated to all employees a Code of Conduct. This sets out the Group's policies with regard to the quality, integrity and ethics of its employees. It is supported by a framework of policies and procedures with which employees must comply. These cover issues such as delegated authority, segregation of duties, accounting, treasury management, computer security, development, health and safety, data and asset protection and fraud prevention, detection and reporting.

Report of the Board

Governance (continued)

Statement on Internal Controls (continued)

- Information and financial reporting systems

Financial reporting procedures include detailed budgets for the year ahead, detailed management accounts produced monthly and forecasts for the remainder of the financial year and for subsequent years. The executive directors review these in detail and quarterly management accounts are considered by the Board. The Board also regularly reviews key performance indicators to assess progress towards the achievement of key business objectives, targets and outcomes.

- Internal Audit Assurance

The internal control framework and the risk management process are subject to regular review by Internal Audit who advise the executive directors and report regularly to the Audit Committee.

The Internal Audit service is provided by an independent firm and is based on a risk-based three-year strategic plan. Internal audit work is related to the Group's risk map. The Audit Committee receives an annual report from the internal auditor.

The Audit Committee considers internal control and risk at each of its meetings during the year. The Audit Committee conducts an annual review of the effectiveness of the system of internal control and takes account of any changes that may be needed to maintain the effectiveness of the risk management and control process. The Audit Committee makes an annual report to the Board, which the Board has received.

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

Fraud

The Board approved an updated anti-fraud policy in February 2008 . The policy provides clear guidance on:-

- the responsibility of all employees and Board members to report any suspected fraud and provides clear channels and support to enable this
- the disciplinary actions that will be taken in the event of fraud and
- the intention to recover any losses incurred as a result of fraud.

The Audit Committee work closely with the Internal Auditor to minimise the opportunities for fraud to occur. The management team have received a fraud awareness briefing from the internal auditor. A Fraud Register is maintained and regularly reviewed by the Audit Committee who in turn report to the Board. To date there have been no significant issues recorded in this Register.

Employees

Information on employees is set out in note 5 to the financial statements. Our employment policies are aimed at ensuring we have sufficient, well trained staff with competitive salaries and excellent benefits. The Association is an equal opportunities employer.

Report of the Board

Governance (continued)

Employees (continued)

The Association's policy is to take positive steps in line with the requirements of Equal Opportunities legislation and the Disability Discrimination Act to ensure that the best candidate for any vacant post is selected. When advertising for staff the Association describes itself as an equal opportunities employer and invites applications from all members of the community. The Association's premises are accessible to people with disabilities.

The health and safety of all staff is of great importance to the Association and its health and safety policy is regularly reviewed to ensure that the Association complies with all relevant legislation and best practice.

Employees are encouraged to be actively involved in the Association's operations, policies and performance. This is mainly through team meetings, briefing meetings and by means of the intranet. This has been recognised externally with the Investors in People award.

Auditors

A resolution to re-appoint the auditors, Nexia Smith & Williamson, will be proposed at the next Annual General Meeting.

Charles Kaye

Chairman, on behalf of the Board

Operating & Financial Review

Overview of 2008/9

This year continued to build on the successes of 2007/8. Main themes were:-

- Recruiting further development staff and an Executive Director to strengthen our skills in development and enable us to produce substantially more homes of 400 – 700 per year.
- Taking forward our customer focus with the establishment of Sentinel's new resident forum (STARA) supported by area neighbourhood panels.
- Procurement of a 10 year strategic maintenance contract with MITIE, offering a wide range of new service improvements and providing savings of £700k and better value for money to re-invest in our residents' homes.
- Value for money – achievement of some £560k in efficiencies for the year, and negotiation of some £1.5m efficiencies going forward into 2009/10.
- Development of a new Older Persons' Housing Strategy which includes redevelopment of the poorer Hart area sheltered bed-sit housing and a move into high quality Extra Care .
- Performance indicators showed continued good results .
- Substantial completion of two key area regeneration projects at Bishops Green and Longfellow Parade.
- Completion of 171 new homes and commencing 525. This programme has been supported by drawing £16.2m Social Housing Grant (SHG) which was 374% of our HCA target.
- Increasing loan facilities by £60m to £260m in a very difficult financial climate. This will enable us to fund between 1,200 – 1,400 homes in future years.

Key Achievements in the Year

Customer & Neighbourhood Services

We have continued to build our services with the emphasis on customer focus and involvement and a drive for value for money. Key achievements include:-

- Following extensive consultation with our customers we have jointly developed and established a new customer involvement structure – Sentinel Tenants and Residents Association (STARA). This will provide a new focus to further assist us to influence and shape our service offer.
- Successfully delivered a range of projects through Sentinel's community chest, which provides funding for residents to use themselves to support and take forward projects that make a difference locally.
- Made further good progress with our income management approach, by continuing the last three year trend of reducing arrears . At the end of March our arrears were:-
 - All balances including former tenants – 4.3%
 - Current tenants – 3.2%

Operating & Financial Review

Key Achievements in the Year (continued)

Customer & Neighbourhood Services (continued)

- Further development of our support for our more financially vulnerable residents with:-
 - Expansion of the Lifestyle Education & Agreement Programme (LEAP) which is aimed at supporting individual residents who are in danger of breaching one or more of the terms of their tenancy. The programme addresses the underlying issues. It has a very high (83%) success rate in avoiding re-possession.
 - Continuing to work with local partners to promote and contribute financially to the establishment of a branch of Hampshire Credit Union in Basingstoke.
 - Creating a financial advice DVD for distribution to residents who need such support.
- Several significant resident events in particular:-
 - The third annual Residents' Conference was a big success with residents actively debating the key issues that affect service quality and delivery. In 2009/10 this event will be expanded in to a Residents' Week.
 - In March, as part of the Tenant Services Authority's National Conversation, we initiated a very successful residents event which included some 120 resident representatives, from all the key associations in Hampshire. As a direct result the residents have established a Hampshire wide forum that meets regularly.
- Obtained a more comprehensive understanding of our individual customers through a Customer Profiling Survey of all residents. The survey also showed that customer satisfaction had increased from 81% to 89% over the past two years.

Asset Management and Repairs

We recognize the importance of high quality maintenance services both for prompt response for day to day issues and longer term asset management. During the year we have:-

- Completed a full re-tender of the maintenance service. This was a major piece of work involving a full cross-section of the staff and Resident Board Members and spanning the whole year. The key factors in evaluating the tenders were:-
 - Delivery of a high quality sustainable service
 - A more accessible service with the introduction of an appointment service whereby customers can arrange a convenient repair appointment to suit between 8am – 8pm Monday to Friday and up to 12pm on Saturdays
 - Increased cost efficiency and effectivenessWe are confident that the selected contractor, Mitie, will deliver these requirements. To ensure this future payments will be contractually linked to performance.
- Surveyed approximately 2,000 of our homes to ensure our stock condition data fully informs our Asset Management Strategy.
- In the year our investment programme achieved 96.7% compliance with Decent Homes standards and in 2009/10 we aim to achieve 100% compliance through reinvestment of the significant efficiency gains.
- Carried out a pilot project at Hearsay Gardens to explore the feasibility of re-configuring existing garage blocks and access to homes. This provides more open space for parking and reduces opportunities for anti-social behaviour.

Operating & Financial Review

Older Persons

We developed an Older Persons Housing Strategy during the year. This included:-

- plans to tackle the re-development of our poorer sheltered housing stock in the Hart area.
- expansion into Extra Care housing in partnership with Hampshire County Council. We believe there is a significant shift in demand towards this type of more supportive service away from more traditional sheltered housing.

As a first step our Abbey Court scheme in Basingstoke has been re-designated as Extra Care. We have also re-designed the proposed scheme at Campbell Close in Fleet to provide high standard Extra Care homes and are currently awaiting planning consent.

Other major achievements in our older people's housing and services during the year were: -

- transfer of Rushmoor Lifeline Service from Pavilion HA to our CommuniCare section further improving our overall service.
- providing more choice in a number of our smaller older peoples' housing schemes so that customers were able to choose whether they received support and alarm services.
- installation of 485 telecare systems over an 18 month period against a Hampshire County contract target of 220.
- renegotiation of our core Supporting People contracts with a more simplified pricing structure to provide transparency for our customers.

Staff

The development of our staff is fundamental to delivery of an efficient and customer focused service. To this end we place great emphasis on :-

- Training and personal development with some particular areas of note being:-
 - Our Mary Guber Customer Service course now in its fourth year and which has had a transformational effect on our culture
 - 34 staff have completed, or are in the process of completing, a housing related qualification, from NVQ level 3 to the CiH diploma.
- Staff involvement exemplified this year by the annual staff conference which delivered 5 complex community projects in a single day! All these projects were very well received by the communities.

This approach has resulted in a very positive staff culture with low staff turnover and high motivation with 31% of all new vacancies filled by internal candidates. This is further evidenced by the extremely positive results of our biennial, benchmarked, employee survey. This was conducted for the second time in Summer 2008 with 95% of questions receiving a positive response.

