

# TOWER HOMES LIMITED

Annual Report and Financial Statements for the year ended 31 March 2006

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## Contents

### Page:

1	Executive and advisers
2	Report of the Tower Homes Board
6	Report of the independent auditors
8	Income and expenditure account
9	Balance sheet
10	Notes on the financial statements

# TOWER HOMES LIMITED

## EXECUTIVE AND ADVISERS

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### Tower Homes Board

Ainsley Forbes (Chair)  
Rodney Morton (Honorary Treasurer)  
Jane Everton  
Ron Goodman  
Jeremy Galloway  
Gillian Nester-Smith  
Anthony Omo  
Mike Pudelek  
Peter Robinson  
Dru Vesty, MBE

### Secretary and Registered Office

Susan Gilbert  
Osborn House  
Osborn Terrace  
London  
SE3 9DR

### Chief Executive

Steve Walker

### Principal Solicitors

Prince Evans  
77 Uxbridge Road  
London  
W5 5ST

Devonshires  
Salisbury House  
London Wall  
London  
EC2M 5QY

Trowers & Hamlins  
Sceptre Court  
40 Tower Hill  
London  
EC3N 4DX

### Bankers

Barclays Bank plc.  
41 Woolwich New Road  
London  
SE18 6NU

### Auditors

BDO Stoy Hayward LLP  
Emerald House  
East Street  
Epsom, Surrey  
KT17 1HS

# **TOWER HOMES LIMITED**

## **REPORT OF THE TOWER HOMES BOARD**

**Year ended 31 March 2006**

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Tower Homes Limited is pleased to present its report and the audited consolidated financial statements for the year ended 31 March 2006.

### **PRINCIPAL ACTIVITIES**

Tower Homes is one of the leading providers in the UK of affordable and shared ownership housing serving London and the South East and working in partnership with central and local government and local communities.

Tower Homes ultimate parent undertaking is London & Quadrant Housing Trust (the Trust). Its principal activity is the provision of low cost home ownership.

### **Operating Review**

The majority of our housing stock is shared ownership and supported housing. The Association saw growth of 17% in the number of homes in management from 2004/05 to 2005/06.

### **Performance in the period**

The Association made a surplus of £13.5 million for the year compared to a surplus of £9.4 million in the previous year. This is after a surplus on disposal of housing properties through asset management and shared ownership disposals of £7 million.

- > Turnover - increased by 39%. This is a result of significant growth in the shared ownership activities and keyworker living.
- > Operating costs - have reduced through effective cost control and this has resulted in an improvement in the operating margin.
- > Housing asset base - the Association's housing asset base which is stated at historic cost now totals £135 million - net of social housing grant of £134 million. This compares to an asset base in 2004/05 of £199 million.

### **Accounting policies**

The principal accounting policies for the Association are set out on pages 10 to 11 of these financial statements. The policies have not changed during 2005/06. The key policies cover accounting for housing properties, capitalisation of interest and social housing grant. The Association does not designate its reserves and has no restricted reserves.

### **Association dynamics and key risks**

There are a number of risks that could impact on our performance in the future. Our risk management strategy requires the Association to review these risks on a regular basis. The key external factors and challenges that could have an impact on the performance of the Association include:

- > Grant to developers - private developers are now able to compete for social housing grant.
- > Regulation from the Housing Corporation and through Audit Commission inspection.
- > Responding to our residents - increasing customer demand / expectations including the need to deal with anti-social behaviour.
- > Efficiency - as a result of a number of the above pressures it is important to ensure that we control our costs and maintain an efficient and effective service.

Our five year plan incorporates our detailed response to these challenges and demonstrates how the Association contributes towards achieving our objectives.

### **Investment for the future**

Whilst the Association does not trade for profit, our annual surplus is vital for the Association to invest in services and new homes, meet its commitment to lenders, continue to raise further private finance and to provide for the unexpected. All our surpluses are invested in new shared ownership homes and services and so deliver sustainable communities at a reduced level of public subsidy. The level of reserves necessary to support our objectives is determined by the Association's financial strategy.

## **TOWER HOMES LIMITED**

### **REPORT OF THE TOWER HOMES BOARD (continued)**

**Year ended 31 March 2006**

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#### **Capital structure and treasury policy**

The Association's treasury management policy enables it to effectively manage cash flows, banking, money market and capital market transactions and the risks associated with those activities. At 31 March 2006 the Association had borrowings of £33 million. In addition, the Association held cash balances of £12 million. At 31 March 2006, the Association has capital commitments of £73 million for expenditure contracted for and £164 million for future authorised expenditure. This is in line with Tower Homes' business plan and is anticipating funding those commitments through - SHG/loan facilities/reserves.

