

TOWER HAMLETS COMMUNITY HOUSING LIMITED

FINANCIAL STATEMENTS

For the year ended

31 MARCH 2010

TOWER HAMLETS COMMUNITY HOUSING LIMITED

BOARD

J Lau – Chair
A Ambrose – Vice Chair
Cllr H U Abbas (Resigned 10/06/10)
Cllr S Islam
A Ali
M Ali
B Bahar
J Begum
R Booth
C Chesterman
M Meir
G Seabright (Resigned 10/12/09)
L Thomas (From 10/12/09)
S Sheen
H Vitalis

EXECUTIVE MANAGEMENT TEAM

Michael J Tyrrell (Chief Executive)
Harneck A Chilemba (Director of Finance)
David P Eatwell (Director of Housing)
Peter A Exton (Director of Development)

SECRETARY

Michael J Tyrrell

BANKERS

The Co-operative Bank plc
80 Cornhill
London EC3V 3NJ

Santander Corporate Banking (UK) plc
Santander House
2 Triton Square
Regent's Place
London NW1 3AN

AUDITORS

Nexia Smith & Williamson
25 Moorgate
London EC2R 6AY

REGISTERED OFFICE

285 Commercial Road
London E1 2PS

STATUTORY REGISTRATIONS

Company
No. 3595080

Registered Charity
No. 1078394

Registered Provider of Social Housing
No. L4260

TOWER HAMLETS COMMUNITY HOUSING LIMITED
FINANCIAL STATEMENTS for the year ended 31 MARCH 2010

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TOWER HAMLETS COMMUNITY HOUSING LIMITED

BOARD REPORT AND OPERATING AND FINANCIAL REVIEW

The Board is pleased to present its report and the audited financial statements for the year ended 31 March 2010.

BUSINESS, OBJECTIVES AND STRATEGY

Business

The principal activity of Tower Hamlets Community Housing Limited (THCH) is the provision of good quality, affordable social housing for people on low incomes who are in housing need.

THCH is a company limited by guarantee and is a charity registered with the Charity Commission. THCH is registered with the Tenant Services Authority as a Registered Provider of Social Housing. The business of THCH originated from a transfer of 1,551 homes from the London Borough of Tower Hamlets (LBTH) in 2000. The organisation is, therefore, what is termed in the public sector a Large Scale Voluntary Transfer (LSVT). Since the original transfer, two more transfers of homes followed with the last one taking place on 30th January 2006. In each case, much effort has gone into the task of refurbishing the transferred homes and regenerating the estates in accordance with promises made at the time of transfer. The refurbishment of the original transferred homes was completed in 2004, a year earlier than planned, and to standards higher than the mandatory Decent Homes Standard set by Central Government.

Objectives

THCH aims to be an excellent community based Housing Association, working with stakeholders to provide safe, high quality, affordable homes, contributing to the social and economic regeneration of the local community.

The five themes underpinning the key objective are:

- Providing a better place for excellent public services,
- Providing a better place for living safely,
- Providing a better place for living well,
- Creating and sharing prosperity, and
- Providing a better place for learning, achievement and leisure.

Strategy

In order to deliver our objectives, we employ a range of strategies of which the following are key:

- Working with our residents on how to deliver services;
- Tackling anti-social behaviour, and designing out areas of crime;
- Providing new quality homes for rent at affordable prices;
- Ensuring all our tenants' homes are of a decent standard and maximising re-housing opportunities;
- Ensuring Value for Money in the delivery of services and the way THCH works;
- Promoting energy efficiency;
- Attracting investment into areas where we work;
- Working with the LBTH to reduce homelessness;
- Ensuring the effective integration of regeneration strategies by working with LBTH, the voluntary sector, public sector and the private sector;
- Being an excellent employer that values its staff; and
- Enhancing and protecting THCH's long-term financial viability.

TOWER HAMLETS COMMUNITY HOUSING LIMITED

BOARD REPORT AND OPERATING AND FINANCIAL REVIEW (continued)

Key Performance Indicators

The Board received quarterly reports to monitor performance within the organisation. The performance measures included the following financial performance indicators:

- Compliance with loan covenants,
- Actual financial results against the budget,
- Cash Flow Management,
- Void Loss and Arrears Management,
- Management and Maintenance costs against budget, and
- Development and refurbishment programme targets.