Operating & Financial Review

Performance

Key achievements in the year include:

- Delivery of £560k of cash savings across Sentinel's operations. These have been re-invested into resident services, maintaining our assets and developing new homes.
- Maintaining our high performance in achieving performance indicators. This is in keeping with our aspiration of being in the top quartile of similar housing associations in the South East.
- Three service reviews undertaken :-
 - Customer service centre
 - Equality and diversity
 - Value for money
- Maintaining our high Quality Housing Services 'Excellence in Service' scores.

Performance Indicators

The indicators below demonstrate how Sentinel is committed to maintaining high performance year after year. Performance is reviewed quarterly by the Board and monthly by senior management. Where the challenging targets are not achieved, remedial actions are put in place.

Operating & Financial Review

Performance Indicators (continued)

Performance indicator	2008/09 Actual	<i>2007/08 Actual</i>
Emergency repairs completed within target (1 day)	99.6%	99.5%
Urgent repairs completed within target (7 days)	96.7%	99.1%
Routine repairs completed within target (21 days)	96.3%	98.7%
Repairs completed right first time	96.4%	99.4%
Number of voids (general needs)	29	28
Current arrears	3.2%	3.5%
Total arrears	4.3%	4.4%
Average re-let time in days (general needs)	26	27
Void rent lost (sheltered)	3.8%	4.4%
Satisfaction with anti-social behaviour complaints process	88%	83%
Satisfaction with anti-social behaviour complaints outcome	84%	84%
Tenant satisfaction with quality of responsive repairs work	96%	96%
Satisfaction with complaint process	87%	88%
Satisfaction with complaint outcome	85%	87%
Overall satisfaction with services	89%	81%
Homes completed	171	238
Sales of low cost homes within 3 months of completion	100%	97%
Homes achieving Decent Homes Standard	97%	96%
Average energy efficiency (SAP) rating	75	72
Kitchen refurbishments	273	296
Bathroom refurbishments	282	311
Net operating cost per unit	£3,069	£3,072

Regeneration

In 2008/9 we continued delivery of our successful area regeneration programme. We substantially completed two phases of 42 and 31 new homes at Bishops Green and Longfellow Parade, Popley respectively. The Bishops Green project has transformed a 1950's rural estate into a modern mixed tenure scheme. The new homes and environment have substantially changed residents views with a 27% increase in satisfaction levels now being recorded.

Operating & Financial Review

Regeneration (continued)

At Longfellow Parade we completed Phase 1 of this project transforming one of our more challenged neighbourhoods. Phase 2 was also substantially completed, with work underway for Phase 3. Longfellow Parade and Bishops Green are set to complete in 2009/10.

In 2008, we also received planning consent for the redevelopment and regeneration of the Maldive and Faroe areas in Basingstoke which will result in some 237 new homes replacing 120 four storey outdated maisonette blocks. Delivery of this scheme will bring total investment in Sentinel's regeneration programme to some £160m over the past 6 years.

Growth & Development of New Homes

As part of our significant 5 year growth plans, we are currently committed to development and regeneration projects that will deliver over 1,000 new homes utilising our current borrowing facility. To achieve this we have invested in additional staffing and skills. This will enable us to deliver an ambitious programme of much needed affordable housing in and around north Hampshire. Of these 1,000 homes, 525 are now in contract to be delivered. Completions in the year totalled 171 of which 144 were in respect of fully completed projects allowing us to draw Social Housing Grant from the Homes & Communities Agency (HCA) of £16.2m.

During the year we have made significant moves to provide more affordable housing in neighbouring local authorities to our core areas of Basingstoke, Hart and Rushmoor. Our current programme will deliver in excess of:-

- In Test Valley
- in East Hampshire and Surrey Heath
- in Waverley
- 165 homes
- in the region of 100 homes in each locality.
- 60 homes

As lead partner of Sappling Housing Partnership, we oversaw the delivery of one of the south's largest affordable housing programmes under the 2006/8 and 2008/11 National Affordable Housing Programme. Our own performance for 2008/9 under these programmes was particularly strong. Sappling's performance and ours are set out below:-

	<u>Performance</u>		
	<u>Out turn</u>	<u>Against target</u>	<u>Quartile</u>
<u>Sappling Performance</u>			
Units Completed	710	138%	1
Grant claimed	£50m	232%	1
<u>Sentinel Performance</u>			
Units Completed	144	138%	1
Grant claimed	£16.2m	374%	1

Operating & Financial Review

Impairment

In common with most developing housing associations our significant development programme has exposed us to some risk from the decline in house prices. This has impacted on our shared ownership projects.

In this year's accounts we have provided £3,007k for specific developments affected by this where the current expected value is both below cost and that envisaged when the project commenced. Wherever possible we have mitigated this by changing tenure to intermediate market rent. This has necessitated additional Social Housing Grant. The HCA have been very supportive in providing this and in appreciating our stance in maintaining mixed tenure developments wherever possible.

Although this reflects a decline in shared ownership prices, our market intelligence is that it does not reflect the substantial pent up demand for our products in our areas of development. Rather this demand is constrained by mortgage availability, interest rates and initial levels of deposit.

Capital Structure and Treasury Policy

Our growth strategy requires additional loan facilities above the £200m secured in December 2007. In the year we have therefore successfully negotiated £60m additional facilities which completed just after the year end as below:-

<u>Lender</u>	<u>Amount £million</u>	<u>Period</u>	<u>Date completed</u>
Yorkshire Building Society	50	25 years	2 April 2009
The Housing Finance Corporation	10	30 years	3 April 2009
	<u>60</u>		

Despite difficult market conditions we received a good response from the tender for the main facility above. The terms we achieved are competitive and in line with our Treasury Policy and development project appraisal requirements.

These facilities place us in a very strong position to deliver our development programme over the next 2 to 3 years. Our performance under the covenants for all our facilities remains strong with significant headroom to date and projected.

Report of the Auditors

Nexia Smith & Williamson

Independent auditors' report to the members of Sentinel Housing Association Limited

We have audited the Group and Association accounts ("the accounts") of Sentinel Housing Association Limited for the year ended 31 March 2009 which comprise the Income and Expenditure Accounts, the Balance Sheets, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses, and the related notes 1 to 30. These accounts have been prepared under the accounting policies set out therein.

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

Respective responsibilities of the Board and auditors

As described on page 5 the Association's board are responsible for the preparation of the accounts in accordance with applicable law and United Kingdom Accounting Standards and the relevant Statement of Recommended Practice.

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

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

We read the Report of the Board and the Operating and Financial Review and consider the implications for our report if we become aware of any apparent misstatements within them.

Basis of audit opinion

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

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

Opinion

In our opinion the accounts:

- give a true and fair view of the state of the Group's and Association's affairs as at 31 March 2009 and of their surplus for the year then ended; and
- have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002, the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2006.

Nexia Smith & Williamson
Chartered Accountants
Registered Auditors
Date

25 Moorgate
London
EC2R 6AY

Income and Expenditure Account

as at 31 March 2009

	Notes	Group		Association	
		2009	2008 restated	2009	2008 restated
		£'000	£'000	£'000	£'000
Turnover	2	38,512	42,684	38,512	42,684
Cost of sales	2	(3,134)	(8,131)	(3,134)	(8,131)
Operating costs	2	(26,732)	(23,227)	(26,784)	(23,168)
Operating surplus	2	8,646	11,326	8,594	11,385
Surplus on disposal of property	6	441	1,020	441	1,020
		9,087	12,346	9,035	12,405
Interest receivable	7	14	17	14	248
Interest payable	8	(4,990)	(5,680)	(4,990)	(5,911)
Gift aid from subsidiary		-	-	46	761
Surplus on ordinary activities before taxation	3	4,111	6,683	4,105	7,503
Taxation	9	20	(14)	18	-
Surplus for the year after taxation	20	4,131	6,669	4,123	7,503

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

Statement of recognised surpluses and deficits

as at 31 March 2009

	Group		Association	
	2009	2008 restated	2009	2008 restated
	£'000	£'000	£'000	£'000
Surplus for the year	4,131	6,669	4,123	7,503
Actuarial (loss)/gain	(2,210)	2,380	(2,210)	2,380
Total recognised surplus for the year	1,921	9,049	1,913	9,883
Prior year adjustment as explained in note 19	4,066		4,066	
Total gains and losses recognised since the last annual report	5,987		5,979	

Group Balance Sheet

as at 31 March 2009

	Notes	2009		2008 Restated	
		£'000	£'000	£'000	£'000
Fixed assets					
Housing properties:	10				
Depreciated cost		275,939		231,138	
Social housing grant		<u>(94,498)</u>		<u>(77,488)</u>	
			181,441		153,650
Investments	11				
Loans		5,706		5,420	
Grant		<u>(3,765)</u>		<u>(3,960)</u>	
			1,941		1,460
Other fixed assets	12		7,680		3,560
			<u>191,062</u>		<u>158,670</u>
Current assets					
Stock and work in progress	13	9,472		7,096	
Debtors	14	2,087		2,195	
Cash at bank and in hand	15	<u>840</u>		<u>1,445</u>	
		12,399		10,736	
Creditors: Amounts falling due within one year	16	<u>(9,322)</u>		<u>(8,117)</u>	
Net current assets			3,077		2,619
Total assets less current liabilities			<u>194,139</u>		<u>161,289</u>
Creditors: Amounts falling due in more than one year	17		141,482		112,853
Pension liability	28		3,420		1,120
Capital and reserves					
Share capital – non equity	18		-		-
Revenue reserve	20		49,237		47,316
			<u>194,139</u>		<u>161,289</u>

