



# Financial Statements

## Year end 31.3.11

Sandwell Homes Limited  
Company Limited by Guarantee



# Sandwell Homes Limited

## Company Limited by Guarantee

### INDEX

---

	Page
Officers and Professional Advisers	1
Directors' Report	3
Directors' Responsibilities in the preparation of financial statements	8
Statement on corporate governance	9
Independent Auditor's Report	11
Income statement	12
Statement of comprehensive income	13
Statement of changes in equity	14
Balance sheet	15
Statement of cash flows	16
Significant accounting policies	17
Notes to the financial statements	21

---

# Sandwell Homes Limited

## Company Limited by Guarantee

### OFFICERS AND PROFESSIONAL ADVISERS

---

#### DIRECTORS

Norma S R Hutchings	Board Member – Tenant Representative	- Oldbury
Michael C Babb	Board Member – Tenant Representative	- Wednesbury
Aynols B Reid	Board Member – Tenant Representative	- Smethwick
Peter B Gospel	Board Member – Tenant Representative	- West Bromwich
Linda Paskin	Board Member – Tenant Representative	- Tipton
Susan Eaves	Board Member – Tenant Representative	- Rowley Regis

Alfred W Woodhouse	Board Member – Tenant Representative
Len Gibbs	Board Member – Independent Representative
Tina Brown-Love	Board Member – Independent Representative
Christopher P Gray	Board Member – Independent Representative
Darshan Singh Matharoo	Board Member – Independent Representative

Councillor Geoffrey J Lewis	Board Member – Council Representative
Councillor Anthony PTJ Moore	Board Member – Council Representative
Councillor Michael D Middleton	Board Member – Council Representative
Councillor Joanne Hadley	Board Member – Council Representative
Councillor Stephen Trow	Board Member – Council Representative

#### EXECUTIVE MANAGEMENT TEAM

Brian J Oakley	Chief Executive (retired 1 July 2010)
Adrian Scarrott	Housing Services Director
John Clayton	Investment Director
Chris Poulton	Repairs and Maintenance Director
Paul E Field	Finance Director (appointed Interim Chief Executive 1 July 2010)
Judy Guest	Finance Officer
Norman Fletcher	General Manager (Housing Services)
Chris Walton	Performance and Resources Manager

#### SECRETARY

Paul E Field

#### REGISTERED OFFICE

Dartmouth House  
Sandwell Road  
West Bromwich  
West Midlands  
B70 8TQ

#### AUDITOR

Baker Tilly UK Audit LLP  
Chartered Accountants  
St Philips Point  
Temple Row  
Birmingham  
B2 5AF

#### BANKERS

Co-operative Bank  
118-120 Colmore Row  
Birmingham  
B3 3BA

Sandwell Homes Limited  
Company Limited by Guarantee  
OFFICERS AND PROFESSIONAL ADVISERS (continued)

---

SOLICITORS

Wragge & Co  
55 Colmore Row  
Birmingham  
B3 2AS

ACTUARY

Mercer Human Resource Consulting Limited  
Mercury Court  
Tithebarn Street  
Liverpool  
L2 2QH

# Sandwell Homes Limited

## Company Limited by Guarantee

### DIRECTORS' REPORT

---

The Directors submit their report and financial statements of Sandwell Homes Limited for the year from 1 April 2010 to 31 March 2011.

#### PRINCIPAL ACTIVITIES

The principal activity of the Company during the period remained the management and maintenance of Council owned homes in Sandwell. The Company was established as an Arms Length Management Organisation (ALMO) in accordance with a Government policy initiative for local authority housing management.

#### REVIEW OF THE BUSINESS

2010/11 has been another year of outstanding performance. The Company has continued with the excellent track record of previous years and out performed our best performance results.

##### *Social Landlord of the Year*

In May 2010 Sandwell Homes was recognised with the Housing Excellence Award for Social Landlord of the Year. The Company was rated the best regional provider of housing services within the Country. The award has definitely put Sandwell Homes with the elite of companies providing housing services and is a tribute to everyone involved in Sandwell Homes, particularly, our employees, tenants, Board Members and the Council.

##### *Major Achievements*

- Delivered a state-of-the-art CCTV and concierge service control centre via a £2.2 million invest to save project.
- Consulted with tenants to deliver three local standards in response to the Tenant Services Authority and produced the first annual report required by the TSA.
- Achieved our first Keep Britain Tidy Kite mark accreditation.
- Delivered home maintenance skills and work experience programmes aiming at improving life chances for dozens of young people in Sandwell.
- Reviewed the existing Governance structures, consulting with more than 1,100 tenants and leaseholders.
- Achieved the Royal Society for the Prevention of Accidents Gold awards for health and safety for the third consecutive year.

##### *Decent Homes Programme*

During 2010/11 there was an announcement that the national backlog funding for decent homes had been reduced substantially. For Sandwell it meant that the £27.6m due to be received by the Company in the period 2011 to 2013 was reduced to a final sum in 2011/12 of only £1.6m. The difference created a £26m funding gap. Both the Council and the Company reaffirmed that decent homes would remain a priority and that solutions would be explored to fulfil the decent homes promise. The Company made it a priority to ring fence and maximise savings for decent homes and in 2010/11 £2.7m additional funding was contributed from Company budgets. In 2011/12 a further £2.5m has been contributed towards decent homes and the funding gap has reduced from £26m to £20.8m.

It is likely that a new housing finance system being introduced by the Government from April 2012 will provide more annual resources than the current system and when there is more certainty on this funding a re-profiled decent homes programme will be published.

The decent homes spending in 2010/11 was £56.341m and despite the reduction in Government funding the programme for 2011/12 is £34.604m, still a sizable programme but substantially less than the £85.7m spent in 2008/09 at the peak of the Government funding. There are now 88.6% homes decent compared with the 35.1% when the Company was formed in 2004. The decent homes programme delivery has continued with the following impressive results in the year:

- 2,625 low-rise homes refurbished, bringing the programme total to 18,860 properties.
- A further two high-rise blocks refurbished bringing the programme total to 18 blocks.
- Customer satisfaction levels reached 98% during the year.
- Completed an £8 million refurbishment of Lancaster House.

# Sandwell Homes Limited

## Company Limited by Guarantee

### DIRECTORS' REPORT

---

#### FINANCIAL RESULTS

The accounts have been prepared under the International Financial Reporting Standards as required and comparative figures have been restated to reflect this. In financial terms the income statement shows a profit on ordinary activities of £6.476m in 2010/11 compared to a profit of £2.485m in 2009/10. However, the profit of £6.476m includes a net pension credit of £6.299m required by International Accounting Standard 19. Prior to the pension credit of £6.299m the result for the year was a net surplus of £0.177m. The profit in 2009/10 included an exceptional credit of £3.5m for a retrospective reimbursement of cost.

The most significant issue to report in the Financial Statements is the decrease in the pension deficit. As part of the management agreement with the Council the Company offers employees access to the Local Government Pension Scheme which is administered by the West Midlands Pension Fund. The deficit in relation to the Company has decreased to £28.863m from £45.713m over the last twelve months. There are a number of factors that have contributed to this change. The figures reflect the results of the recent Triennial review and also the announcement by Government that in future pension increases would be based on the Consumer Price Index rather than the Retail Price Index. This not only gave rise to a pension credit of £9.055m in respect of past service but also reduces the calculated value of our pension liabilities. The Local Government Pension Scheme continues to be reviewed by Government.

#### PERFORMANCE REVIEW 2010/11

In 2010/11 the Company continued to break performance records. This follows five years of significant improvement and most of our services are now in the top quartile compared with other Metropolitan Authorities. The performance includes:

	Under management of the Company					Under the management of the Council
	2010/11	2009/10	2008/09	2007/08	2006/07	2004/05
% of homes decent	88.6	85.4	67.7	54.2	43.5	35.1
% customer satisfaction*	80.4	80.4	80.4	77.9	77.2	75.0
% urgent repairs completed on time	99.0	99.0	99.2	99.0	98.8	98.2
% rent collected	98.2	98.1	98.0	98.1	97.7	97.4

\*The status survey has been replaced by the Star Survey which will be undertaken in 2011.