#### **Going concern**

The Board has a reasonable expectation that the Association has adequate resources to continue in operation for the foreseeable future. For this reason the Association continues to adopt the going concern basis in preparing the financial statements.

#### **Statement of compliance**

The Operating and Financial Review has been prepared in accordance with Reporting Standard 1.

#### **INTERNAL CONTROL**

The Governing Board has overall responsibility for the Association's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide the Governing Board with reasonable and not absolute assurance against material mis-statement or loss.

The Governing Board has established a sound and comprehensive framework to assess the effectiveness of the internal control system. This framework covers all members of the L&Q Group and gathers assurance from a number of sources as summarised below.

#### **Audit & Risk Committee**

The Governing Board is supported in its responsibility for overseeing the adequacy and effectiveness of the Association's internal controls system by the Audit & Risk Committee. The Audit & Risk Committee meets regularly with members of the Executive Group, the internal auditors and external auditors to review specific reporting and internal control matters and to satisfy itself that the systems are operating effectively. The Audit & Risk Committee reviews management letters from the external auditors dealing with any significant control matters raised. Both the internal auditors and external auditors have direct access to the Audit & Risk Committee.

#### **Internal Audit**

The Association's internal audit team reports directly to the Audit & Risk Committee and meets regularly with the Chairman of the Governing Board. An annual assurance report is produced by the internal auditor summarising the systems audit programme and confirming that the Association has a satisfactory internal control system in place. Returns are also presented to the Committee on financial performance on a quarterly basis and an annual return is presented to the Housing Corporation for all members of the Association. The Association has in place standing orders and policies and procedures, together with a whistle blowing policy and a code of conduct for fraud.

#### **Management Assurances**

Management assurances are received by the Audit & Risk Committee which confirm that recommendations have been implemented by the agreed target date. Subsequent internal audit reviews are undertaken to check that those recommendations have been properly implemented.

## **TOWER HOMES LIMITED**

### **REPORT OF THE TOWER HOMES BOARD (continued)**

**Year ended 31 March 2006**

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#### **Risk Management**

Audit & Risk Committee oversees the risk management cycle which governs the ongoing process of establishing and communicating responsibilities, identifying risks and establishing a risk management framework to mitigate those risks. Management responsibility for the identification of strategic risks is clearly defined and operates through a rolling risk assessment exercise. Risk maps are produced on an activity basis. A risk map is required to be produced and approved by Audit & Risk Committee for all new areas of operation prior to commencing that activity. Operational risks are identified through the internal audit and best value processes. The Association operates a system of control risk self-assessment and Executive Group members have provided self certification on compliance with key aspects of the internal control framework in the Association.

#### **External Audit**

The work of the external auditors provides some assurance through their interim and final audit visits and the provision of an audit strategy, audit report and management letter. Meetings are held by Executive Group members with the external auditors to provide an update on changes in our business and to discuss strategic and technical matters.

#### **Quality Management Systems**

The quality of the Association's management systems is acknowledged by its Charter Mark award and the Investors in People accreditation.

#### **Regulatory Reports**

The Association reports to the Housing Corporation through a range of regulatory returns. The Executive Group ensures that regulatory matters are dealt with promptly and efficiently, co-ordinates the self monitoring system operated by the Governing Board and monitors compliance with performance standards. The L&Q Group operates a self appraisal mechanism. Reports on the three key elements of the regulatory code (viability, proper governance and proper management) have been reported to Governing Board.

#### **Audit Commission inspection**

The Association's services are subject to independent inspection to ensure effectiveness, economy and efficiency.

#### **Performance Indicators**

Key performance indicator reports are produced monthly for the Association and are reported quarterly through the Executive Group to the Governing Board. These reports include performance monitoring on housing management, maintenance, development, lettings, customer satisfaction, staff and financial results. The association has a comprehensive system of financial reporting with the annual budget and long term financial plan being reported to and approved by the Board.

#### **Governance**

The Group Board Appointments committee ensures that its governance remains clear and effective; the Chairmen's Strategy Panel ensures that Group objectives are understood and delivered by all Group members and the finance Strategy Panel ensures that Group members have the financial capacity to deliver Group objectives.