The financial statements were approved by the Board on 24 June 2009 and were signed on its behalf by:

Chairman

Vice Chairman

Secretary

Association Balance Sheet

as at 31 March 2009

	Notes	2009		2008 Restated	
		£'000	£'000	£'000	£'000
Fixed assets					
Housing properties:	10				
Depreciated cost		276,844		232,043	
Social housing grant		<u>(94,498)</u>		<u>(77,488)</u>	
			182,346		154,555
Investments	11				
Loans		5,706		5,420	
Grant		<u>(3,765)</u>		<u>(3,960)</u>	
			1,941		1,460
Other fixed assets	12		7,680		3,560
			<u>191,967</u>		<u>159,575</u>
Current assets					
Stock and work in progress	13	9,472		7,096	
Debtors	14	2,087		2,162	
Cash at bank and in hand	15	<u>778</u>		<u>1,418</u>	
		12,337		10,676	
Creditors: Amounts falling due within one year	16	<u>(9,300)</u>		<u>(8,089)</u>	
Net current assets			3,037		2,587
Total assets less current liabilities			<u>195,004</u>		<u>162,162</u>
Creditors: Amounts falling due in more than one year	17		141,482		112,853
Pension liability	28		3,420		1,120
Capital and reserves					
Share capital – non equity	18		-		-
Revenue reserve	20		50,102		48,189
			<u>195,004</u>		<u>162,162</u>

The financial statements were approved by the Board on 24 June 2009 and were signed on its behalf by:

Chairman

Vice Chairman

Secretary

Group Cash Flow Statement

for the year ended 31 March 2009

	Notes	2009		2008 Restated	
		£'000	£'000	£'000	£'000
Net cash inflow from operating activities	25		12,619		9,742
Returns on investments and servicing of finance					
Interest received		14		17	
Interest paid		<u>(5,882)</u>		<u>(6,473)</u>	
Net cash outflow from returns on investment and servicing of finance			(5,868)		(6,456)
Taxation			18		-
Capital expenditure and financial investment					
Acquisition and construction of housing properties		(49,351)		(29,312)	
Purchase of other tangible fixed assets		(4,617)		(320)	
Proceeds from sale of other fixed assets		882		2,829	
Social housing grant received		16,547		13,153	
Loans repaid by part equity owners		303		191	
Payments to local authorities on the sale of housing properties		<u>(138)</u>		-	
Net cash (outflow) from capital expenditure and financial investment			(36,374)		(13,459)
Net cash (outflow) before financing			(29,605)		(10,173)
Loan advances received		29,000		16,000	
Loan principal repayments		<u>-</u>		<u>(5,000)</u>	
Net cash inflow from financing			29,000		11,000
(Decrease)/ increase in cash in the year	26		<u>(605)</u>		<u>827</u>

Notes (forming part of the Financial Statements)

1 Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to these financial statements.

Basis of Preparation

The financial statements have been prepared in accordance with applicable financial reporting standards under the historical cost accounting rules, the Accounting Requirements for Registered Social Landlords General Determination 2006 ("the Determination"), and the Statement of Recommended Practice (SORP): Accounting by Registered Social Landlords 2008 published in April 2008 ("the 2008 SORP"). As a result of adopting the 2008 SORP for the first time, certain prior year balances have been restated, particularly those relating to shared ownership properties. Details of the changes are set out in note 19.

Group Structure and Basis of Preparation

The Group's financial statements incorporate the financial statements of the Association, Sentinel Housing Association Limited, and its subsidiary, Vestal Developments Limited. Both Group members' results are presented as operations under common ownership and control.

Taxation

Sentinel Housing Association Limited is a charitable organisation for the purposes of corporation tax. Vestal Developments Limited is non-charitable and bears UK corporation tax.

Turnover

Turnover represents all the following items:

- rental income and service charges receivable. These are mostly charged weekly but adjustment is made through a rent equalisation account to charge a full year's rent each year
- Supporting People income
- revenue fees and grants from local authorities and The Housing Corporation/Homes & Communities Agency
- income from property sales through the 'Homebuy' scheme
- sales proceeds from first tranche shared ownership sales
- sundry small amounts of income receivable from other sources.

Sale of Properties

Sales of housing properties are recognised at the date of completion of each property sold.

The surplus or deficit on sales of housing accommodation under the right to buy takes into account any liabilities under Right to Buy sharing agreements with local authorities, the historical cost of the property and any associated sales costs.

Sales of housing accommodation under the right to acquire are credited to the disposal proceeds fund in accordance with the General Determination 1997. This will be utilised to fund future housing programmes.

Notes (forming part of the Financial Statements)
(continued)

1 Accounting Policies (continued)

Part-equity Sales

The Association operates its own 'Homebuy' scheme to facilitate the relocation of some homeowners from estates due to be redeveloped. Under the scheme, the owners are typically able to purchase some 70% of a new home, with the Association retaining the balance of the equity. The Association's share of equity is based on the agreed percentage of the full purchase price and is included in fixed asset investments.

Where a Homebuy scheme is linked to a social housing scheme, surpluses made on the Homebuy sale are credited to Housing Properties and recognized as a subsidy to that scheme rather than being taken to the Income and Expenditure Account.

Starter Home Initiative

The Association received government grant through The Housing Corporation to enable keyworkers to purchase a home. The loan is included in fixed asset investments at cost.

Freehold and Long Leasehold Housing Properties

Completed housing properties are included in fixed assets at historical cost. The development cost of housing properties includes the cost of acquiring land and buildings, the valuation of contracted works completed to date and development overhead costs and interest charges incurred during the development period which are directly attributable to individual development schemes. Housing properties in the course of construction are stated at cost.

All costs relating to capital expenditure incurred in the year are included in the financial statements at gross value before retentions.

Capital expenditure on schemes that are aborted is charged to the Income and Expenditure Account in the year in which it is recognised that the schemes will not be developed to completion.

The carrying value of properties is the lower of depreciated cost after deducting Social Housing Grant or net realisable value. In calculating net realisable value account is taken of future use value especially for our land bank.

Capitalisation of Interest

Interest on loans financing development is capitalised up to the date on which practical completion occurs.

Capitalisation of Development Overheads

Development overhead costs that are directly attributable to individual schemes are capitalised to housing properties in the course of construction up to the date of practical completion.

Social Housing Grant

Social Housing Grant (SHG) is received from local authorities and the Housing Corporation/Homes & Communities Agency to subsidise the cost of housing properties. SHG received in excess of the cost of housing properties in the course of construction is shown as SHG received in advance and included as a current liability.

Notes (forming part of the Financial Statements) **(continued)**

1 Accounting Policies (continued)

Depreciation

Housing Properties

Depreciation is charged so as to write down the cost of freehold housing properties, other than freehold land, to their estimated residual value on a straight-line basis over their expected useful economic lives, which is 100 years.

Properties held on long leases are depreciated over 100 years or the unexpired terms of the lease if shorter.

Other Fixed Assets

Depreciation on other fixed assets is provided for on the following straight line basis:

Freehold offices, leasehold offices and commercial properties	50 years
Other fixed assets	Between 3 and 15 years

Impairment of Housing Properties

Impairment reviews are carried out annually as the useful economic lives of housing properties exceed 50 years. Impairments arising from a major reduction in the service potential are charged to the income and expenditure account to the extent that the carrying value exceeds the recoverable amount.

Impairment of Development Projects

Each project under development is reviewed on a case by case basis to ensure its value in use is not materially below its net cost plus any initial subsidy approved by the Board at project approval. Each deficit is included in an impairment provision to reduce the value in the balance sheet value into line with this Board approval. The corresponding charge is made to the income and expenditure account in the year the deficit is identified. Where future assessments increase or reduce the deficit further charges are made or released in the same way.

Regeneration Schemes

The Association is engaged in significant regeneration schemes, which involve the demolition and redevelopment of houses and shops and the building of a community centre. The net book value of any properties or other assets acquired prior to the start of the regeneration scheme is written off to the income and expenditure account when the asset concerned is demolished. Similarly, an impairment provision is made for such properties or other assets planned to be demolished in the future to write down the net book value of those assets to their future recoverable amount prior to demolition. The cost of re-providing shops, the building of a community centre and other communal facilities is treated as part of the total cost of the scheme and is capitalised. To the extent that any part of the scheme is intended to be sold, the assets concerned are included within stock and work in progress. The costs of any properties or other assets acquired after the start of the regeneration scheme, together with any demolition cost, are regarded as part of the cost of the scheme and are capitalised.

Notes (forming part of the Financial Statements) **(continued)**

1 Accounting Policies (continued)

Stock and Work in Progress

Properties developed for sale are included in stock and work in progress either at cost or at an amount equal to the expected net sale proceeds. Stock and work in progress also include the first tranche proportion of shared ownership properties ear-marked for sale.