#### FUTURE DEVELOPMENTS

Building on our past successes the Company has published a new Business and Delivery Plan covering the period 2011 to 2016. The Company has developed eight strategic business planning themes that will focus company ambition and shape the content of the plan. The Strategic themes are:

- Deliver economy, efficiency and effectiveness
- Delivering housing growth
- Developing enterprise and empowering customers
- Sustainability and climate change agenda
- Organisational development
- Promote communities that are sustainable and inclusive
- Responding to housing need and influencing supply
- Improve the quality of existing stock

# Sandwell Homes Limited

## Company Limited by Guarantee

### DIRECTORS' REPORT

---

#### MAJOR RISKS AND UNCERTAINTIES

The Company maintains a risk register which is actively managed by the Risk Management Panel and Executive Management Team and is reported regularly to the Audit and Scrutiny Committee. The Risk Management Process is audited annually and has received substantial assurance from the Company's Internal Auditors. The key financial risks in the Company Risk Register as at 31<sup>st</sup> March 2011 included:-

- Operational performance deteriorates as a result of value for money initiatives and the need to find budget reductions
- The Company loses turnover and needs to reshape
- Pension actuarial valuation as at 31<sup>st</sup> March 2011 results in an increased employer's pension rate and increased deficit
- Changes to housing benefit reduce the level of income to the Housing Revenue Account leading to a reduction in Management fee

Control measures are in place within the risk register to mitigate the impact and/or likelihood of each risk.

Since the close of the financial year the pension actuarial valuation at 31<sup>st</sup> March 2011 has been received showing a significantly improved position for the Company and this is reflected in the financial statements.

#### DISABLED EMPLOYEES

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

#### EMPLOYEE CONSULTATION

The Company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Company. This is achieved through formal and informal meetings, the Company magazine and a special edition for employees of the annual financial statements. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

#### ENVIRONMENTAL POLICY

In 2008 the Board approved the implementation of an Environmental Management system. Since commencing our work we have achieved significant success as the Company has secured prestigious awards and has secured accreditation for our environmental management system to ISO 14001 and Eco Management and Audit Scheme (EMAS). Through an approved Environmental Policy the Company acts to minimise the impact of activities on the environment and demonstrate a real commitment to improve our environmental performance within a clearly defined approach. A culture of environmental responsibility is promoted throughout the Company and with suppliers. The Company was also recognised as best practice by the West Midlands Centre for Constructing Excellence for our initiatives to turn our supply chain green.

The implementation of this policy has links with all the Company's strategic priorities and aims – it will help demonstrate value for money, it provides customer involvement and engagement, it contributes to creating sustainability and demonstrates continuous improvement and innovation.

The Company achieved a ranking of 27<sup>th</sup> in the Sunday Times Best Green Companies awards in 2009 and further success in 2010 rising to 21<sup>st</sup> place. We have also achieved Platinum status in the Business Environmental charter, the highest award possible. Furthermore the EMAS accreditation body selected Sandwell Homes to represent the United Kingdom in the 2010 European EMAS award competition for achieving outstanding environmental performance and the Company won the award in the Large Public Organisation category. We are continuing our development of our Environmental Management system by updating our waste management policy to meet changes in legislation, developing an environmental risk management approach and continuing our work on the mitigation of the impact on biodiversity.

# Sandwell Homes Limited

## Company Limited by Guarantee

### DIRECTORS' REPORT (continued)

---

#### DIRECTORS

The Directors who served the Company during the year were as follows:

<b>Directors</b>	<b>Date of Appointment</b>	<b>Date of Retirement (if applicable)</b>
Norma S R Hutchings	11 June 2004	
Michael C Babb	11 June 2004	
Aynols B Reid	20 July 2006	
Peter B Gospel	26 July 2004	
Linda Paskin	18 July 2005	
Susan Eaves	09 August 2010	
Alfred W Woodhouse	11 June 2004	
Len Gibbs	11 June 2004	
Tina Brown-Love	11 June 2004	
Christopher P Gray	26 July 2006	
Darshan Singh Matharoo	30 March 2009	
Councillor Geoffrey J Lewis	11 June 2004	
Councillor Keith Allcock	07 September 2009	24 May 2011
Councillor Anthony PTJ Moore	31 August 2010	
Councillor Michael D Middleton	09 August 2010	
Councillor Joanne Hadley	05 August 2010	
Councillor Stephen G Trow	29 July 2010	

At the Council Annual General Meeting on 24th May 2011 Councillor Mohinder Singh Tagger was selected to join the Board but it is a requirement of the Private Securities Act that all Directors must first be registered with the Securities Industries Authority and an application is currently in process.

After the Company Annual General Meeting on 29th June 2011 the Company Board will reduce to ten, consisting of:-

Appointed Chair	Right Reverend David Walker, Bishop of Dudley
Council Appointments	Councillor Geoffrey J Lewis Councillor Anthony PTJ Moore Councillor Mohinder Singh Tagger
Independent Board Members	Recruitments scheduled for - 9 <sup>th</sup> and 14th June 2011
Tenant Board Members	Michael Charles Babb David James Bisseker Philip David Cartwright

#### STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

The Directors who were in office on the date of approval of these statements have confirmed, as far as they are aware, there is no relevant audit information of which the auditors are unaware. Each of the directors have confirmed that they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditors.

Sandwell Homes Limited  
Company Limited by Guarantee  
DIRECTORS' REPORT (continued)

---

AUDITOR

A resolution to reappoint Baker Tilly UK Audit LLP, Chartered Accountants as auditor will be put to the Board at the Annual General Meeting.

By order of the Board

A handwritten signature in black ink, appearing to read 'PE Field', with a horizontal line underneath the signature.

Paul E Field  
Company Secretary  
20 June 2011

# Sandwell Homes Limited

## Company Limited by Guarantee

### DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

---

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board of Directors is responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Sandwell Homes Limited

## Company Limited by Guarantee

### STATEMENT ON CORPORATE GOVERNANCE

---

#### STATEMENT ON INTERNAL CONTROLS

The Board acknowledges its ultimate responsibility for ensuring that the Company has in place a system of controls that is appropriate to the various business environments in which it operates. These controls are designed to give reasonable assurance with respect to:

- The reliability of financial information used within the Company or for publication;
- The maintenance of proper accounting records; and
- The safeguarding of assets against unauthorised use or disposal.

The systems of internal control can only provide reasonable and not absolute assurance against material misstatement or loss. The system of internal control includes the following key elements:

- Formal policies and procedures are in place, including the documentation of key systems and rules relating to the delegation of authorities, which allow the monitoring of controls, maintaining proper accounts and restrict the unauthorised use of the Company's assets;
- Experienced and suitably qualified staff to take responsibility for important business functions. Annual business planning and performance development appraisals with employees are in place to maintain standards of performance;
- Internal audit prepare a risk based Audit Plan which is considered by the Audit and Scrutiny Committee in advance of the forthcoming year. The plan includes audits of all the key financial systems and regular reviews on the effectiveness of internal controls. Based on the work undertaken during the year and the implementation by management of the recommendations made, Internal Audit has provided reasonable assurance ( its highest level) that the Company has adequate and effective governance, risk management and internal control processes;
- A risk management framework reviewed annually and which has substantial assurance from Internal Audit in which priority risks are managed through Directorates and the cross cutting Risk Management Panel, reviewed by the Executive Management Team and monitored by the Audit and Scrutiny Committee;
- Forecasts and budgets are prepared which monitor the key business risks and financial objectives and progress towards financial plans set for the year and the medium term. Regular management accounts are prepared promptly, providing relevant, reliable and up-to-date financial and other information and significant variances from budgets are investigated as appropriate. These accounts are considered monthly by Executive Committee and monitored quarterly by Finance Committee;
- An integrated framework to support performance management is well established and is structured to link Company wide Strategic Business plans to operational activity. The tiers within the framework provide accountability at lead officer, Director, Committee and ultimately Board Level;
- A quality management system is in place within the Company complying with ISO 9001:2008, 14001 and 20000 Quality Procedures. These are subject to six monthly independent inspections which identified no areas of non-conformance. The Company held valid certificates throughout 2010/11;
- Board Member training has been provided on control methodologies;
- The Company standing orders, financial regulations and contract procedure rules set out clear guidelines on the approval of new commitments, initiatives and investment projects;

# Sandwell Homes Limited

## Company Limited by Guarantee

### STATEMENT ON CORPORATE GOVERNANCE (continued)

---

- The Board receives the external auditor's report. Among other things this provides reasonable assurance that control procedures are in place and being followed. The internal audit programme is in place to review, appraise and report upon the adequacy of internal controls. Any actions necessary to correct any weaknesses identified by internal or external audits are incorporated within the service plan that is agreed by the Board. This is monitored by the Audit and Scrutiny Committee of the Board; and
- A full range of insurance including Fidelity Guarantee has been put in place to safeguard assets.