Investment powers and policy

The Board has no specific investment restrictions. THCH does not have a specific investment policy as it only holds funds in the form of cash. Cash balances held are only sufficient to cover short-term requirements. Therefore, with the exception of the subsidiary undertaking, investment in less liquid assets is not considered appropriate.

OPERATING REVIEW

The year ended 31 March 2010 marked THCH's continuing success in its growth strategy and financial strength. Excellent progress was made in the refurbishment of homes at Mansford and Avebury East estate which transferred to THCH in January 2006. The development pipeline delivered 36 new homes into management during the year. In total, £11m was invested in THCH homes during the year of which £8m related to the new build development programme.

THCH New Homes Limited, THCH's commercial subsidiary, continued its development of the Claredale Street market sale scheme. The scheme was a joint venture development between the subsidiary, THCH, and building contractor Hill Partnerships. This scheme delivered 49 market sale units in April 2010 while THCH took delivery of 28 social housing homes on the same site. Note 26 to the accounts provides further details relating to THCH New Homes Limited.

Operationally, THCH continued to improve on the quality and range of its services to tenants and leaseholders. The key areas of operating performance included:

- Despite the recession, continued to improve on rent arrears collection;
- Continued to reduce the brought forward debt owed by leaseholders for major works;
- Improved on rent lost through void periods in our properties;
- Maintained the high levels of property repairs done on time achieved last year;
- Maintained the high levels of customer satisfaction rating for maintenance services;
- Continued to work with residents to develop services from our Community Centres;
- Offered an excellent Summer Holiday activity programme for residents; and
- Reduced the management cost per dwelling by 7% in one year.

POST BALANCE SHEET EVENTS REVIEW

Since the end of the year, the Claredale Street market sale scheme reached completion and over 14 units sold within a month. Sales continue at a rapid rate at prices in line with expectations or higher. The forecast is now for all 49 units to sell by October at the latest, raising proceeds in excess of £13m.

TOWER HAMLETS COMMUNITY HOUSING LIMITED

BOARD REPORT AND OPERATING AND FINANCIAL REVIEW (continued)

FINANCIAL REVIEW

Overview

The results for the year ended 31 March 2010 show a surplus for the year of £61,000 compared to a deficit of £994,000 for the previous year. The results are in line with expectations and budget.

The surplus for the year has been added to the brought forward accumulated surplus on the income and expenditure account.

As a charitable organisation, THCH does not distribute any of its funds to shareholders or members. All surpluses are recycled and applied for social housing purposes.

The results for the year are stated after THCH's compliance with FRS 17 in relation to one of its pension schemes, the London Borough of Tower Hamlets Pension Scheme. FRS 17 requires assets and liabilities of defined benefit pension schemes to be shown on the face of the balance sheet with annual actuarial gains and losses being reflected in the Statement of Total Recognised Gains and Losses.

Turnover

Turnover has increased from £11.2m to £13.1m an increase of 17% over the previous year. The increase reflects the rental income receivable from the 39 new homes that were transferred into management in the later part of the financial year plus £738k sales proceeds from 1st tranche sales of shared ownership properties and income from transfer of four units to Spitalfields Housing Association. Otherwise, rent inflation was contained within the regulatory constraint of RPI+/-0.5% and the LBTH rent guarantee which ended on 31 March 2010.

Capital Investment

During the year, capital investment of over £11m was made compared with £22m in the previous year. Of the year's investment, £8m related to the development of new homes and £2m went into the finalisation of the refurbishment of the Mansford and Avebury East estate. The balance was spent on the acquisition of four properties from THCH leaseholders under the Buyback scheme.

Cash Flow

The cash flow movements in the year are shown on page 15 of the accounts. The main source of cash inflows was borrowings from the long-term loan under which £6.5m was borrowed compared to £20.5m in the previous year. The largest cash outflow was net capital expenditure of £2.4m compared to £17.8m in the previous year. Net interest on borrowings was £3.4m compared to £3.2m in the previous year. Operating activities generated just under £1.4m compared to £1.5m in the previous year.

Borrowings

As a relatively young LSVT, THCH is highly reliant on long-term borrowings in order to accomplish the refurbishment of its transferred homes and underwrite its growth strategy. The funding requirement for the capital programme and the cost of borrowings for the year increased borrowings by £6.5m to £78m. All borrowings were from the £90m loan facility provided by THCH funder, Santander Corporate Banking plc.