Loans

Loans are advances from the Association's funders under the terms of loan facilities. Loans in the balance sheet include the principal amounts due net of arrangement fees. These arrangement fees are amortised over the life of the relevant loan facility. Where loan facilities include stepped interest rate terms, the charge to income and expenditure is calculated at the average rate over the whole life of the agreement. The balance between the cash payment and income and expenditure charge is shown in creditors.

Improvements, Major Repairs, Cyclical Repairs and Day-to-day Repairs

Expenditure incurred by way of improvement or major repair that increases the net rental income from housing properties or reduces maintenance cost on housing properties, from that applicable when first acquired, is capitalised into the cost of housing properties. Expenditure incurred on other major repairs, cyclical and day-to-day repairs to housing properties is charged to the income and expenditure account in the period in which it is incurred.

Finance and Operating Leases

Costs in respect of operating leases are charged to the income and expenditure account on a straight-line basis over the lease term.

Leasing agreements that transfer to the Association substantially all the benefits and risks of ownership of the assets are treated as if the asset has been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitment is shown within creditors as an obligation under finance leases. The lease payments are treated as consisting of capital and interest elements: the capital element is applied to reduce the outstanding obligations and the interest element is charged to the income and expenditure account.

Value Added Tax (VAT)

The Association is registered for VAT but a large proportion of its income, including its rents, is exempt for VAT purposes. The majority of its expenditure is subject to VAT that cannot be reclaimed, and expenditure is therefore shown inclusive of irrecoverable VAT.

Bad and Doubtful Debts

Provision is made against rent arrears of current and former tenants as well as miscellaneous debts to the extent that they are considered irrecoverable.

Management Expenses

Employee, administration and operating costs have been apportioned to the relevant section of the income and expenditure account on the basis of the costs of the staff and to the extent that they are engaged in each of the operations dealt with in the accounts.

Notes (forming part of the Financial Statements)
(continued)

1 Accounting Policies (continued)

Sales of Shared Ownership Housing Accommodation

As a result of adopting the 2008 SORP, the accounting treatment of shared ownership properties has changed. Previously, the proceeds from the first tranche sales were deducted from the carrying value of housing properties, with no gain or loss recorded. The 2008 SORP changes this treatment and instead requires first tranche sales to be included within turnover and the related portion of the cost of the asset recognised as cost of sales. The revised policy therefore recognises a surplus or deficit arising on first tranche sales.

Similarly, the costs relating to expected future first tranche sales in respect of shared ownership properties are transferred from housing properties under construction in fixed assets to housing properties current assets.

The comparatives in respect of the previous year have been adjusted to reflect this change in accounting policy.

Pensions

The pension costs relating to the defined benefit scheme are accounted for using FRS17. Current service costs and net financial returns are included in the income and expenditure account in the period to which they relate. Actuarial gains and losses are recognised in the statement of recognised gains and losses.

Notes (forming part of the Financial Statements)
 (continued)

2(a)(i) Particulars of Group Turnover and Operating Surplus / (Deficit) Analysis

	Year ended 31 March 2009				Year ended 31 March 2008 Restated			
	Turnover	Cost of Sales	Operating Costs	Operating Surplus/ (Deficit)	Turnover	Cost of Sales	Operating Costs	Operating Surplus/ (Deficit)
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Social housing lettings	33,784	-	(21,928)	11,856	31,614	-	(21,313)	10,301
<u>Other Social housing activities</u>								
CommuniCare service	566	-	(490)	76	438	-	(417)	21
Homebuy sales	1,505	(1,534)	-	(29)	2,010	(1,865)	-	145
First tranche shared ownership sales	1,732	(1,600)	-	132	7,804	(6,266)	-	1,538
Development services	-	-	(580)	(580)	-	-	(816)	(816)
Impairment of development projects	-	-	(3,007)	(3,007)	-	-	-	-
<u>Non-social housing activities</u>								
Lettings	507	-	(314)	193	438	-	(335)	103
Other	418	-	(413)	5	380	-	(346)	34
Total	38,512	(3,134)	(26,732)	8,646	42,684	(8,131)	(23,227)	11,326

Notes (forming part of the Financial Statements)
 (continued)

2(a)(i) Particulars of Association Turnover and Operating Surplus / (Deficit) Analysis

	Year ended 31 March 2009				Year ended 31 March 2008 Restated			
	Turnover	Cost of Sales	Operating Costs	Operating Surplus/ (Deficit)	Turnover	Cost of Sales	Operating Costs	Operating Surplus/ (Deficit)
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Social housing lettings	33,784	-	(21,928)	11,856	31,614	-	(21,313)	10,301
<u>Other Social housing activities</u>								
CommuniCare service	566	-	(490)	76	438	-	(417)	21
Homebuy sales	1,505	(1,534)	-	(29)	2,010	(1,865)	-	145
First tranche shared ownership sales	1,732	1,600	-	132	7,804	(6,266)	-	1,538
Development services	-	-	(632)	(632)	-	-	(757)	(757)
Impairment of development projects	-	-	(3,007)	(3,007)	-	-	-	-
<u>Non-social housing activities</u>								
Lettings	507	-	(314)	193	438	-	(335)	103
Other	418	-	(413)	5	380	-	(346)	34
Total	38,512	(3,134)	(26,784)	8,594	42,684	(8,131)	(23,168)	11,385

Notes (forming part of the Financial Statements)
(continued)

2(b) Particulars of Group & Association Income and Expenditure from Lettings

Year ended 31 March 2009

	General Needs £'000	Supported Housing £'000	Shared Ownership £'000	Shared Equity £'000	Garages £'000	Total £'000
Turnover from letting activities						
Rents receivable net of identifiable service charges	29,734	164	981	-	1,089	31,968
Charges for support services	543	-	-	-	-	543
Service charge income	1,001	32	129	57	-	1,219
Rental income net of voids	31,278	196	1,110	57	1,089	33,730
Housing Corporation revenue grants	-	54	-	-	-	54
Turnover from letting activities	<u>31,278</u>	<u>250</u>	<u>1,110</u>	<u>57</u>	<u>1,089</u>	<u>33,784</u>
Expenditure on letting activities						
Management	(5,898)	(313)	(367)	(86)	(40)	(6,704)
Services	(1,292)	(66)	(118)	(34)	-	(1,510)
Support	(639)	-	-	-	-	(639)
Routine maintenance	(3,750)	(39)	(21)	(14)	(96)	(3,920)
Planned maintenance	(1,614)	(5)	-	(3)	-	(1,622)
Major repairs expenditure	(6,061)	-	-	-	-	(6,061)
Bad debts	(156)	(2)	(5)	(1)	-	(164)
Depreciation - housing properties	(840)	(4)	(111)	-	-	(955)
Impairment	(353)	-	-	-	-	(353)
Operating costs on lettings	<u>(20,603)</u>	<u>(429)</u>	<u>(622)</u>	<u>(138)</u>	<u>(136)</u>	<u>(21,928)</u>
Operating surplus/ (deficit) on social housing lettings	<u>10,675</u>	<u>(179)</u>	<u>488</u>	<u>(81)</u>	<u>953</u>	<u>11,856</u>
Losses from voids	(280)	(33)	(20)	-	(87)	(420)

Notes (forming part of the Financial Statements)
(continued)

2(b) Particulars of Group & Association Income and Expenditure from Lettings

	Year ending 31 March 2008					
	General Needs £'000	Supported Housing £'000	Shared Ownership £'000	Shared Equity £'000	Garages £'000	Total £'000
Turnover from letting activities						
Rents receivable net of identifiable service charges	28,091	173	728	-	1,067	30,059
Charges for support services	420	-	-	-	-	420
Service charge income	933	39	-	45	64	1,081
Rental income net of voids	29,444	212	728	45	1,131	31,560
Housing Corporation revenue grants	-	-	-	54	-	54
Turnover from letting activities	29,444	212	728	99	1,131	31,614
Expenditure on letting activities						
Management	(5,342)	(184)	(413)	(32)	(40)	(6,011)
Services	(1,417)	(15)	(84)	(47)	-	(1,563)
Support	(656)	-	-	-	-	(656)
Routine maintenance	(3,656)	(25)	(18)	-	(111)	(3,810)
Planned maintenance	(1,531)	(4)	(2)	-	-	(1,537)
Major repairs expenditure	(6,172)	(4)	(8)	-	-	(6,184)
Bad debts	(132)	(15)	(8)	-	-	(155)
Depreciation - housing properties	(844)	(4)	(35)	-	-	(883)
Impairment – housing properties	(514)	-	-	-	-	(514)
Operating costs on lettings	(20,264)	(251)	(568)	(79)	(151)	(21,313)
Operating surplus / (deficit) on social housing lettings	9,180	(39)	160	20	980	10,301
Losses from voids	(268)	(19)	(13)	-	(97)	(397)

Notes (forming part of the Financial Statements)
 (continued)

2(c) Particulars of Income from Non-social Housing Activities

	Group and Association	
	2009	2008
	£'000	£'000
Market renting	186	187
Commercial rents	195	179
Leasehold service charges	126	72
Homecare service	319	301
Other	99	79
	<u>925</u>	<u>818</u>

3 Surplus on Ordinary Activities before Taxation

	Group		Association	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
<i>The surplus on ordinary activities before taxation is stated after charging:</i>				
Depreciation of housing properties	955	883	955	883
Depreciation of other fixed assets	252	283	252	283
Auditors' remuneration:				
In their capacity as auditors	61	56	59	50
In respect of other services	27	7	27	7
Exceptional items:				
Impairment of regeneration schemes	353	514	353	514
Impairment of development projects	3,007	-	3,007	-
Impairment of other fixed assets	245	-	245	-
Operating lease rentals	<u>179</u>	<u>188</u>	<u>179</u>	<u>188</u>

4 Directors' Emoluments – Group & Association

	2009	2008
	£'000	£'000
Emoluments (including pension contributions and estimated monetary value of benefits in kind)	<u>453</u>	<u>337</u>

Emoluments (excluding pension contributions but including estimated monetary value of benefits in kind) include amounts in relation to the highest paid director of £115,000 for the Association in 2009 (2008: £102,951).