During the year management has received regular reports from the Internal Audit Service covering the effectiveness of the systems of operational and financial controls. On behalf of the Board, the Executive Management Team has reviewed the effectiveness of systems of internal control in existence for the year ended 31 March 2011. No weaknesses were found in the internal controls which resulted in material losses, contingencies or uncertainties which require disclosure in the financial statements or in the auditors' report on the financial statements. The Board is satisfied that this remains the case up to the signing of these documents.

# Sandwell Homes Limited

## Company Limited by Guarantee

### INDEPENDENT AUDITOR'S REPORT

---

#### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SANDWELL HOMES LIMITED

We have audited the financial statements on pages 12 to 42. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

#### **Respective responsibilities of directors and auditor**

As more fully explained in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the provisions of the Companies Act 2006.

#### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Gary Moreton (Senior Statutory Auditor)  
For and on behalf of BAKER TILLY UK AUDIT LLP, Statutory Auditor  
Chartered Accountants  
St Philips Point  
Temple Row  
Birmingham B2 5AF

Date: 20 June 2011

Sandwell Homes Limited  
 Company Limited by Guarantee  
 INCOME STATEMENT  
 for the year to 31 March 2011

---

	<i>Notes</i>	2011 £'000	2010 £'000
REVENUE	3	118,045	133,209
Operating Costs		(110,248)	(129,114)
		<hr/>	<hr/>
PROFIT FROM OPERATIONS	5	7,797	4,095
Finance income	6	56	76
Finance costs	6	(1,377)	(1,686)
		<hr/>	<hr/>
PROFIT BEFORE TAXATION		6,476	2,485
Income tax expense	8	-	-
		<hr/>	<hr/>
PROFIT FOR THE YEAR	16	6,476	2,485
		<hr/> <hr/>	<hr/> <hr/>

The profit from operations for the year arises from the Company's continuing operations.

The profit for the year is entirely attributable to its sole member (note 20).

Sandwell Homes Limited  
Company Limited by Guarantee  
STATEMENT OF COMPREHENSIVE INCOME  
for the year to 31 March 2011

---

	<i>Notes</i>	2011 £'000	2010 £'000
OTHER COMPREHENSIVE INCOME, NET OF TAX			
Profit for the year		6,476	2,485
Actuarial gains and losses on defined benefit obligations	19	10,550	(26,328)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>17,026</u>	<u>(23,843)</u>

The total comprehensive income for the year is entirely attributable to its sole member (note 20).

Sandwell Homes Limited  
 Company Limited by Guarantee  
 STATEMENT OF CHANGES IN EQUITY

	Retained Earnings	Retained Earnings
	£'000	£'000
BALANCE AT 1 APRIL 2009		(2,562)
Profit for the year	2,485	
Other comprehensive income, net of tax:		
Actuarial losses on defined benefit obligations	(26,328)	
	<hr/>	
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(23,843)
		<hr/>
BALANCE AT 31 MARCH 2010		(26,405)
Profit for the year		
Other comprehensive income, net of tax:		
Actuarial gains on defined benefit obligations	6,476	
	10,550	
	<hr/>	
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		17,026
		<hr/>
BALANCE AT 31 MARCH 2011		(9,379)
		<hr/> <hr/>

# Sandwell Homes Limited

## Company Limited by Guarantee

### BALANCE SHEET

31 March 2011

Company Registration No: 5034622

	<i>Notes</i>	2011 £'000	2010 £'000
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	10	1,686	2,217
<b>CURRENT ASSETS</b>			
Inventories	11	1,042	1,026
Trade and other receivables	12	3,670	5,587
Cash and cash equivalents	9/13	32,490	30,470
		<u>37,202</u>	<u>37,083</u>
<b>TOTAL ASSETS</b>		<u><u>38,888</u></u>	<u><u>39,300</u></u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	14	19,404	19,992
<b>NON-CURRENT LIABILITIES</b>			
Retirement benefit obligations	19	28,863	45,713
<b>TOTAL LIABILITIES</b>		<u>48,267</u>	<u>65,705</u>
<b>NET LIABILITIES</b>		<u><u>(9,379)</u></u>	<u><u>(26,405)</u></u>
<b>EQUITY</b>			
Retained earnings	16	(9,379)	(26,405)
<b>TOTAL EQUITY</b>	16	<u><u>(9,379)</u></u>	<u><u>(26,405)</u></u>

The financial statements on pages 12 to 42 were approved by the Board and authorised for issue on 20 June 2011 and are signed on its behalf by:



L Gibbs  
Chair – Sandwell Homes Board



T Brown-Love  
Chair – Finance Committee

Sandwell Homes Limited  
 Company Limited by Guarantee  
 STATEMENT OF CASH FLOWS  
 for the year to 31 March 2011

	<i>Notes</i>	2011 £'000	2010 £'000
OPERATING ACTIVITIES			
Cash generated from operations	17	2,697	7,213
NET CASH FROM OPERATING ACTIVITIES		2,697	7,213
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		733	1,682
Interest received		(56)	(76)
NET CASH USED IN INVESTING ACTIVITIES		(677)	(1,606)
NET INCREASE IN CASH AND CASH EQUIVALENTS		2,020	5,607
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	17	30,470	24,863
CASH AND CASH EQUIVALENTS AT END OF YEAR	17	32,490	30,470

# Sandwell Homes Limited

## Company Limited by Guarantee

### SIGNIFICANT ACCOUNTING POLICIES

for the year to 31 March 2011

---

#### BASIS OF ACCOUNTING

The financial statements have been prepared under the historical cost convention and in accordance with accounting standards.

These financial statements are the first published financial statements of Sandwell Homes Limited prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"). The financial statements of Sandwell Homes Limited were previously prepared in accordance with UK GAAP.

Some of the IFRS recognition, measurement, presentation and disclosure requirements and accounting policy choices differ from UK GAAP. Consequently, the directors have amended certain accounting policies to comply with IFRS.

Comparative figures have been restated to reflect the adjustments made, except to the extent that the directors have taken advantage of exemptions to retrospective application of IFRS permitted by IFRS 1 'First-time Adoption of International Financial Reporting Standards'.

Reconciliations and descriptions of the affect of the transition to IFRS on the company equity and the company total comprehensive income previously reported under UK GAAP are given in note 22.

#### REVENUE RECOGNITION

Revenue is recognised when revenue and associated costs can be measured reliably and future economic benefits are probable. Revenue is measured at the fair value of the consideration received or receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Revenue from services is recognised on a time-apportioned basis by reference to the provision of services set out in the Management Agreement.

Sales of goods are recognised when goods are delivered and title has passed. Delivery occurs when the products have arrived at the specified location, and the risks and rewards of ownership have been transferred to the customer.

Interest income is accrued on a time-apportioned basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

#### PROPERTY, PLANT AND EQUIPMENT

All fixed assets are stated at cost less accumulated depreciation and any recognised impairment loss.

#### DEPRECIATION

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Plant, machinery and fixtures/fittings	Straight line over 7 years
Leasehold improvements	Straight line over 10 years or life of property lease (whichever shorter)
ICT equipment	Straight line over 3 years

# Sandwell Homes Limited

## Company Limited by Guarantee

### SIGNIFICANT ACCOUNTING POLICIES

for the year to 31 March 2011

---

#### IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

At each reporting date, the Company reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

#### INVENTORIES

Inventory is stated at the lower of cost and net realisable value. Cost comprises direct material costs and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using actual costs in most circumstances. Net realisable value represents the estimated selling price less all estimated costs to completion and selling costs to be incurred.