The Governing Board, through the reports of the Audit & Risk Committee, for the year to 31 March 2006 and up to the date of approval of the accounts, has carried out regular reviews of the effectiveness of the Association's system of internal control.

## **TOWER HOMES LIMITED**

### **REPORT OF THE TOWER HOMES BOARD (continued)**

**Year ended 31 March 2006**

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#### **TOWER HOMES' BOARD'S STATUTORY RESPONSIBILITIES**

Housing association law requires the Association to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Association and of the surplus or deficit for that period. In preparing those financial statements, the Board is required to:

- > Select suitable accounting policies and then apply them consistently.
- > Make judgements and estimates that are reasonable and prudent.
- > State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- > Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the association will continue in business.

The Board is responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Association and enables its members to ensure that the financial statements comply with the Industrial and Provident Societies Act 1965 to 2002, the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2000. It also has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the Association to prevent and detect fraud and other irregularities.

#### **THE TOWER HOMES BOARD AND EXECUTIVE OFFICERS**

Each member of the Tower Homes Board holds one fully paid share of £1 in Tower Homes Ltd, which is cancelled on cessation as a member. The Chief Executive holds no interest in Tower's share capital.

#### **AUDITORS**

BDO Stoy Hayward LLP were appointed as auditors during the year following a periodic retender of the external audit arrangements. BDO Stoy Hayward LLP have expressed their willingness to continue in office, accordingly a resolution is to be proposed at the Annual General Meeting for the reappointment of BDO Stoy Hayward LLP as auditors of the Association.

On behalf of the Tower Homes Board

Ainsley Forbes  
Chair

Date: 15 June 2006

# **INDEPENDENT AUDITOR'S REPORT TO TOWER HOMES LIMITED**

**Year ended 31 March 2006**

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We have audited the financial statements of Tower Homes Limited for the year ended 31 March 2006 which comprise the Income and Expenditure account, the Balance Sheet, the Cash Flow Statement and related notes. These financial statements have been prepared under the accounting policies set out therein.

## **Respective responsibilities of the Board and auditors**

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

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

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

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

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

## **Basis of audit opinion**

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

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

**INDEPENDENT AUDITOR'S REPORT TO TOWER HOMES LIMITED (continued)**  
**Year ended 31 March 2006**

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**Opinion**

In our opinion the financial statements:

- o give a true and fair view, in accordance with United Kingdom generally Accepted Accounting Practice, of the state of the Association's affairs as at 31 March 2006 and of its results for the year then ended; and
- o 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 2000.

**BDO Stoy Hayward LLP**

Chartered Accountants and Registered Auditor

Epsom, Surrey

Date: 22 June 2006

**TOWER HOMES LIMITED****INCOME AND EXPENDITURE ACCOUNT**

Year ended 31 March 2006

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	note	<b>2006</b> £'000	2005 £'000 restated
<b>TURNOVER</b>	2	14,762	10,624
Operating costs	2	<u>(7,893)</u>	<u>(7,966)</u>
<b>OPERATING SURPLUS</b>	2	6,869	2,658
Surplus on sale of properties	4	<u>7,191</u>	<u>6,975</u>
<b>SURPLUS ON ORDINARY ACTIVITIES BEFORE INTEREST</b>		14,060	9,633
Interest receivable		194	733
Interest payable and similar charges	7	<u>(744)</u>	<u>(900)</u>
<b>SURPLUS ON ORDINARY ACTIVITIES BEFORE TAX</b>	8	13,510	9,466
Tax on surplus on ordinary activities	9	<u>-</u>	<u>(64)</u>
<b>SURPLUS FOR THE YEAR</b>	15	<u><u>13,510</u></u>	<u><u>9,402</u></u>

**STATEMENT OF TOTAL RECOGNISED SURPLUSES AND DEFICITS**

		<b>2006</b> £'000
Reported surplus		13,510
Prior year adjustment	15	<u>1,848</u>
Total surplus recognised since last annual report		<u><u>15,358</u></u>

All amounts relate to continuing activities.

All surpluses and deficits are historic costs surpluses and deficits.

The notes on pages 10 - 21 form part of these financial statements.