Notes (forming part of the Financial Statements)
(continued)

4 Directors Emoluments (continued)

The pension contributions paid on behalf of the Chief Executive were £16,215 (2008: £14,409). The Chief Executive is an ordinary member of the pension scheme and no enhanced or special terms are applied.

The Chair of the Board received remuneration of £10,764 (2008: £10,360).

Other payments to Board Members were as shown below:

Dennis Battle, Derek Childs, Brian Etheridge, William Hall, Lynda Hance, Kathy Hine, Sheila Jenkins, Patrick Symington and Richard Wylie, all at £4,306. Robert Barton, Jane Cooke and Toby Rougier received £4,034, Tony Mitchell received £2,385 and Paul Frankum and Julian Macro received £1,931. Sheila Jenkins is also an employee and is remunerated in the same way as other employees (see note 30).

5 Employee Benefits– Group & Association

The average monthly number of full time equivalent persons employed during the year was:

	2009	2008
Management and administration	163	155
Wardens, caretakers and cleaners	20	20
	<u>183</u>	<u>175</u>

The actual number of employees during the year was:

	2009	2008
Management and administration	190	185
Wardens, caretakers and cleaners	24	26
	<u>214</u>	<u>211</u>

Staff costs of the above employees were:

	2009	2008
	£'000	£'000
Salaries and wages	5,637	4,919
Social security costs	461	415
Pension costs	538	477
	<u>6,636</u>	<u>5,811</u>

6 Surplus on Disposal of Property– Group & Association

	2009	2008
	£'000	Restated £'000
Sales proceeds and allowances	1,185	2,829
Cost of sales	(587)	(1,038)
Repaid to local authorities	(138)	-
Transfer to disposal proceeds fund	-	(742)
Administration costs	(19)	(29)
	<u>441</u>	<u>1,020</u>

Notes (forming part of the Financial Statements)
(continued)

7 Interest Receivable

	Group		Association	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Bank interest receivable	<u>14</u>	<u>17</u>	<u>14</u>	<u>248</u>

8 Interest Payable

	Group		Association	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
On bank loans, overdrafts and other loans wholly repayable in more than five years	6,059	6,538	6,059	6,538
Less: Capitalised interest	<u>(1,159)</u>	<u>(908)</u>	<u>(1,159)</u>	<u>(677)</u>
	4,900	5,630	4,900	5,861
Finance charges relating to pensions	<u>90</u>	<u>50</u>	<u>90</u>	<u>50</u>
	<u><u>4,990</u></u>	<u><u>5,680</u></u>	<u><u>4,990</u></u>	<u><u>5,911</u></u>

9 Taxation – Group & Association

	Group		Association	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Analysis of credit/(charge) in period:				
UK corporation tax				
- Current	20	(14)	18	-
	<u>20</u>	<u>(14)</u>	<u>18</u>	<u>-</u>

A reconciliation between the corporation tax credit for the year and the amount that would have been charged had all of the surplus been taxed at the standard rate of corporation tax in the UK has not been provided due to substantially all of the surpluses being derived from charitable entities which are not subject to corporation tax on surpluses derived from their charitable activities.

Notes (forming part of the Financial Statements)
(continued)

10 Tangible Fixed Assets – Housing Properties (Group)

	Housing Properties Held for Letting	Housing Properties Under Construction	Shared Ownership	Total
	£'000	£'000	£'000	£'000
<u>Historical cost:</u>				
Restated as at 1 April 2008	179,099	34,190	23,664	236,953
Transfers & reclassifications	(179)	-	179	-
Additions	828	48,047	525	49,400
Schemes completed in the year	27,466	(29,014)	1,548	-
Disposals	(40)	-	(244)	(284)
Impairment of housing stock	(353)	(2,947)	(60)	(3,360)
As at 31 March 2009	<u>206,821</u>	<u>50,276</u>	<u>25,612</u>	<u>282,709</u>
<u>Depreciation:</u>				
Restated as at 1 April 2008	5,608	-	207	5,815
Charge for the year	844	-	111	955
As at 31 March 2009	<u>6,452</u>	<u>-</u>	<u>318</u>	<u>6,770</u>
<u>Social housing grant:</u>				
As at 1 April 2008	58,215	12,020	7,253	77,488
Receivable in the year	(30)	17,180	-	17,150
Schemes completed in the year	8,802	(9,226)	424	-
Disposals	-	-	(140)	(140)
As at 31 March 2009	<u>66,987</u>	<u>19,974</u>	<u>7,537</u>	<u>94,498</u>
<u>Net book value</u>				
As at 31 March 2009	<u>133,382</u>	<u>30,302</u>	<u>17,757</u>	<u>181,441</u>
Restated as at 31 March 2008	<u>115,276</u>	<u>22,170</u>	<u>16,204</u>	<u>153,650</u>

Housing properties are all held on freehold tenure except for 107, which are held on long leases (2008: 110).

Social Housing Grant (SHG) can only be retained as long as the property it is financing is used for social housing purposes. Should a property be sold, the SHG is either credited to a Recycled Capital Grant Fund, or included within a Disposal Proceeds Fund, both held by the Group, and may be recycled to another property. If either Fund is left unused for three years, the grant is repayable.

Cost of Group properties includes £5,580,000 (2008: £4,421,000) of interest capitalised. Interest capitalised during the year is disclosed in note 8. The capitalisation rate applied during the year was an average of 4.77% (2008: 5.82%).

The Group has a major repairs programme, of which £569,000 has been capitalised as improvements (2008: £737,000). In addition, £6,061,000 has been taken to the income and expenditure account as major repairs expenditure (2008: £6,184,000).

Notes (forming part of the Financial Statements)
(continued)

10 Tangible Fixed Assets – Housing Properties (Association)

	Housing Properties Held for Letting	Housing Properties Under Construction	Shared Ownership	Total
	£'000	£'000	£'000	£'000
<u>Historical cost:</u>				
Restated as at 1 April 2008	179,620	34,190	24,048	237,858
Transfers & reclassifications	(179)	-	179	-
Additions in the year	828	48,047	525	49,400
Schemes completed in the year	27,466	(29,014)	1,548	-
Disposals in the year	(40)	-	(244)	(284)
Impairment of housing stock	(353)	(2,947)	(60)	(3,360)
As at 31 March 2009	<u>207,342</u>	<u>50,276</u>	<u>25,996</u>	<u>283,614</u>
<u>Depreciation:</u>				
Restated as at 1 April 2008	5,608	-	207	5,815
Charge for the year	844	-	111	955
As at 31 March 2009	<u>6,452</u>	<u>-</u>	<u>318</u>	<u>6,770</u>
<u>Social housing grant:</u>				
Restated as at 1 April 2008	58,215	12,020	7,253	77,488
Received in the year	(30)	17,180	-	17,150
Schemes completed in the year	8,802	(9,226)	424	-
Disposals: Recycled Grant staircasing	-	-	(140)	(140)
As at 31 March 2009	<u>66,987</u>	<u>19,974</u>	<u>7,537</u>	<u>94,498</u>
<u>Net book value</u>				
As at 31 March 2009	<u>133,903</u>	<u>30,302</u>	<u>18,141</u>	<u>182,346</u>
Restated as at 31 March 2008	<u>115,797</u>	<u>22,170</u>	<u>16,588</u>	<u>154,555</u>

Housing properties are all held on freehold tenure except for 107, which are held on long leases (2008: 110).

Social Housing Grant (SHG) can only be retained as long as the property it is financing is used for social housing purposes. Should a property be sold, the SHG is either credited to a Recycled Capital Grant Fund, or included within a Disposal Proceeds Fund, both held by the Association, and may be recycled to another property. If either Fund is left unused for three years, the grant is repayable.

Cost of Association properties includes £5,156,000 (2008: £3,997,000) of interest capitalised. The capitalisation rate applied during the year was an average of 4.77% (2008: 5.82%).

The Association has a major repairs programme, of which £569,000 has been capitalised as improvements (2008: £737,000). In addition, £6,061,000 has been taken to the income and expenditure account as major repairs expenditure (2008: £6,184,000).