#### WORK IN PROGRESS

Work in progress is valued on the basis of direct costs plus attributable overheads based on normal level of activity. Provision is made for any foreseeable losses where appropriate. No element of profit is included in the valuation of work in progress.

#### LEASES

Leases in which a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged against profit or loss on a straight line basis over the period of the lease.

If the Company leases certain property, plant and equipment, where the Company has substantially all the risks and rewards of ownership, these are classed as finance leases. Finance leases are capitalised at the commencement of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the balance outstanding. The corresponding rental obligations, net of finance charges, are shown in other payables.

# Sandwell Homes Limited

## Company Limited by Guarantee

### SIGNIFICANT ACCOUNTING POLICIES

for the year to 31 March 2011

---

#### PENSION CONTRIBUTIONS

For defined benefit retirement plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each year end.

Actuarial gains and losses arising are recognised directly in other comprehensive income in the period in which they arise. Past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits have already vested, the cost is recognised immediately in profit or loss.

During 2010/11 the scheme has been amended so that the future pension increases would be based on the Consumer Price Index, as opposed to the Retail Price Index. This amendment has been treated as a change in scheme rules, with the effect of the change being shown in the Income Statement.

An asset or liability is recognised equal to the present value of the defined benefit obligation, adjusted for unrecognised past service costs, and reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to the lower of the asset, and any unrecognised past service cost plus the present value of available refunds or reductions in future contributions to the plan.

The rate used to discount the benefit obligations is based on market yields for high quality corporate bonds with terms and currencies consistent with those of the benefit obligations.

Gains and losses on curtailments/settlements are recognised when the curtailment/settlement occurs.

#### TAXATION

The tax expense represents the sum of the current tax expense and deferred tax expense.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from accounting profit as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is measured using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the taxable profit nor the accounting profit.

#### OPERATING SEGMENTS

The Company has adopted IFRS 8 'Operating Segments' during the year. IFRS 8 provides segmental information for the Company on the basis of information reported internally to the chief operating decision-maker for decision-making purposes. The Company considers that the role of chief operating decision-maker is performed by the Company's Board of Directors. The adoption of IFRS 8 has not had any impact on the performance or position of the entity and all results are reported as a single segment.

#### FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised when the Company has become a party to the contractual provisions of the instrument.

# Sandwell Homes Limited

## Company Limited by Guarantee

### SIGNIFICANT ACCOUNTING POLICIES

for the year to 31 March 2011

---

#### FINANCIAL INSTRUMENTS (continued)

##### *Financial assets*

###### *Trade receivables*

Trade receivables are classified as loans and receivables and are initially recognised at fair value. They are subsequently measured at their amortised cost using the effective interest method less any provision for impairment. A provision for impairment is made where there is objective evidence, (including customers with financial difficulties or in default on payments), that amounts will not be recovered in accordance with original terms of the agreement. A provision for impairment is established when the carrying value of the receivable exceeds the present value of the future cash flows discounted using the original effective interest rate. The carrying value of the receivable is reduced through the use of an allowance account and any impairment loss is recognised in profit or loss.

###### *Cash and cash equivalents/liquid resources*

Cash and cash equivalents comprise cash at bank and in hand and other short-term deposits held by the Company with maturities of three months or less.

##### *Financial liabilities*

Financial liabilities are classified according to the substance of the contractual arrangements entered into.

###### *Trade payables*

Trade payables are initially recognised at fair value and subsequently at amortised cost using the effective interest method.

#### ADOPTION OF INTERNATIONAL ACCOUNTING STANDARDS

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

##### **Standards adopted early by the Company**

The Company has not adopted any standards or interpretations early in either the current or the preceding financial year.

##### **Standards issued but not yet effective**

At the date of authorisation of these financial statements the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

IFRS 1 (Amendment)	First-time Adoption of IFRS – Amendment; Limited Exemption from comparative IFRS 17 Disclosures for First-time adopters.
IAS 24 (Revised)	Revised IAS 24 Related Party Disclosures
IFRS 7 (Amendment)	Financial Instruments: Disclosures – Amendments; Disclosures – Transfers of Financial Assets
IFRS 1 (Amendment)	First-time Adoption of IFRS – Amendment; Severe Hyperinflation and removal of Fixed Dates for First-Time Adopters
IAS 12 (Amendment)	Income Taxes – Amendment; Deferred Tax: Recovery of Underlying Assets
IFRS 9	Financial Instruments
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments
IFRIC 14 (Amendment)	Prepayments of a Minimum Funding requirement

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Company when the relevant standards and interpretations come into effect.

There were also a number of improvements to standards that have been issued on 6 May 2010 but not yet effective.

# Sandwell Homes Limited

## Company Limited by Guarantee

### NOTES TO THE FINANCIAL STATEMENTS

for the year to 31 March 2011

---

#### 1 CRITICAL ACCOUNTING ESTIMATES AND AREAS OF JUDGEMENT

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

##### *Critical accounting estimates and assumptions*

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

- the assumptions underpinning the pension scheme valuation assumptions – see note 19 for details of the sensitivities on key assumptions;
- The current Management Agreement expires on 30<sup>th</sup> September 2014 and the Company is currently working with the Council with a view to extend the agreement to 2020. The Governance arrangements have been reviewed and a new Board will be established from 1<sup>st</sup> July 2011.

##### *Critical areas of judgement*

The following are the critical judgements, apart for those involving estimations (see above), that the Directors have made in the process of applying the entity's accounting policies and that have a significant effect on the amounts recognised in the financial statements:

- Included in the financial statements for the year ended 31 March 2011 is an accrual of £647k in relation to legal cases and tax liabilities (2010: £537k). In making its judgements, management have considered the criteria as per IAS 37.
- As at 31<sup>st</sup> March 2011 there was a contingent liability in relation to a dispute with a potential supplier. The potential supplier was selected but prior to the contract being formally committed Sandwell Homes decided not to proceed. Counsel advice has been sought which concludes that the claim does not have any reasonable chance of success.

#### 2 FINANCIAL RISK MANAGEMENT

The Company's Audit and Scrutiny Committee is responsible for reviewing the risk register half yearly and for overall risk management within the Company, including financial risks. The Audit Committee reports to the Board through its minutes with the current register circulated to every Board member. Risks are also reviewed on a regular basis at department level and the key risks identified are kept under review by the company wide Risk Management Panel and the position is regularly reported to the Executive Management Team. Exposure to financial risks are monitored by the Company's Financial Management who are required to update the Company's risk register regularly and to report against key risks to the Audit and Scrutiny Committee

Currently, the key risks are considered to be the risk of:

- Key business planning assumptions (investment programme, right to buy, inflation, subsidies, void levels) proving inaccurate.
- Revised ALMO resources being insufficient to deliver decent homes by 2012.
- Investment partners failing to perform to financial or quality targets.
- The Company losing revenue and needs to reshape.
- The Company being required to defend potential contract litigation/court cases.

# Sandwell Homes Limited

## Company Limited by Guarantee

### NOTES TO THE FINANCIAL STATEMENTS

for the year to 31 March 2011

---

#### 2 FINANCIAL RISK MANAGEMENT (continued)

Monitoring exposures to financial risks forms a key part of the Company's overall risk management processes. The risk register is regularly updated and monitored at all levels and this ensures that the risk mitigation procedures are compliant with the Company's policy and that any new risks are identified and appropriately managed. This is a key system within the Company and as such is subject to an annual audit by the Company's Internal Auditors and has again received substantial assurance. The risk register is also shared with the Council.

#### **Liquidity risk and credit risk**

Management's objective is to meet its liabilities as they fall due whilst maintaining sufficient headroom to enable the Board to react to unexpected changes in market conditions. The Company is largely dependent on its largest customer, the Council, which represents 99.1% (2010: 99.7%) of its revenue in order to maintain the necessary cash headroom to operate effectively.