**TOWER HOMES LIMITED****BALANCE SHEET****31 March 2006**

	note	2006		2005	
		£'000	£'000	£'000	£'000
<b>FIXED ASSETS</b>				restated	
Tangible assets:					
Housing properties					
Cost less depreciation			269,175		198,959
Social housing grant			(133,824)		(125,724)
			<u>135,351</u>		<u>73,235</u>
Other fixed assets			<u>296</u>		<u>413</u>
Total fixed assets	10		135,647		73,648
Investments					
Homebuy			30,939		26,154
Key Worker Living			95,852		57,701
Social housing grant			(126,791)		(83,855)
			-		-
<b>CURRENT ASSETS</b>					
Debtors	11		5,429		7,024
Cash at bank and in hand			<u>12,578</u>		<u>9,021</u>
			18,007		16,045
<b>CREDITORS:</b> amounts falling due within one year	12		<u>(17,933)</u>		<u>(5,196)</u>
<b>NET CURRENT ASSETS</b>			<u>74</u>		<u>10,849</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			<u>135,721</u>		<u>84,497</u>
<b>CREDITORS:</b> amounts falling due after more than one year	12		89,036		51,322
<b>CAPITAL AND RESERVES</b>					
Share capital	14		-		-
Revenue reserves	15		<u>46,685</u>		<u>33,175</u>
			<u>135,721</u>		<u>84,497</u>

In view of the constitution of the association all share holdings relate to non-equity interests, as disclosed in note 14.

These financial statements were approved by the Tower Homes Board and signed on its behalf by:

**AINSLEY FORBES**  
Chair

**RODNEY MORTON**  
Honorary Treasurer

**SUSAN GILBERT**  
Secretary

Date of approval: 15 June 2006

The notes on pages 10 - 21 form part of these financial statements.

**1 PRINCIPAL ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with applicable Accounting Standards and the Statement of Recommended Practice, "Accounting by Registered Social Landlords 2005", and comply with the Accounting Requirements for Registered Social Landlords General Determination 2000. The association has fully adopted accounting standard FRS17 Retirement Benefits in these financial statements. Accounting policies are consistently applied. A summary of the more important accounting policies is set out below.

Under FRS 1, the Association is exempt from the requirement to prepare a cashflow statement on the grounds that the parent undertaking includes the Association in its own consolidated financial statements.

As the Association is wholly owned subsidiary of London & Quadrant Housing Trust, the Association has taken advantage of the exemption contained in FRS8 and has therefore not disclosed transactions or balances with entities which form part of the Association. The consolidated financial statements of London & Quadrant Housing Trust within which the Association is included, can be obtained from the address given in note 20.

**Turnover**

Turnover represents rental and service charge income receivable. Turnover excludes the first sale of equity on shared ownership properties which is treated as a deduction from capital cost.

**Housing properties**

Housing properties in the course of construction are stated at cost and are not depreciated.

Housing properties are transferred to completed properties on the first sale of equity, and are stated at cost less depreciation.

Works to existing housing properties are only capitalised where they relate to stock transferred from local authorities or relate to large scale regeneration projects and are below standard.

**Fixed assets and depreciation**

Depreciation is charged on a straight-line basis over the expected useful economic lives of fixed assets to write off the cost less estimated residual values at the following annual rates:

Housing properties	100 years
Office furniture and equipment	12.5%
Office computers	20%
Premises	12.5%

Freehold land is not depreciated.

**Investments**

The Homebuy scheme enables people to buy a property on the open market by contributing 75% of the purchase price of a home through a mortgage and/or savings. The Key Worker Living initiative is designed to assist the purchase of homes by keyworkers. Tower Homes retains a 25% stake in homes purchased through the Homebuy scheme, a variable percentage is retained on the Key Worker Living scheme. Investment in Homebuy and Key Worker Living is funded through social housing grant and held in the balance sheet at historic cost.

**Impairment**

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

**Sale of shared ownership stock**

The first tranche of proceeds arising from the sale of shared ownership properties is charged against the cost of the asset. Proceeds from subsequent sales of the remainder of the asset are charged through the income and expenditure account.

**Social housing grant**

Where developments have been financed wholly or partly by social housing grant, the cost of those developments has been reduced by the amount of the grant receivable.

Social housing grant is credited to the income and expenditure account to the extent that it is claimed in respect of development administration costs which are not capitalised.

Social housing grant is recyclable where lessees purchase further tranches of equity but only to the extent that sales proceeds exceed the loan outstanding on the asset.

Social housing grant may be repayable in certain circumstances e.g. when a property is no longer used for social housing. When social housing grant becomes repayable it is included as a current liability until it is repaid. The repayment of social housing grant is generally subordinated to the repayment of housing loans as agreed with the Housing Corporation.