Notes (forming part of the Financial Statements)
(continued)

10 Tangible Fixed Assets – Housing Properties (continued)

Total accumulated Social Housing Grant received at 31 March 2009 (Group & Association):

	2009	2008
	£'000	£'000
Revenue grants	270	270
Capital grants	97,896	81,349
	<u>98,166</u>	<u>81,619</u>

11 Fixed Asset Investments– Group & Association

Fixed asset investments are loans made to enable people to purchase homes under the 'Homebuy' scheme and the 'Starter Home Initiative'.

	Homebuy	Starter Home Initiative	Total
	£'000	£'000	£'000
<u>Loans:</u>			
As at 1 April 2008	4,929	491	5,420
Additions	589	-	589
Repaid	(303)	-	(303)
As at 31 March 2009	<u>5,215</u>	<u>491</u>	<u>5,706</u>
<u>Grant:</u>			
As at 1 April 2008	3,469	491	3,960
Additions	-	-	-
Recycled	(195)	-	(195)
As at 31 March 2009	<u>3,274</u>	<u>491</u>	<u>3,765</u>
<u>Net book value:</u>			
As at 31 March 2009	<u>1,941</u>	<u>-</u>	<u>1,941</u>
As at 31 March 2008	<u>1,460</u>	<u>-</u>	<u>1,460</u>

Notes (forming part of the Financial Statements)
(continued)

12 Tangible Fixed Assets - Other – Group & Association

	Freehold Offices £'000	Leasehold Offices £'000	Commercial Properties £'000	Other £'000	Total £'000
<u>Cost:</u>					
As at 1 April 2008	1,753	-	1,528	4,835	8,116
Additions	-	2,106	2,363	148	4,617
Disposals in the year	-	-	-	(3,197)	(3,197)
Impairment	(245)	-	-	-	(245)
As at 31 March 2009	<u>1,508</u>	<u>2,106</u>	<u>3,891</u>	<u>1,786</u>	<u>9,291</u>
<u>Depreciation</u>					
As at 1 April 2008	340	-	106	4,110	4,556
Charge for year	38	2	33	179	252
Disposals	-	-	-	(3,197)	(3,197)
As at 31 March 2009	<u>378</u>	<u>2</u>	<u>139</u>	<u>1,092</u>	<u>1,611</u>
<u>Net Book Value</u>					
As at 31 March 2009	<u>1,130</u>	<u>2,104</u>	<u>3,752</u>	<u>694</u>	<u>7,680</u>
As at 31 March 2008	<u>1,413</u>	<u>-</u>	<u>1,422</u>	<u>725</u>	<u>3,560</u>

13 Stock and Work in Progress - Group and Association

	Homebuy £'000	2009 Shared Ownership £'000	Total £'000	Homebuy £'000	2008 Restated Shared Ownership £'000	Total £'000
<u>Housing for sale</u>						
Completed	1,831	1,300	3,131	3,729	1,904	5,633
Under construction	-	6,341	6,341	-	1,463	1,463
	<u>1,831</u>	<u>7,641</u>	<u>9,472</u>	<u>3,729</u>	<u>3,367</u>	<u>7,096</u>

14 Debtors: Amounts falling due within one year

	Group		Association	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Rent arrears	1,486	1,385	1,486	1,385
Less: provision for bad debts	(502)	(392)	(502)	(392)
	<u>984</u>	<u>993</u>	<u>984</u>	<u>993</u>
Other debtors and prepayments	1,103	1,202	1,103	1,169
	<u>2,087</u>	<u>2,195</u>	<u>2,087</u>	<u>2,162</u>

Notes (forming part of the Financial Statements)
 (continued)

15 Cash at bank and in hand

Cash at bank includes an amount of £154,000 (2008: £108,000) held in trust on behalf of service charge payers as reserve fund contributions.

16 Creditors: Amounts falling due within one year

	Group		Association	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
Bank overdraft	463	48	463	48
Amounts owed to subsidiary undertakings	-	-	-	4
Trade creditors	662	938	662	938
Rents received in advance	424	495	424	495
Other creditors and accruals	7,449	6,454	7,438	6,436
Corporation tax	11	14	-	-
Starter home grant payable	313	168	313	168
	<u>9,322</u>	<u>8,117</u>	<u>9,300</u>	<u>8,089</u>

17 Creditors: Amounts falling due after more than one year – Group & Association

	2009	2008
	£'000	£'000
Housing loans		
As at 1 April 2008	111,800	100,800
Drawn during the year	29,000	16,000
Repaid during the year	-	(5,000)
Total housing loans	<u>140,800</u>	<u>111,800</u>
Less: Loan arrangement costs	(390)	(404)
	<u>140,410</u>	<u>111,396</u>
Recycled capital grant fund	651	695
Disposal proceeds fund	421	762
As at 31 March 2009	<u>141,482</u>	<u>112,853</u>

Housing loans represent advances made to Sentinel Housing Association Limited. The loans are secured by a charge on housing land and buildings. All loans are due for repayment after three years. Interest is payable on the loans at fixed rates between 3.77% and 5.21% (including margin) or at a variable rate of 0.286% above LIBOR.

	Disposal Proceeds Fund		Recycled Capital Grant Fund	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
As at 1 April 2008	762	201	695	993
Grant recycled	-	742	195	702
Interest accrued	19	28	21	69
Applied to new build	(360)	(209)	(260)	(1,069)
As at 31 March 2009	<u>421</u>	<u>762</u>	<u>651</u>	<u>695</u>

Notes (forming part of the Financial Statements)
 (continued)

18 Group Share Capital – Non equity

Allotted, issued and fully paid

	2009	2008
	£	£
As at 1 April 2008	50	51
Issued during the year	3	-
Cancelled during the year	<u>(7)</u>	<u>(1)</u>
As at 31 March 2009	<u><u>46</u></u>	<u><u>50</u></u>

These shares have limited rights. They carry no entitlement to dividend, are not repayable and do not participate in a winding up.

19 Prior Year Adjustment

The prior year adjustment reflects the change in accounting treatment for shared ownership first tranche sales in accordance with SORP 2008. The SORP 2008 treatment requires an appropriate proportion of development costs representing first tranche development to be accounted for as current assets and the related sales proceeds shown in turnover on disposal. The remaining proportion of property development costs are accounted for as fixed assets with any subsequent sale treated as a disposal of a fixed asset. The previous SORP recommended that first tranche sale proceeds should be credited against shared ownership housing properties classified as fixed assets.

The effect of the change in accounting policy is as follows:

Income and expenditure account – Group and Association

	Prior Year Adjustment for year to 31 March 2008
	£'000
Shared ownership first tranche sales	
Turnover – proceeds from first tranche sales	7,804
Cost of sales	<u>(6,377)</u>
Increase in surplus for the year	<u><u>1,427</u></u>

Notes (forming part of the Financial Statements)
 (continued)

19 Prior Year Adjustment (continued)

Revenue Reserve

	Group	Association
	£'000	£'000
Revenue reserves as at 31 March 2007 as previously stated	35,628	35,667
Cumulative prior year adjustment to 31 March 2007 in relation to surplus on first tranche shared ownership sales	2,621	2,621
Reduction in cost of sales – staircasing	25	25
Depreciation adjustment for prior year	(7)	(7)
Revenue reserves as at 31 March 2007 as restated	<u>38,267</u>	<u>38,306</u>
Prior year adjustment for the year to 31 March 2008 in relation to surplus on first tranche shared ownership sales	1,538	1,538
Additional cost of sales – staircasing	(111)	(111)
Total recognised surplus for the year as previously stated	7,622	8,456
Revenue reserves as at 31 March 2008 as restated	<u>47,316</u>	<u>48,189</u>

The cumulative effect of the prior year adjustment on the reserves for the Group and Association as at 31 March 2008 is to have increased the reserves by £4,066k.

The prior year adjustment to current asset balances for the Group and Association for the year ended 31 March 2008 is an increase of £3,367k, being the transfer of the shared ownership first tranche proportion from fixed assets to current assets.

The impact of the prior year adjustments on housing property balances is shown below:

Tangible fixed assets at cost	Group	Association
	£'000	£'000
At 31 March as previously stated	152,951	153,856
Less: first tranche amounts held as current assets	(3,367)	(3,367)
Surplus on first tranche shared ownership sales	4,159	4,159
Additional cost of sales – staircasing	(86)	(86)
Depreciation adjustment	(7)	(7)
At 31 March 2008 as restated	<u>153,650</u>	<u>154,555</u>

Notes (forming part of the Financial Statements)
(continued)

20 Reserves

	Group £'000	Association £'000
Balance at 1 April 2008 (as previously stated)	43,250	44,123
Prior year adjustment as explained in note 19	4,066	4,066
At 1 April 2008 as restated	47,316	48,189
Surplus for the year after taxation	4,131	4,123
Actuarial loss on pension deficit	(2,210)	(2,210)
Balance at 31 March 2009	49,237	50,102

21 Group Capital Commitments

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

	2009	2008
	£'000	£'000
Capital expenditure that has been contracted for	38,969	30,970
Capital expenditure that has been authorised by the Board but has not yet been contracted for	18,896	12,850
Total Capital Commitments	57,865	43,820

These commitments will be met by a combination of resources including Social Housing Grant £24m. The balance will be covered by early tranche shared ownership sales, net surpluses and agreed loans.