The Management fee from the Council is receivable monthly by Sandwell Homes Limited. The Company's finance team assesses its cash flow requirements by reference to the annual budget and monthly management accounts and review of the cash position daily and places surplus funds on deposit with the Council. The Council pools the Company's funds and manages this under a service level agreement.

Sandwell Homes Limited is exposed to liquidity and credit risk principally in the event that the Council were to experience cash flow difficulties in paying Sandwell Homes Limited its management charge monthly or in returning the funds that the company has deposited with it. The Company operates a current account but maintains minimal cash deposits with a UK bank.

Credit risk predominantly arises from financial asset investments (deposits with maturity of between one and three months or more with the Council – see above), trade receivables (principally the Council) and cash and cash equivalents (Council).

#### **Maturity analysis**

The table below analyses the Company's financial liabilities on a contractual gross undiscounted cash flow basis into maturity groupings based on amounts outstanding at the reporting date up to the contractual maturity date.

Liabilities - 2011	Within 6 months £'000	6 months - 1 year £'000	1 to 5 years £'000	Over 5 years £'000	Total £'000
Trade and other payables	19,185	176	43	-	19,404

---

**Sandwell Homes Limited**  
**Company Limited by Guarantee**  
NOTES TO THE FINANCIAL STATEMENTS  
for the year to 31 March 2011

2 FINANCIAL RISK MANAGEMENT (continued)

The table below analyses the Company's financial assets held for managing liquidity risk which are considered to be readily saleable or are expected to generate cash inflows to meet cash outflows on financial liabilities.

Assets - 2011	Within 6 months £'000	6 months - 1 year £'000	1 to 5 years £'000	Over 5 years £'000	Total £'000
Cash at bank and on hand	8,610	-	-	-	8,610
Short-term deposits	23,880	-	-	-	23,880
Trade and other receivables	3,115	224	331	-	3,670
	<u>35,605</u>	<u>224</u>	<u>331</u>	<u>-</u>	<u>36,160</u>

Liabilities - 2010	Within 6 months £'000	6 months - 1 year £'000	1 to 5 years £'000	Over 5 years £'000	Total £'000
Trade and other payables	19,992	-	-	-	19,992

Assets - 2010	Within 6 months £'000	6 months - 1 year £'000	1 to 5 years £'000	Over 5 years £'000	Total £'000
Cash at bank and on hand	8,096	-	-	-	8,096
Short-term deposits	22,374	-	-	-	22,374
Trade and other receivables	5,587	-	-	-	5,587
	<u>36,057</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,057</u>

The Company would normally expect that sufficient cash is generated in the operating cycle to meet the contractual cash flows as disclosed above through effective cash management.

**Interest rate risk**

The Company's interest rate risk is limited to the floating rate that it earns on its deposits with the Council. The Council pays a rate of 0.3% below base rate (currently 0.5%). The table below shows the Company's financial assets and liabilities split by those bearing floating rates and those that are non-interest bearing:

2011 - assets	Floating rate £'000	Non-interest bearing £'000	Total £'000
Cash and cash equivalents	32,273	217	32,490
Trade and other receivables	-	3,670	3,670
	<u>32,273</u>	<u>3,887</u>	<u>36,160</u>

Sandwell Homes Limited  
 Company Limited by Guarantee  
 NOTES TO THE FINANCIAL STATEMENTS  
 for the year to 31 March 2011

---

2 FINANCIAL RISK MANAGEMENT (continued)

<b>2011 - liabilities</b>	Non-interest bearing £'000	Total £'000
Trade and other payables	19,404	19,404

<b>2010 - assets</b>	Floating rate £'000	Non-interest bearing £'000	Total £'000
Cash and cash equivalents	30,238	232	30,470
Trade and other receivables	-	5,587	5,587
	<u>30,238</u>	<u>5,819</u>	<u>36,057</u>

<b>2010 - liabilities</b>	Non-interest bearing £'000	Total £'000
Trade and other payables	19,992	19,992

**Sandwell Homes Limited**  
**Company Limited by Guarantee**  
NOTES TO THE FINANCIAL STATEMENTS  
for the year to 31 March 2011

---

2 FINANCIAL RISK MANAGEMENT (continued)

**Credit risk**

The Company's maximum exposure to credit risk, gross of any collateral held, relating to its financial assets is equivalent to their carrying value as disclosed below. All financial assets have a fair value which is equal to their carrying value.

	2011 £'000	2010 £'000
<i>Maximum exposure to credit risk</i>		
Trade and other receivables:		
- Council	2,190	3,057
- Other	1,480	2,530
Cash and cash equivalents:		
- Council	32,270	30,235
- Other	220	235
	36,160	36,057

**Capital management**

The Company's main objective when managing capital is to ensure that it maintains sufficient capital to ensure that the Council's tenants continue to receive an excellent housing management service from the Company. The level of management fee agreed with the Council annually in respect of the Management Agreement and the Company's level of operating efficiency are the principal determinants of the level of equity that the Company is able to retain. As a company limited by guarantee, the only equity / capital of the Company is represented by its retained earnings reserves.

The Company has no debt.

The Company does not have any externally imposed capital requirements and has not made any changes to its capital management during the year.

Sandwell Homes as a not for profit organisation is not driven to make a surplus but for fulfilment of the Company priorities. Following the establishment of the Company as part of the Management Agreement the Company has to provide for all its own risks and costs of inflation, single status and modernisation. The profit and loss account reserve provides cover for these and also for known risks and unforeseen events and this is important for the future viability of the Company.

3 REVENUE

Sales were made wholly within the United Kingdom and derived from the Company's principal activity of housing management.

4 SEGMENT INFORMATION

Under IFRS 8, the Company considers it has one segment. It generates 99.1% (2010: 99.7%) of its total revenues from its largest customer, the Council, of £117,008,000 (2010: £132,795,000).

Sandwell Homes Limited  
 Company Limited by Guarantee  
 NOTES TO THE FINANCIAL STATEMENTS  
 for the year to 31 March 2011

5	PROFIT FROM OPERATIONS	2011 £'000	2010 £'000
	Profit from operations is stated after charging/(crediting):		
	Change in inventory	(16)	720
	Depreciation of owned property, plant and equipment	1,265	447
	Auditor's fees:		
	On audit services	26	22
	On taxation	3	6
	Rentals under operating leases	3,159	2,688
		3,159	2,688

The following table analyses the nature of expenses:

	2011 £'000	2010 £'000
Staff costs (note 7)	36,947	37,593
Depreciation, amortisation and impairments (note 10)	1,265	447
Investment programme	52,988	63,022
Services and supplies	18,822	18,930
Change in inventory	(16)	720
Other expenses	8,647	11,902
Total expenditure before exceptional items	118,653	132,614
Exceptional items charged;		
Write off/ reimbursement of cost	650	(3,500)
Pension - past service gain	(9,055)	-
Total expenditure	110,248	129,114

In 2009/10 the company received a credit of £3.5m as a retrospective reimbursement of costs from a contractor. The contractor went into administration in 2010/11, with the consequence that £650,000 of the amount owed is not recoverable and has been written off in 2010/11.

During 2010/11 the pensions scheme was amended where future pension increases would be based on the Consumer Price Index as opposed to the Retail Price Index. The effect of that change has been a credit to the Income Statement of £9,055,000.

No interest was generated on impaired financial assets in either the current or preceding financial years.

During the year, the Company impaired certain financial assets classified as loans and receivables. Details are provided in note 12.

Sandwell Homes Limited  
 Company Limited by Guarantee  
 NOTES TO THE FINANCIAL STATEMENTS  
 for the year to 31 March 2011

6	FINANCE INCOME AND COSTS	2011 £'000	2010 £'000
	Other interest receivable	56	76
		<u>56</u>	<u>76</u>
		2011 £'000	2010 £'000
	Other interest payable – pension scheme	1,377	1,686
		<u>1,377</u>	<u>1,686</u>
7	STAFF COSTS	2011 No.	2010 No.
	The average monthly number of persons employed by the Company during the period was:		
	Support services	114	116
	Repairs and building services	474	497
	Investment	76	76
	Facilities management	167	144
	Community care	103	106
	Housing management	240	250
		<u>1,174</u>	<u>1,189</u>
		2011 £'000	2010 £'000
	Wages and salaries	29,685	30,789
	Social security costs	2,035	2,149
	Modernisation and redundancy costs	258	537
	Other pension costs	4,969	4,118
		<u>36,947</u>	<u>37,593</u>
	Total expenditure before exceptional items	36,947	37,593
	Pension – past service gain (Note 5)	(9,055)	-
		<u>27,892</u>	<u>37,593</u>

The remuneration paid to the Directors of the Company (including pension contributions and benefits in kind) for management services was £Nil (2010: £Nil). The total of Directors' pension contributions was £Nil (2010: £Nil).