**Restricted reserves and major repair expenditure**

The requirement to set aside annually that proportion of net rental income in the Reinvestment Fund was removed by the Housing Corporation during 2004/05. As a result, the reinvestment reserve was released to the revenue reserve.

Where major repair expenditure is not directly recoverable from leaseholders and not considered to be an improvement to the property it is charged to the income and expenditure account.

**Capitalisation of interest and development administration costs**

Interest on borrowings is charged to housing properties under construction up to the date of completion of each scheme. The interest charged is either on borrowings specifically financing a scheme or on net borrowings to the extent that they are deemed to be financing a scheme. This treatment applies irrespective of the original purpose for which the loan was raised.

Staff costs which are directly attributable to bringing housing properties into working condition for their intended use are capitalised.

**Pension Contributions**

Contributions to the defined benefit pension scheme are calculated as a percentage of pensionable salaries of the employees, determined in accordance with actuarial advice.

The actual pension cost is charged to the income and expenditure account based on spreading the cost of pensions over the service lives of employees.

Contributions to the defined contribution scheme are calculated as a percentage of pensionable salaries of the employees. The actual cost is charged to the income and expenditure account.

**Apportionment of management expenses**

Direct employee, administration and operating costs have been apportioned to the relevant sections of the income and expenditure account on the basis of costs of the staff directly engaged on the operations dealt with in these financial statements.

**TOWER HOMES LIMITED**

**NOTES ON THE FINANCIAL STATEMENTS (continued)**  
**31 March 2006**

**2 TURNOVER, OPERATING COSTS AND OPERATING SURPLUS**

	2006			2005		
	Turnover £'000	Operating costs £'000	Operating surplus £'000	Turnover £'000	Operating costs £'000	Operating surplus £'000
<b>Income and expenditure from social housing lettings (note 3)</b>						
Shared ownership accommodation	7,785	(2,054)	5,731	6,478	(1,802)	4,676
General needs accommodation	1,886	(963)	923	1,853	(919)	934
	<u>9,671</u>	<u>(3,017)</u>	<u>6,654</u>	<u>8,331</u>	<u>(2,721)</u>	<u>5,610</u>
<b>Income and expenditure from other social housing activities</b>						
Development administration	115	(2,567)	(2,452)	238	(1,939)	(1,701)
Key Worker Living	2,260	(1,268)	992	1,412	(1,110)	302
HomeBuy	340	(241)	99	275	(283)	(8)
	<u>2,715</u>	<u>(4,076)</u>	<u>(1,361)</u>	<u>1,925</u>	<u>(3,332)</u>	<u>(1,407)</u>
<b>Other income &amp; expenditure</b>						
Other income	2,376	(800)	1,576	368	(1,913)	(1,545)
<b>TOTAL</b>	<u>14,762</u>	<u>(7,893)</u>	<u>6,869</u>	<u>10,624</u>	<u>(7,966)</u>	<u>2,658</u>
Surplus on sale of housing properties			7,191			6,975
Interest receivable			194			733
Interest payable			(744)			(900)
<b>Surplus on ordinary activities</b>			<u>13,510</u>			<u>9,466</u>

# TOWER HOMES LIMITED

## NOTES ON THE FINANCIAL STATEMENTS (continued)

31 March 2006

### 3. INCOME AND EXPENDITURE FROM SOCIAL HOUSING LETTINGS

	<b>Shared Ownership accommodation</b>	<b>General Needs accommodation</b>	<b>Total 2006</b>	Total 2005
	£'000	£'000	£'000	£'000
<b>INCOME FROM LETTINGS</b>				
Rents receivable net of identifiable service charge	6,278	1,659	7,937	6,675
Service charge receivable	<u>1,540</u>	<u>318</u>	<u>1,858</u>	<u>1,720</u>
<b>Gross rents receivable</b>	7,818	1,977	9,795	8,395
Less: Rent losses from voids	<u>(33)</u>	<u>(91)</u>	<u>(124)</u>	<u>(64)</u>
<b>Total income from lettings</b>	<u>7,785</u>	<u>1,886</u>	<u>9,671</u>	<u>8,331</u>
<b>Expenditure on lettings activities</b>				
Services	992	182	1,174	803
Management	674	300	974	899
Routine maintenance	-	337	337	389
Rent loss from bad debts	-	-	-	(9)
Major repair expenditure	-	118	118	254
Depreciation	<u>388</u>	<u>26</u>	<u>414</u>	<u>385</u>
<b>Total expenditure on lettings</b>	<u>2,054</u>	<u>963</u>	<u>3,017</u>	<u>2,721</u>
<b>Operating surplus on letting activities</b>	<u>5,731</u>	<u>923</u>	<u>6,654</u>	<u>5,610</u>

The cumulative amount of major repairs grant credited to the income and expenditure account is £345,000 (2005: £345,000).