22 Group Operating Leases

Obligations under non-cancellable operating leases are as follows:

	2009		2008	
	Land and Buildings	Other	Land and Buildings	Other
	£'000	£'000	£'000	£'000
Expiring within one year	-	3	-	5
Expiring between two to five years	-	17	165	17
	-	20	165	22

23 Group Contingent Liabilities

The Group has not identified any significant contingent liabilities at the date of these accounts.

Notes (forming part of the Financial Statements)
 (continued)

24 Group Housing Stock

	2009		2008	
	Under development Units	In Management Units	Under development Units	In Management Units
Rented social housing	382	6,853	297	6,801
Non social housing	-	25	-	25
Shared ownership	143	286	119	262
	<u>525</u>	<u>7,164</u>	<u>416</u>	<u>7,088</u>
Homebuy	-	131	3	132
	<u>525</u>	<u>7,295</u>	<u>419</u>	<u>7,220</u>

25 Reconciliation of Group Operating Surplus to Net Cash Inflow

	2009		2008 Restated	
	£'000	£'000	£'000	£'000
Operating surplus		8,646		11,326
Depreciation of housing properties	955		883	
Depreciation of other fixed assets	252		283	
Impairment of housing properties	3,360		514	
Impairment of other fixed assets	245		-	
Pension costs under FRS17	-		60	
Loan arrangement fees	(275)		(404)	
Decrease/(Increase) in debtors	383		(397)	
(Decrease) in creditors	(947)		(2,523)	
		<u>3,973</u>		<u>(1,584)</u>
		<u>12,619</u>		<u>9,742</u>

26 Reconciliation of Group Net Cash Inflow to Movement in Net Debt

	2009	2008
	£'000	£'000
(Decrease)/ increase in cash in year	(605)	827
Loans drawn during year	(29,000)	(16,000)
Loans repaid during year	-	5,000
Increase in debt	<u>(29,605)</u>	<u>(10,173)</u>
Net debt at 1 April 2008	<u>(110,355)</u>	<u>(100,182)</u>
Net debt at 31 March 2009	<u>(139,960)</u>	<u>(110,355)</u>

Notes (forming part of the Financial Statements)
 (continued)

27 Analysis of Net Debt

	1 April 2008 £'000	Cash Flows £'000	31 March 2009 £'000
Cash at bank and in hand / (overdrawn)	1,445	(605)	840
Due after more than one year	(111,800)	(29,000)	(140,800)
	<u>(110,355)</u>	<u>(29,605)</u>	<u>(139,960)</u>

28 Group Pension Arrangements

Hampshire County Council Pension Fund

The disclosures below relate to the Hampshire County Council Pension Fund (the Fund) which is part of the Local Government Pension Scheme, and certain unfunded pension arrangements where indicated. Sentinel Housing Association participates in the Fund which provides defined benefits based on members' final pensionable salary.

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

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

Main financial assumptions at 31 March each year were as follows

	% per annum				
	2009	2008	2007	2006	2005
Inflation	3.4	3.7	3.2	3.0	2.9
Rate of general long-term increase in salaries	4.9	5.2	4.7	4.5	4.4
Rate of increase to pensions in payment	3.4	3.7	3.2	3.0	2.9
Rate of increase to deferred pensions	3.4	3.7	3.2	3.0	2.9
Discount rate	6.7	6.8	5.3	4.9	5.3

Notes (forming part of the Financial Statements)
 (continued)

28 Group Pension Arrangements (continued)

Expected long term rates of return as at 31 March in each year were :-

	% per annum				
	2009	2008	2007	2006	2005
Equities	7.0	7.6	7.7	7.3	7.7
Property	6.0	6.6	6.7	6.3	6.7
Government bonds	4.0	4.6	4.7	4.3	4.7
Corporate bonds	5.8	6.8	5.3	4.9	5.3
Other	1.6	6.0	5.6	4.6	4.8
Total	5.7	6.7	6.9	6.5	6.9

Sentinel Housing Association Limited employs a building block approach in determining the rate of return on Fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at 31 March 2009.

Funding Position at 31 March each year

	£ million				
	2009	2008	2007	2006	2005
Share of assets	6.50	8.53	8.90	8.58	7.24
Estimated funded liabilities	(9.92)	(9.65)	(12.29)	(11.92)	(10.81)
(Deficit)	<u>(3.42)</u>	<u>(1.12)</u>	<u>(3.39)</u>	<u>(3.34)</u>	<u>(3.57)</u>

Analysis of amounts charged to Operating Surplus for the year ending 31 March in each year:-

	£ million				
	2009	2008	2007	2006	2005
Current service cost	0.06	0.08	0.09	0.12	0.13
Past service costs	-	0.04	0.08	-	-
Total operating charge	<u>0.06</u>	<u>0.12</u>	<u>0.17</u>	<u>0.12</u>	<u>0.13</u>

Notes (forming part of the Financial Statements)
(continued)

28 Group Pension Arrangements (continued)

Analysis of amount credited to other finance income for the year ending 31 March :-

	£ million				
	2009	2008	2007	2006	2005
Expected return on pension scheme assets	0.56	0.59	0.55	0.49	0.42
Interest on pension scheme liabilities	(0.65)	(0.64)	(0.58)	(0.57)	(0.54)
Net return	<u>(0.09)</u>	<u>(0.05)</u>	<u>(0.03)</u>	<u>(0.08)</u>	<u>(0.12)</u>

Analysis of amount recognised in Statement of Total Recognised Gains and Losses for each year ended 31 March:-

	£ million				
	2009	2008	2007	2006	2005
Actual return less expected return on pension scheme assets	(2.26)	(0.34)	(0.01)	1.18	0.26
Experience gains and losses on the scheme liabilities	(0.05)	0.80	(0.03)	-	0.67
Changes in underlying assumptions	0.10	1.92	0.04	(0.83)	(0.41)
Total actuarial gain	<u>(2.21)</u>	<u>2.38</u>	<u>-</u>	<u>0.35</u>	<u>0.52</u>

Analysis of movement in surplus during the year to 31 March in each year:-

	£ million				
	2009	2008	2007	2006	2005
Deficit in scheme at beginning of the year	(1.12)	(3.39)	(3.34)	(3.57)	(3.92)
Total contributions	0.06	0.06	0.15	0.08	0.08
Current service cost	(0.06)	(0.08)	(0.09)	(0.12)	(0.13)
Past service costs	-	(0.04)	(0.08)	-	-
Other finance costs	(0.09)	(0.05)	(0.03)	(0.08)	(0.12)
Actuarial (loss)/gain	(2.21)	2.38	-	0.35	0.52
Deficit in scheme at end of year	<u>(3.42)</u>	<u>(1.12)</u>	<u>(3.39)</u>	<u>(3.34)</u>	<u>(3.57)</u>

Notes (forming part of the Financial Statements)
 (continued)

28 Group Pension Arrangements (continued)

Reconciliation of opening and closing balances of the fair value of scheme assets as at 31 March in each year:-

	2009 £ million	2008 £ million
Opening fair value of assets	8.51	8.89
Expected return on assets	0.56	0.59
Actuarial losses on assets	(2.26)	(0.35)
Contributions by the employer	0.06	0.06
Contributions by the participants	0.02	0.02
Net benefits paid out	(0.39)	(0.70)
Closing fair value of assets	6.50	8.51

Reconciliation of opening and closing balances of the present value of scheme liabilities as at 31 March in each year:-

	2009 £ million	2008 £ million
Opening present value of liabilities	9.65	12.29
Current service cost	0.06	0.08
Interest cost	0.65	0.64
Contributions by participants	0.02	0.02
Actuarial gains on liabilities	(0.07)	(2.72)
Net benefits paid out	(0.39)	(0.70)
Past service cost	0.00	0.04
Closing present value of liabilities	9.92	9.65

Notes (forming part of the Financial Statements)
(continued)

28 Group Pension Arrangements (continued)

History of experienced gains and losses for the year ending 31 March in each year :-

	2009	2007	2006	2006	2005
Difference between expected and actual return on scheme assets:					
▪ Amount (£ M)	(2.26)	(0.34)	(0.01)	1.18	0.26
▪ Percentage of scheme assets	(34.7%)	(4.0%)	(0.1%)	13.8%	3.6%
Experience gains (losses) on scheme liabilities:					
▪ Amount (£ M)	(0.05)	0.80	(0.03)	0.00	0.67
▪ Percentage of the present value of the scheme liabilities	(0.5%)	8.3%	0.2%	0.0%	6.2%
Change in assumptions					
▪ Amount (£ M)	0.10	1.92	0.04	(0.83)	(0.41)
▪ Percentage of the present value of the scheme liabilities	1.0%	19.9%	0.3%	(7.0%)	(3.8%)
Total amount recognised in STRGL:					
▪ Amount (£ M)	(2.21)	2.38	0.00	0.35	0.52
▪ Percentage of the present value of the scheme liabilities	(22.3%)	24.7%	0.0%	2.9%	4.8%

Sentinel Housing Association Limited has adopted Financial Reporting Standard 17 "Retirement benefits" (FRS17). FRS17 requires its proportion of the assets and liabilities of the Hampshire County Council defined benefit pension fund to be recognised on the balance sheet. In addition, current service costs and net financial returns are included in the income and expenditure account in the period to which they relate. Actuarial gains and losses are included in the statement of total gains and losses.