Sandwell Homes Limited  
 Company Limited by Guarantee  
 NOTES TO THE FINANCIAL STATEMENTS  
 for the year to 31 March 2011

8	TAXATION	2011 £'000	2010 £'000
	Analysis of charge in year:		
	Current tax:		
	UK – Current year	-	-
	UK – Adjustments in respect of prior periods	-	-
		=====	=====
	Current tax reconciliation:		
	The tax assessed for the years differ from the standard rate of corporation tax as follows:		
	Profit before tax	6,476	2,485
		-----	-----
	Tax at the rate of corporation tax 21% (2010: 21%)	1,360	522
	Effect of non-trading activities with member not subject to corporation tax	(1,365)	(548)
	Unrelieved tax losses carried forward	5	26
		-----	-----
		-	-
		=====	=====

The Company is a wholly owned subsidiary of Sandwell Metropolitan Borough Council and the majority of income is derived from services provided to the Council. HM Revenue and Customs has confirmed that transactions between ALMOs and their Councils do not amount to trading and, accordingly, any surplus or deficit arising thereon is outside the scope of corporation tax. As a result of this, the effective rate of tax is Nil% (2010: Nil% ), which is lower than the standard UK rate of 21%.

9 FINANCIAL INSTRUMENTS

**2011**

	Loans and receivables £'000
<b>Current financial assets</b>	
Trade and other receivables	3,670
Cash and cash equivalents	32,490
Total	----- 36,160 -----

**2011**

	Trade and other payables £'000
<b>Current financial liabilities</b>	
Trade and other payables	19,404
	----- -----

Sandwell Homes Limited  
Company Limited by Guarantee  
NOTES TO THE FINANCIAL STATEMENTS  
for the year to 31 March 2011

---

**2010**

	Loans and receivables £'000
<b>Current financial assets</b>	
Trade and other receivables	5,587
Cash and cash equivalents	30,470
	<hr/>
Total	<u>36,057</u>

**2010**

	Trade and other payables £'000
<b>Current financial liabilities</b>	
Trade and other payables	<u>19,992</u>

Sandwell Homes Limited  
 Company Limited by Guarantee  
 NOTES TO THE FINANCIAL STATEMENTS  
 for the year to 31 March 2011

10 PROPERTY, PLANT AND EQUIPMENT

	ICT equipment £'000	Plant, machinery and fixtures/ fittings £'000	Leasehold improvements £'000	Total £'000
Cost:				
At 1 April 2009	1,049	370	382	1,801
Additions	80	-	1,602	1,682
Disposals	(103)	(15)	-	(118)
Transfer	(28)	28	-	-
At 31 March 2010	998	383	1,984	3,365
Additions	112	20	602	734
Disposals	(666)	-	-	(666)
At 31 March 2011	444	403	2,586	3,433
Accumulated depreciation and any recognised impairment losses:				
At 1 April 2009	511	77	231	819
Charged in the year	333	53	61	447
Disposals	(103)	(15)	-	(118)
Transfer	(18)	27	(9)	-
At 31 March 2010	723	142	283	1,148
Charged in the year	286	59	920	1,265
Disposals	(666)	-	-	(666)
At 31 March 2011	343	201	1,203	1,747
Net book value:				
At 31 March 2011	101	202	1,383	1,686
At 31 March 2010	275	241	1,701	2,217
At 1 April 2009	538	293	151	982

Leasehold improvements in 2009/10 include £1.6 million of additions which became operational in June 2010. Therefore these additions were not depreciated until that date.

Sandwell Homes Limited  
 Company Limited by Guarantee  
 NOTES TO THE FINANCIAL STATEMENTS  
 for the year to 31 March 2011

11	INVENTORIES	2011 £'000	2010 £'000
	Raw materials and consumables	550	596
	Work in progress	492	430
		<u>1,042</u>	<u>1,026</u>

Raw materials and work in progress set out above are carried at net realisable value.

No inventories were written down in 2011 or 2010. No earlier inventory write-downs were reversed during the current or preceding years.

12	TRADE AND OTHER RECEIVABLES	2011 £'000	2010 £'000
	Trade receivables	2,956	3,407
	Other receivables	714	2,180
		<u>3,670</u>	<u>5,587</u>

The average credit period taken on provision of services is 5 days (2010: 5 days).

An impairment review has been undertaken at the year end to assess whether the carrying amount of financial assets is deemed recoverable. The primary credit risk relates to amounts due outside of their credit period. A provision for impairment is made when there is objective evidence of impairment which is usually indicated by a delay in the expected cash flows or non payment from customers. As at 31 March 2011 £275,000 (2010: £295,000) of trade receivables were impaired in relation to customers who are known to be in financial difficulty and from whom payment was over due by more than three months. No provision for impairment has been made against any amounts due from the Council at 31 March 2011 or 2010.

The following table provides analysis of trade and other receivables (including amounts due from the Council) that were past due at 31 March, but not impaired. The Company believes that the balances are ultimately recoverable based on a review of past payment history and the current financial status of the customers.

	2011 £'000	2010 £'000
Up to three months	1,690	1,602
Up to six months	33	251
Between six months and a year	47	184
More than one year	488	632
	<u>2,258</u>	<u>2,669</u>

Sandwell Homes Limited  
 Company Limited by Guarantee  
 NOTES TO THE FINANCIAL STATEMENTS  
 for the year to 31 March 2011

---

12 TRADE AND OTHER RECEIVABLES (continued)

The movement in the allowance account was as follows:

	2011 £'000	2010 £'000
Opening balance as at 1 April	295	350
Provision for receivables impairment	91	71
Receivables written off during the year	(111)	(126)
	<hr/>	<hr/>
Closing balance as at 31 March	275	295
	<hr/> <hr/>	<hr/> <hr/>

13 CASH AND CASH EQUIVALENTS

Money held on deposit with the Council with a maturity of up to three months

2011 £'000	2010 £'000
32,490	30,470
<hr/> <hr/>	<hr/> <hr/>

No impairment losses have been recognised in the current or preceding years.

14 TRADE AND OTHER PAYABLES

Trade and other payables are as follows:

	2011 £'000	2010 £'000
Amounts payable relating to invoiced amounts	13,822	14,982
Accruals and deferred income	1,911	1,006
Other tax and social security	3,169	3,382
Other payables	502	622
	<hr/>	<hr/>
	19,404	19,992
	<hr/> <hr/>	<hr/> <hr/>

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 43 days (2010: 35 days).

The directors consider that the carrying amount of trade and other payables approximates to their fair value.

15 COMPANY LIMITED BY GUARANTEE

The Company is limited by guarantee, incorporated in the United Kingdom, and is governed by its memorandum and articles of association. The guarantor is its sole member, Sandwell Metropolitan Borough Council, (see note 20) is listed in the Company's Register of Members. The liabilities in respect of the guarantee are set out in the memorandum of association and are limited to £1 per member of the Company.