## TOWER HOMES LIMITED

### NOTES ON THE FINANCIAL STATEMENTS (continued)

31 March 2006

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#### 4. SURPLUS ON SALE OF PROPERTIES

	<b>2006</b> £'000	2005 £'000 restated
Sale proceeds of right to buy and staircasing sales	13,024	11,485
Grant abated	624	84
Grant recovered	(26)	-
Cost of sale	(6,636)	(4,770)
Homebuy disposals	391	293
Sales expenses	(186)	(117)
<b>Surplus on sale</b>	<u>7,191</u>	<u>6,975</u>

#### 5. DIRECTORS' EMOLUMENTS

The directors are defined as the members of the Management Board, the Chief Executive and any other person reporting directly to the Chief Executive or the Committee and any member of the senior management team. None of the members received any emoluments.

A proportion of the emoluments of the London & Quadrant Group Directors is charged to the Association along with other shared payroll costs, and are included in note 6 below.

#### 6. EMPLOYEE INFORMATION

	<b>2006</b> £'000	2005 £'000
<b>Staff costs</b>		
Wages and salaries	2,387	1,918
Social security costs	252	196
Other pension costs	239	186
	<u>2,878</u>	<u>2,300</u>

The above staff costs represent shared payroll costs reimbursed to London & Quadrant Housing Trust in respect of staff employed under joint contracts of employment.

## TOWER HOMES LIMITED

### NOTES ON THE FINANCIAL STATEMENTS (continued)

31 March 2006

#### 7. INTEREST PAYABLE AND SIMILAR CHARGES

	<b>2006</b>	2005
	£'000	£'000
On bank loans, overdrafts and other loans:		
Repayable within one year	860	-
Repayable between one and five years	1,219	1,218
Repayable wholly or partly in more than 5 years	1,546	2,012
Less: interest capitalised in housing properties	<u>(2,881)</u>	<u>(2,330)</u>
	<u>744</u>	<u>900</u>

#### 8. SURPLUS ON ORDINARY ACTIVITIES BEFORE INTEREST

	<b>2006</b>	2005
	£'000	£'000
As stated after charging:		
Depreciation	414	385
Auditors' remuneration (including VAT and expenses):		
- In their capacity as auditors	17	18
- In respect of other services	<u>-</u>	<u>8</u>

In 2006 Tower Homes Ltd made contributions totalling £800,000 (2005: £1.9 million) to other group undertakings. This cost is shown as 'other expenditure' in note 2 to these financial statements. In addition, Tower Homes Ltd received a £2 million contribution from other group undertakings. This is shown as 'other income' in note 2 to these financial statements.

#### 9. TAX ON SURPLUS ON ORDINARY ACTIVITIES

The Association has charitable status and is not assessable to corporation tax on its charitable activities

	<b>2006</b>	2005
	£'000	£'000
Adjustments to tax charges in respect of previous periods	<u>-</u>	<u>64</u>