SHPS SCHEME

Sentinel participates in the Social Housing Pension Scheme (SHPS) through both the Final Salary scheme and the Career Average Revalued Earnings (CARE) scheme. The former applies to employees who joined the scheme by 31 March 2007. All new employees are entitled to the CARE scheme.

Both schemes are funded and contracted out of the state scheme.

SHPS is a multi-employer defined benefit scheme. Employer participation in the Scheme is subject to adherence with the employer responsibilities and obligations as set out in the "SHPS House Policies and Rules Employer Guide".

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

Notes (forming part of the Financial Statements)
(continued)

28 Group Pension arrangements (continued)

SHPS SCHEME (continued)

At the 31 March 2009 the following key statistics applied:-

Scheme	Contributions as % of salary			Participating employees at year end	
	Employee Average	Sentinel	Total	2009	2008
Final salary with 1/60 th benefit	7.9	14.1	22.0	94	101
CARE with 1/60 th benefit	6.2	12.3	18.5	27	15

The triennial revaluation of the scheme was conducted at 30 September 2008. The final results have not yet been published but the provisional calculation is a deficit of £663 million with assets only funding 69.7% of liabilities. This compares with previous valuations / estimates as below:-

	Deficit	Asset / Liability Ratio
	£ million	%
September 2005 valuation	283	82.0
March 2007 estimate	N/A	90.0
September 2008 valuation (provisional)	663	69.7

This illustrates the volatility of defined benefit pension schemes.

Going forward the actuaries to the scheme, HSBC, estimate that only a relatively small increase in funding rates are necessary to meet future benefits. There is however a need for significant additional contributions to fund the above past deficits. These additional contributions for both the Final Salary scheme and CARE scheme are estimated to be:-

	% of pensionable payroll
Identified at valuation:-	
September 2005	4.4
September 2008	3.1
Total for past deficits	<u>7.5</u>

Notes (forming part of the Financial Statements)
(continued)

28 Group Pension arrangements (continued)

SHPS SCHEME (continued)

The actuaries estimate that under current assumptions these additional contributions will eliminate the deficit by September 2023.

The impact on total funding rate from April 2010 are as below:-

		% of Pensionable Salary		
		Future Service	Past Deficit	Total
Final salary 1/60 th accrual	Effective April 2010	17.8	7.5	25.3
	<i>Current</i>	17.6	4.4	22.0
CARE scheme 1/60 th accrual	Effective April 2010	14.9	7.5	22.4
	<i>Current</i>	14.1	4.4	18.5

The Pensions' Trust are bringing forward proposals to provide choices for participants in SHPS to address future pension costs. Responses to these will be required by 30 November 2009 following employee consultation.

29 Incorporation

The Association is incorporated under the Industrial & Provident Societies Act 1965 (Registered No. 27940R). It is also registered with the Tenants' Services Authority (LH4066).

30 Related party transactions

The following board members, who served during the year, are tenants of the Association:

Paul Frankum
 Sheila Jenkins
 Kathy Hine

Richard Wylie
 William Hall
 Tony Mitchell

Rents received from these board members are related party transactions but were under the same terms and conditions as applied to other tenants of the Association. Sheila Jenkins is also an employee of Sentinel Housing Association Limited with the same terms and conditions as other employees of the same grade.

Report of the Board

Governance (continued)

Employees (continued)

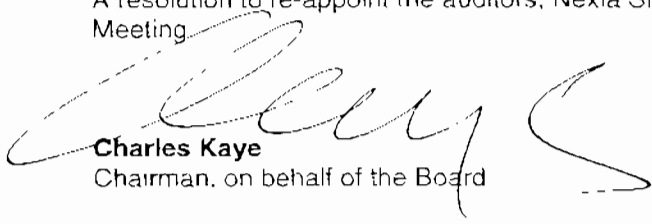
The Association's policy is to take positive steps in line with the requirements of Equal Opportunities legislation and the Disability Discrimination Act to ensure that the best candidate for any vacant post is selected. When advertising for staff the Association describes itself as an equal opportunities employer and invites applications from all members of the community. The Association's premises are accessible to people with disabilities.

The health and safety of all staff is of great importance to the Association and its health and safety policy is regularly reviewed to ensure that the Association complies with all relevant legislation and best practice.

Employees are encouraged to be actively involved in the Association's operations, policies and performance. This is mainly through team meetings, briefing meetings and by means of the intranet. This has been recognised externally with the Investors in People award.

Auditors

A resolution to re-appoint the auditors, Nexia Smith & Williamson, will be proposed at the next Annual General Meeting.



Charles Kaye
Chairman, on behalf of the Board



Report of the Auditors

Nexia Smith & Williamson

Independent auditors' report to the members of Sentinel Housing Association Limited

We have audited the Group and Association accounts ("the accounts") of Sentinel Housing Association Limited for the year ended 31 March 2009 which comprise the Income and Expenditure Accounts, the Balance Sheets, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses, and the related notes 1 to 30. These accounts have been prepared under the accounting policies set out therein.

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

Respective responsibilities of the Board and auditors

As described on page 5 the Association's board are responsible for the preparation of the accounts in accordance with applicable law and United Kingdom Accounting Standards and the relevant Statement of Recommended Practice.

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

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

We read the Report of the Board and the Operating and Financial Review and consider the implications for our report if we become aware of any apparent misstatements within them.

Basis of audit opinion

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

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

Opinion

In our opinion the accounts

- give a true and fair view of the state of the Group's and Association's affairs as at 31 March 2009 and of their surplus for the year then ended, and
- have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002, the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2006.

Nexia Smith & Williamson

Nexia Smith & Williamson
Chartered Accountants
Registered Auditors
Date 12/04/09

25 Moorgate
London
EC2R 6AY

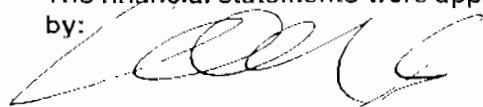


Group Balance Sheet

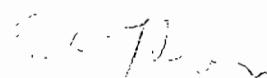
as at 31 March 2009

	Notes	2009		2008 Restated	
		£'000	£'000	£'000	£'000
Fixed assets					
Housing properties:	10				
Depreciated cost		275,939		231,138	
Social housing grant		<u>(94,498)</u>		<u>(77,488)</u>	
			181,441		153,650
Investments	11				
Loans		5,706		5,420	
Grant		<u>(3,765)</u>		<u>(3,960)</u>	
			1,941		1,460
Other fixed assets	12		7,680		3,560
			<u>191,062</u>		<u>158,670</u>
Current assets					
Stock and work in progress	13	9,472		7,096	
Debtors	14	2,087		2,195	
Cash at bank and in hand	15	<u>840</u>		<u>1,445</u>	
		12,399		10,736	
Creditors: Amounts falling due within one year	16	<u>(9,322)</u>		<u>(8,117)</u>	
Net current assets			3,077		2,619
Total assets less current liabilities			<u>194,139</u>		<u>161,289</u>
Creditors: Amounts falling due in more than one year	17		141,482		112,853
Pension liability	28		3,420		1,120
Capital and reserves					
Share capital – non equity	18		-		-
Revenue reserve	20		49,237		47,316
			<u>194,139</u>		<u>161,289</u>

The financial statements were approved by the Board on 24 June 2009 and were signed on its behalf by:



Chairman



Vice Chairman



Secretary

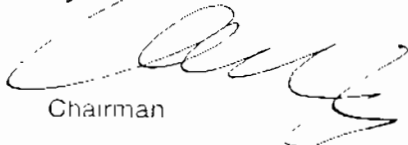


Association Balance Sheet

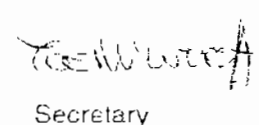
as at 31 March 2009

	Notes	2009		2008 Restated	
		£'000	£'000	£'000	£'000
Fixed assets					
Housing properties:	10				
Depreciated cost		276,844		232,043	
Social housing grant		<u>(94,498)</u>		<u>(77,488)</u>	
			182,346		154,555
Investments	11				
Loans		5,706		5,420	
Grant		<u>(3,765)</u>		<u>(3,960)</u>	
			1,941		1,460
Other fixed assets	12		7,680		3,560
			<u>191,967</u>		<u>159,575</u>
Current assets					
Stock and work in progress	13	9,472		7,096	
Debtors	14	2,087		2,162	
Cash at bank and in hand	15	<u>778</u>		<u>1,418</u>	
		12,337		10,676	
Creditors: Amounts falling due within one year	16	<u>(9,300)</u>		<u>(8,089)</u>	
Net current assets			3,037		2,587
Total assets less current liabilities			<u>195,004</u>		<u>162,162</u>
Creditors: Amounts falling due in more than one year	17		141,482		112,853
Pension liability	28		3,420		1,120
Capital and reserves					
Share capital – non equity	18		-		-
Revenue reserve	20		50,102		48,189
			<u>195,004</u>		<u>162,162</u>

The financial statements were approved by the Board on 24 June 2009 and were signed on its behalf by:


 Chairman


 Vice Chairman


 Secretary