Sandwell Homes Limited  
 Company Limited by Guarantee  
 NOTES TO THE FINANCIAL STATEMENTS  
 for the year to 31 March 2011

16	RESERVES	2011 £'000	2010 £'000
	Retained Earnings – 1 April	(26,405)	(2,562)
	Retained profit for the year	6,476	2,485
	Actuarial gain/(loss) (note 19)	10,550	(26,328)
		<hr/>	<hr/>
	At 31 March	(9,379)	(26,405)
		<hr/> <hr/>	<hr/> <hr/>
		2011 £'000	2010 £'000
	Analysed as:		
	Profit and loss reserve (excluding pension liability)	19,484	19,308
	Pension deficit	(28,863)	(45,713)
		<hr/>	<hr/>
		(9,379)	(26,405)
		<hr/> <hr/>	<hr/> <hr/>

17	CASH FLOWS	2011 £'000	2010 £'000
	Reconciliation of profit from operations to net cash generated from operating activities		
	Profit from operations	7,797	4,095
	Depreciation	1,265	447
	Pension contributions paid in period	(3,589)	(3,227)
	Pension contributions charged in the period	(4,086)	4,118
	(Increase)/decrease in stock	(16)	720
	Decrease in debtors	1,917	1,318
	Increase in creditors	(591)	(258)
		<hr/>	<hr/>
	Net cash inflow from operating activities	2,697	7,213
		<hr/> <hr/>	<hr/> <hr/>

Principal non-cash transactions are the exceptional write off/reimbursement of costs of £650,000 (2010: £3,500,000), and pension service gain of £9,055,000 (2010: £Nil) as stated in note 5.

*CASH AND CASH EQUIVALENTS*

Cash and cash equivalents represent:

	2011 £'000	2010 £'000	2009 £'000
Cash at bank and short term deposits held by Sandwell Metropolitan Borough Council	32,490	30,470	24,863
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Sandwell Homes Limited  
 Company Limited by Guarantee  
 NOTES TO THE FINANCIAL STATEMENTS  
 for the year to 31 March 2011

18	COMMITMENTS UNDER OPERATING LEASES	Land and buildings 2011 £'000	Land and buildings 2010 £'000	Plant and machinery 2011 £'000	Plant and machinery 2010 £'000
	The Company had the following aggregate commitments under non-cancellable operating leases:				
	Expiry of lease:				
	Within 1 year	1,612	1,184	179	100
	Between 2 – 5 years	3,948	3,936	-	-
		5,560	5,120	179	100
		5,560	5,120	179	100

Operating lease payments represent rentals payable by the Company for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years

19 RETIREMENT BENEFIT OBLIGATIONS

**Defined benefit plan**

The Company is a scheduled member into the Local Government Pension Scheme. This is a funded defined benefit scheme. Employees are eligible to join the Local Government Pension Scheme subject to certain qualifying criteria. The pension costs that are charged to the Company's accounts in respect of those employees are equal to contributions paid to the fully funded benefit pension scheme.

The agreed employer's contribution rate is 12.7% (2010: 12.5%) of pensionable earnings. This rate will reduce to 12.3% from 1 April 2011. The Company has paid a lump sum of £0.326m to the West Midlands Pension Fund in 2010/11 representing a contribution towards prior year pension deficits. The employees' contribution rate is tiered starting at 5.5% for employees earning below £12,600 and raising to 7.5% for employees earning over £78,700.

The pension contributions made by the Company for the year including the lump sum mentioned above were £3,589,000 (2010: £3,227,000).

The pension cost is assessed every three years in accordance with the advice of a qualified independent actuary. The date of the last full valuation was 31 March 2011.

At the year end there were outstanding contributions of £407,000 (2010: £399,000), included within Other Payables in Note 14.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 31 March 2011 for the purposes of the IAS 19 valuation for inclusion in these financial statements by prepared by a registered actuary engaged by Mercer Limited. The present values of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method.

Sandwell Homes Limited  
 Company Limited by Guarantee  
 NOTES TO THE FINANCIAL STATEMENTS  
 for the year to 31 March 2011

---

19 RETIREMENT BENEFIT OBLIGATIONS (continued)

Key assumptions used:	Valuation at	
	2011	2010
	%	%
Discount rate	5.5	5.7
Rate of RPI inflation	3.5	3.5
Rate of CPI inflation	3.0	3.0
Expected rate of salary increases	4.75	5.25
Future pension increases	3.0	3.5

Mortality rate assumptions are based on publicly available data in the UK. The average life expectancy for a pensioner retiring at 65 on the reporting date is:

	2011	2010
Male	21.6	21.2
Female	24.2	24.1

The average life expectancy for a pensioner retiring at 65, aged 45 at the reporting date:

Male	23.0	22.2
Female	25.8	25.0

The sensitivity of the overall impact on pension liabilities/assets to changes in the weighted principal assumptions is as follows:

	Change in assumption	Overall impact on liability
Discount rate	Increase by 0.1%	Increase by £3,138,000
Salary growth rate	Increase by 0.1%	Decrease by £1,497,000
Rate of mortality	Increase by 1 year	Increase by £3,440,000

Amounts recognised in profit or loss in respect of these defined benefit schemes are as follows:

	2011	2010
	£'000	£'000
Current service cost	4,956	3,057
Interest cost	9,118	7,195
Expected return on scheme assets (interest)	(7,741)	(5,509)
Past service gain	(9,055)	-
Curtailments	13	1,061
	<u>(2,709)</u>	<u>5,804</u>

These amounts are recognised in operating costs, except for the interest cost and expected return on scheme assets which are recognised finance costs (note 6).

Sandwell Homes Limited  
 Company Limited by Guarantee  
 NOTES TO THE FINANCIAL STATEMENTS  
 for the year to 31 March 2011

---

19 RETIREMENT BENEFIT OBLIGATIONS (continued)

Actuarial gains and losses are reported in the Statement of Comprehensive Income. The income recognised in 2011 was £10,550,000 (2010: (£26,328,000)), and the cumulative expense is £16,620,000 (2010: £27,170,000).

The actual return on scheme assets was £7,291,000 (2010: £26,171,000).

The amounts included in the Balance Sheet arising from the Company's obligation in respect of defined benefit retirement schemes is as follows:

	2011 £'000	2010 £'000
Fair value of scheme assets	124,971	111,676
Present value of defined benefit obligations	(153,834)	(157,389)
Deficit in scheme	<u>(28,863)</u>	<u>(45,713)</u>
Liability recognised in balance sheet	<u>(28,863)</u>	<u>(45,713)</u>

All of the defined benefit plan obligations relate to funded schemes.

Analysis for reporting purposes:

	2011 £'000	2010 £'000
Non-current liabilities	<u>(28,863)</u>	<u>(45,713)</u>

Movements in the present value of defined benefit obligations in the current period were as follows:

	2011 £'000	2010 £'000
At 1 April	157,389	100,530
Current service cost	4,956	3,057
Negative past service costs	(9,055)	-
Interest cost	9,118	7,195
Actuarial (gains) and losses	( 8,770)	46,990
Contributions by plan participants	1,677	1,618
Benefits paid	(1,494)	(3,062)
Gains and losses on curtailments	13	1,061
At 31 March	<u>153,834</u>	<u>157,389</u>

Sandwell Homes Limited  
 Company Limited by Guarantee  
 NOTES TO THE FINANCIAL STATEMENTS  
 for the year to 31 March 2011

19 RETIREMENT BENEFIT OBLIGATIONS (continued)

Movements in the fair value of scheme assets in the current period were as follows:

	2011 £'000	2010 £'000
At 1 January	111,676	83,722
Expected return on scheme assets	7,741	5,509
Actuarial gains and losses	1,780	20,662
Employer contributions	3,591	3,227
Employee contributions	1,677	1,618
Benefits paid	(1,494)	(3,062)
	<hr/>	<hr/>
At 31 December	124,971	111,676

The analysis of the scheme assets and the expected rate of return at the reporting date were as follows:

	Expected return %		Fair value of assets £'000	
	2011	2010	2011	2010
Equity instruments	7.5	7.5	73,858	59,970
Debt instruments:				
- Government bonds	4.4	4.5	10,248	8,822
- Other bonds	5.1	5.2	7,373	6,701
Property	6.5	6.5	10,623	8,041
Cash liquidity	0.5	0.5	2,624	1,563
Other assets	7.5	7.5	20,245	26,579
			<hr/>	<hr/>
			124,971	111,676

The expected rates of return on categories of plan assets are determined by reference to relevant indices. The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the plan's investment portfolio.