# TOWER HOMES LIMITED

## NOTES ON THE FINANCIAL STATEMENTS (continued)

31 March 2006

### 10. TANGIBLE ASSETS

	Freehold social housing properties £'000	Long leasehold social housing properties £'000	Shared ownership housing properties under construction £'000	Office Improve- ments and equipment £'000	Total £'000
<b>Cost</b>					
At 1 April 2005	139,307	1,227	59,658	1,278	201,470
Additions - new properties	-	-	94,237	-	94,237
Disposals	(6,635)	-	-	-	(6,635)
Proceeds from shared ownership sales	-	-	(17,089)	-	(17,089)
Transfer to housing properties	30,243	-	(30,243)	-	-
At 31 March 2006	<u>162,915</u>	<u>1,227</u>	<u>106,563</u>	<u>1,278</u>	<u>271,983</u>
<b>Social Housing Grant</b>					
At 1 April 2005	77,686	-	48,038	-	125,724
Received during year	-	-	9,507	-	9,507
Recycled on disposal	(3,292)	-	-	-	(3,292)
Grant abated	(624)	-	-	-	(624)
Transfer to housing properties	15,602	-	(15,602)	-	-
Transfer from group undertakings	-	-	2,509	-	2,509
At 31 March 2006	<u>89,372</u>	<u>-</u>	<u>44,452</u>	<u>-</u>	<u>133,824</u>
<b>Depreciation</b>					
At 1 April 2005	1,087	146	-	865	2,098
Charge for the year	271	26	-	117	414
At 31 March 2006	<u>1,358</u>	<u>172</u>	<u>-</u>	<u>982</u>	<u>2,512</u>
<b>Net Book Value</b>					
At 31 March 2006	<u>72,185</u>	<u>1,055</u>	<u>62,111</u>	<u>296</u>	<u>135,647</u>
At 31 March 2005	<u>60,534</u>	<u>1,081</u>	<u>11,620</u>	<u>413</u>	<u>73,648</u>

At 31 March 2006 the vacant possession market value of housing properties in management, evaluated by Messrs. Knight Frank, was estimated to be £304 million (2005: £255 million) by the Tower Homes' Board.

## TOWER HOMES LIMITED

### NOTES ON THE FINANCIAL STATEMENTS (continued)

31 March 2006

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#### 10. TANGIBLE ASSETS (continued)

Analysis of expenditure on works to existing properties	£'000
Capitalised	-
Charge to income and expenditure account	<u>118</u>
	<u>118</u>

The total accumulated social housing grant (SHG) receivable is £133.8m (2005: £125.7 million). SHG has been credited to the income and expenditure account to the extent it is claimed in respect of development administration costs.

	£'000
Capitalised	-
Credited to the income and expenditure account	<u>115</u>
Total SHG	<u>115</u>

Additions to housing properties during the year included capitalised interest of £2,881k (2005:£2,330k).

# TOWER HOMES LIMITED

## NOTES ON THE FINANCIAL STATEMENTS (continued)

31 March 2006

### 11. DEBTORS

Amounts receivable within one year:	<b>2006</b>	2005
	£'000	£'000
Arrears of rent and service charges	120	136
Less: provision for bad and doubtful debts	(43)	(37)
	<u>77</u>	<u>99</u>
Social housing grant receivable	4,759	814
Amount due from group undertakings	245	4,118
Other debtors	348	1,993
	<u>5,429</u>	<u>7,024</u>

### 12. CREDITORS

Amounts falling due within one year:	<b>2006</b>	2005
	£'000	£'000
Recycled capital grant fund (note 13)	2,416	-
Lending authorities for instalments of loan principal and interest due and payable	1,314	370
Capital creditors	2,481	1,679
Amount due to group undertakings	7,637	1,836
Other creditors	4,085	1,311
	<u>17,933</u>	<u>5,196</u>
Amounts falling due after more than one year:	<b>2006</b>	2005
	£'000	£'000 restated
Recycled capital grant fund (note 13)	14,328	8,638
Amounts held on behalf of leaseholders	1,804	1,439
Housing loans	32,584	28,245
Amount due to group undertaking	40,000	13,000
Other creditors	320	-
	<u>89,036</u>	<u>51,322</u>

Amounts held on behalf of leaseholders represent the cumulative contributions from long leaseholders towards major and cyclical repairs. It is anticipated that liabilities will be met in full by the cumulative contributions made at the date the liability arises. The amount being held has been deposited in a trust account in accordance with National Housing Federation recommendations.

## TOWER HOMES LIMITED

### NOTES ON THE FINANCIAL STATEMENTS (continued)

31 March 2006

#### 12. CREDITORS (continued)

Housing loans include loans from private lenders and local authorities. Loans are secured by specific charges on housing properties and are repayable at varying rates of interest.

	<b>2006</b>	2005
	£'000	£'000
Housing loans are repayable by instalments and fall due as follows:		
Between two and three years	1,738	1,722
Between three and five years	1,830	1,802
In more than five years	<u>29,016</u>	<u>24,721</u>
	<u>32,584</u>	<u>28,245</u>

#### 13. RECYCLED CAPITAL GRANT FUND

	<b>2006</b>	2005
	£'000	£'000
Fund at beginning of year	8,638	11,675
Transferred to fund during year	3,292	3,345
Net SHG recovered	26	-
Homebuy grant abated	951	704
Key Homebuy grant recovered	3,506	1,653
Keyworker living grant recovered	47	-
Transferred from fund during year	(197)	(9,354)
Interest earned on fund	<u>481</u>	<u>615</u>
Fund at end of year	<u>16,744</u>	<u>8,638</u>

Recycled capital grant arises on the disposal of a grant funded home. In the case of shared ownership schemes grant is only recyclable to the extent that disposal proceeds exceed the loan outstanding on the asset.