The five year history of experience adjustments are as follows:

£'000	2011	2010	2009	2008	2007
Present value of defined benefit obligations	(153,834)	(157,389)	(100,530)	(121,733)	(106,593)
Fair value of scheme assets	124,971	111,676	83,722	100,973	107,222
Surplus/(deficit) in scheme	<hr/> (28,863)	<hr/> (45,713)	<hr/> (16,808)	<hr/> (20,760)	<hr/> 629
Experience adjustments on scheme liabilities	4,290	-	-	394	-
Experience adjustments on scheme assets	<hr/> 1,780	<hr/> 20,662	<hr/> (27,490)	<hr/> (17,459)	<hr/> 947

The estimated amounts of contributions expected to be paid to the scheme during the financial year ending 31 March 2012 is £3,262,000.

# Sandwell Homes Limited

## Company Limited by Guarantee

### NOTES TO THE FINANCIAL STATEMENTS

for the year to 31 March 2011

---

#### 20 RELATED PARTY TRANSACTIONS

The Company's parent, ultimate parent and controlling party is Sandwell Metropolitan Borough Council ("the Council"). The Company is an Arms Length Management Organisation from the ultimate parent to run the management and maintenance function of the Council's homes and other buildings.

During the year, the Company supplied goods and services to the Council totalling £117,008,000 (2010: £132,795,000) and purchased goods and services from the Council totalling £9,709,000 (2010: £11,950,000).

At 31 March 2011, included in Receivables is a total amount due from the Council of £2,190,000 (2010: £3,057,000) and included in Payables is a total amount due to the Council of £2,797,000 (2010: £2,950,000). The net balance due from the Company to the Council was £607,000 (2010: £107,000 due to the Company).

The amounts outstanding are unsecured, carry or bear no interest and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

#### Remuneration of key management personnel

The directors of the Company receive no remuneration. The remuneration of key management personnel of the Company, which is defined as the Executive Management Team, is set out below in aggregate.

	2011 £'000	2010 £'000
Short-term employee benefits	385	529
Post-employment benefits	58	62
Termination benefits	-	227
	<hr/>	<hr/>
	443	818
	<hr/>	<hr/>

#### 21 CAPITAL COMMITMENTS

As at 31 March 2011 the Company had capital commitments of £Nil (2010: £598,000).

Sandwell Homes Limited  
 Company Limited by Guarantee  
 NOTES TO THE FINANCIAL STATEMENTS  
 for the year to 31 March 2011

22 IFRS TRANSITION DISCLOSURES

RECONCILIATION OF COMPANY EQUITY AT 1 APRIL 2009

	NOTES	UK GAAP as previously reported £'000	Effect of transition to IFRS £'000	IFRS £'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Goodwill	a	5,942	(5,942)	-
Property, plant and equipment		982	-	982
		6,924	(5,942)	982
<b>Current assets</b>				
Inventories		1,746	-	1,746
Trade and other receivables		6,905	-	6,905
Financial asset investments	b	24,860	(24,860)	-
Cash and cash equivalents	b	3	24,860	24,863
		33,514	-	33,514
<b>TOTAL ASSETS</b>		40,438	(5,942)	34,496
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables	c	20,104	146	20,250
<b>Non-current liabilities</b>				
Retirement benefit obligations		16,808	-	16,808
<b>TOTAL LIABILITIES</b>		36,912	146	37,058
<b>NET ASSETS/(LIABILITIES)</b>		3,526	(6,088)	(2,562)

	NOTES	UK GAAP as previously reported £'000	Effect of transition to IFRS £'000	IFRS £'000
<b>EQUITY</b>				
Retained earnings	a, c	3,526	(6,088)	(2,562)
<b>TOTAL EQUITY (ATTRIBUTABLE TO THE COUNCIL)</b>		3,526	(6,088)	(2,562)

Sandwell Homes Limited  
 Company Limited by Guarantee  
 NOTES TO THE FINANCIAL STATEMENTS  
 for the year to 31 March 2011

22 IFRS TRANSITION DISCLOSURES (continued)

RECONCILIATION OF COMPANY EQUITY AT 31 MARCH 2010

	NOTES	UK GAAP as previously reported £'000	Effect of transition to IFRS £'000	IFRS £'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Goodwill	a	5,559	(5,559)	-
Property, plant and equipment		2,217	-	2,217
		<u>7,776</u>	<u>(5,559)</u>	<u>2,217</u>
<b>Current assets</b>				
Inventories		1,026	-	1,026
Trade and other receivables		5,587	-	5,587
Financial asset investments	b	30,467	(30,467)	-
Cash and cash equivalents	b	3	30,467	30,470
		<u>37,083</u>	<u>-</u>	<u>37,083</u>
<b>TOTAL ASSETS</b>		<u>44,859</u>	<u>(5,559)</u>	<u>39,300</u>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables	c	19,640	352	19,992
<b>Non-current liabilities</b>				
Retirement benefit obligations		45,713	-	45,713
		<u>65,353</u>	<u>352</u>	<u>65,705</u>
<b>TOTAL LIABILITIES</b>		<u>65,353</u>	<u>352</u>	<u>65,705</u>
<b>NET ASSETS/(LIABILITIES)</b>		<u>(20,494)</u>	<u>(5,911)</u>	<u>(26,405)</u>

Sandwell Homes Limited  
 Company Limited by Guarantee  
 NOTES TO THE FINANCIAL STATEMENTS  
 for the year to 31 March 2011

RECONCILIATION OF COMPANY INCOME STATEMENT AND STATEMENT OF  
 COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2010

	NOTES	UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Revenue		133,209	-	133,209
Cost of sales	a, c	(115,852)	(206)	(116,058)
<b>Gross profit</b>		17,357	(206)	17,151
Administrative expenses	a	(13,439)	383	(13,056)
Profit from operations		3,918	177	4,095
Finance income		76	-	76
Finance costs		(1,686)	-	(1,686)
<b>Profit before tax</b>		2,308	177	2,485
Income tax expense		-	-	-
<b>Profit after tax and for the year</b>		2,308	177	2,485
<b>Statement of comprehensive income</b>				
Profit for the year		2,308	177	2,485
Other comprehensive income, net of tax:				
Actuarial gains and losses on defined benefit obligations		(26,328)	-	(26,328)
<b>Total comprehensive income for the year attributable to the Council</b>		(24,020)	177	(23,843)

**Impact on Equity and Total Comprehensive Income**

**(a) Goodwill**

Under UK GAAP, goodwill which arose on inception of the ALMO was capitalised and amortised on a straight-line basis over its useful life of 20 years.

IFRS does not permit amortisation of goodwill and requires goodwill to be reviewed at least annually for impairment. It is assessed on the basis of discounted future cash flows. Goodwill was tested for impairment at 1 April 2009. As a result, on transition the goodwill was considered fully impaired and the following adjustments were made:

- reversal of goodwill amortisation of £383,000 in respect of the year ended 31 March 2010 reducing operating costs;
- an impairment loss of £5,942,000 at the date of transition, relating to net book value of the goodwill previously recognised on inception of the ALMO from the Council. The corresponding adjustment has been recognised against retained earnings.

# Sandwell Homes Limited

## Company Limited by Guarantee

### NOTES TO THE FINANCIAL STATEMENTS

for the year to 31 March 2011

---

22 IFRS TRANSITION DISCLOSURES (continued)

**(b) Classification of investment assets**

Under UK GAAP, the Company reported all its short term deposits with the Council as current asset investments. Under IFRS, these have been reclassified as cash and cash equivalents, rather than financial asset investments. These represented £30,467,000 at 31 March 2010 and £24,860,000 at 31 March 2009.

**(c) Short-term employee benefits**

Under IFRS, (IAS 19) when an employee has rendered service during an accounting period, the Company recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service as a liability.

As a result the following adjustments have been made:

- current liabilities (accrued expense) have been increased by £146,000, representing the liability at the date of transition;
- amounts previously charged within staff costs (operating costs) to profit or loss for the year ended 31 March 2010 have been increased by £206,000.

**Affect on Cash Flows**

The transition to IFRS had no effect on the cash flows reported in accordance with UK GAAP in relation to items (a) and (c) above. It should be noted that the presentation in the Statement of Cash Flows in accordance with IFRS differs from the presentation in accordance with UK GAAP as described in (b) above.