#### 14. SHARE CAPITAL

	<b>2006</b>	2005
	£	£
Shares of £1 each issued and fully paid		
At beginning of year	12	14
Cancelled during the year	<u>(2)</u>	<u>(2)</u>
At end of year	<u>10</u>	<u>12</u>

The share capital of the Association consists of shares with a nominal value of £1 each which carry no rights to dividends or other income. Shares in issue are not capable of being repaid or transferred. Where a shareholder ceases to be a member, that person's share is cancelled and the amount paid up thereon becomes the property of the Association. Therefore all share holdings relate to non-equity interests.

# TOWER HOMES LIMITED

## NOTES ON THE FINANCIAL STATEMENTS (continued)

31 March 2006

### 15. RESERVES

	<b>Revenue Reserves 2006 £'000</b>
At beginning of year	31,327
Prior year adjustment	1,848
	<u>33,175</u>
Surplus for the year	<u>13,510</u>
At end of year	<u><u>46,685</u></u>

As a result of a review of creditors it has been decided that the debt service reserve set up in 2002/03 is no longer required and so has been released to the income and expenditure account.

### 16. HOUSING STOCK

The number of units of accommodation at 31 March 2006 was:

Units managed and under development:

	31 March 2005	Additions	Transferred	<b>31 March 2006</b>
Shared ownership	2,733	-	255	2,988
Rented	435	-	-	435
Long leasehold	184	-	-	184
Units under development	433	659	(255)	837
Supported housing	1	-	-	1
	<u>3,786</u>	<u>659</u>	<u>-</u>	<u><u>4,445</u></u>

### 17. CAPITAL COMMITMENTS

	<b>2006 £'000</b>	2005 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	73,000	38,000
Capital expenditure that has been authorised by the Management Committee but has not been contracted for	<u>164,000</u>	<u>111,000</u>
	<u><u>237,000</u></u>	<u><u>149,000</u></u>

Capital expenditure contracted for but not provided for in the financial statements will be fully funded through social housing grant, sale proceeds, recycled capital grants fund, committed loan facilities and reserves.

**18. PENSIONS OBLIGATIONS**

The staff of the Association belong to the London & Quadrant Housing Trust retirement benefits scheme. It is not possible to identify the share of underlying assets and liabilities belonging to individual participating employers. Contributions are calculated as a percentage of pensionable salaries of the employees determined in accordance with actuarial advice.

The actual pension cost charged to the income and expenditure account is based on spreading the cost of the pension over the service life of the employees.

The results and assumptions of the most recent actuarial valuation of the scheme are as follows:

Valuation date	1 April 2004
Valuation method	projected unit
Value of assets	£25.28 million
Funding level for accrued benefits	60.5%
Investment return per annum	5%
Salary scale increases per annum	4%
Pension increases per annum	3%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The pension contributions payable by Tower Homes during the accounting period were equal to 21.5% (2005: 15.5%) of pensionable salary for the accounting period as recommended by the actuary. Surpluses and deficits are spread over employees' future service lives, and the pensions charge recorded by Tower Homes during the accounting period was equal to the contributions payable. The valuation revealed a shortfall of assets compared with the value of liabilities of £19.6 million (2005: £22.3 million).

The Association has been notified of the preliminary results of the financial valuation carried out on 30th September 2005. The valuation and any consequent alteration to future contribution rates is currently the subject of consultation with participating employers and members. The outcome of this consultation will be made known in September 2006 and any consequent changes to contribution rates applied from 1 April 2007.

**19. LEGISLATIVE PROVISIONS**

Tower Homes Ltd. is incorporated under the Industrial & Provident Societies Act 1965 with the reference 23731R and with the Housing Corporation under reference SL3364.

**20. PARENT UNDERTAKING**

Tower Homes Ltd.'s parent undertaking is London & Quadrant Housing Trust, a registered social landlord with charitable objectives. The consolidated accounts of this registered social landlord are available to the public and may be obtained from Osborn House, Osborn Terrace, London SE3 9DR.