TOWER HAMLETS COMMUNITY HOUSING LIMITED

BOARD REPORT AND OPERATING AND FINANCIAL REVIEW (continued)

Critical Accounting Policies

The accounts are prepared using THCH's accounting policies as described on pages 17 to 20 of the accounts. The application of accounting principles requires the use of estimates, assumptions and judgements that may affect reported results, assets and liabilities. As THCH owns most of the properties that it manages, its accounting policies on depreciation are critical to both the level of reported results and carrying value of housing properties in the balance sheet.

As stated under Note 1 to the accounts, housing properties are stated at cost less Social Housing Grant, less depreciation, and less provision for any impairment in value. Freehold housing properties are depreciated on a straight line basis over 100 years. Freehold land is not depreciated. Housing properties in the course of construction are stated at cost less provision for any diminution in value.

FUTURE PROSPECTS

It is now ten years since THCH was established. The Association has a lot to be proud about having successfully fulfilled all the promises made to the residents who transferred to it from the local authority. As it enters the next ten years, THCH is confident about the future and its ambitious Corporate Plan is underpinned by a robust Business Plan.

The most recent Annual Viability report by our regulator, the Tenant Services Authority, is very positive about THCH's viability. Although the report points to existing exposures to risks, these relate largely to the development of market sale homes of which there were 49 unsold at the time. It is encouraging to report that within two months of practical completion, only four homes remain unsold. This is testament to both the design and fitness for market of the homes produced. It also provides strong evidence of the recovery of the property market in the area.

THCH is financially strong as evidenced by the organisation's ability to continue to outperform its long-term objectives year on year. Apart from its capacity to manage and finance the large refurbishment programmes, THCH has a significant development programme which is expected to generate over 140 new homes in the next two to three years. Longterm funding to support the development plans is already in place.

Following the completion of the regeneration of the Mansford and Avebury East Estates during the year, all THCH's homes now meet the Government's Decent Homes Standard with some homes having been refurbished to a quality well in excess of the minimum standard. The Business Plan has sufficient financial provision to ensure that THCH homes are maintained to these high levels in the longterm.

THCH counts itself amongst the great supporters of the National Housing Federation's "In Business for Neighbourhoods" (iN) initiative. This means that THCH aims to improve neighbourhoods over a wider range of activities. In line with this, THCH's Corporate Plan places much more emphasis on community development and community support.

CORPORATE RESPONSIBILITY

THCH has a strong tradition of corporate responsibility. From its inception, THCH has had a commitment to quality of service with particular emphasis on the provision of a local service to tenants. Through a schedule of regular meetings both at Board, resident and staff level, THCH is able to manage its operations responsibly, identify risks, and ensure that it has the ability to carry out the work required to meet its objectives.

TOWER HAMLETS COMMUNITY HOUSING LIMITED

BOARD REPORT AND OPERATING AND FINANCIAL REVIEW (continued)

Employees

THCH employs 78 (2009:75) staff and has a stable workforce. THCH has well-established and effective communication arrangements for any significant issues affecting its employees. This includes a monthly staff newsletter, monthly staff briefings, electronic mail and staff consultations on any major issues. Where necessary, consultation with staff and their union representatives also takes place. Equally, Health and Safety issues are dealt with in a structured way, with professional advice and support being sought wherever in-house resources are limited.

Pensions

THCH operates two defined benefits schemes. One scheme is the LBTH's pension scheme which is for transfer staff and is closed to new employees. The other is the Social Housing Pension scheme which is administered by the Pensions Trust. More details about the schemes are given under Note 24 to the accounts.

RISK FACTORS

THCH may be affected by a number of risks, not all of which are within its control. The principal risk factors are outlined below. The process that THCH has in place for managing these risks is set out under Risk Management later in this report. Identified key risks include:

Interest Rate Risk

In common with other LSVTs, THCH has a high gearing ratio. Measures to keep this risk under control include robust Treasury Management and Business Planning strategies.

Low Inflation

This is due to the constraints imposed on the Association in respect of future rent increases by Government controls. Measures to counter this risk include Business Planning strategies, Treasury Management, and careful planning of the development contracts.

Loss of key staff

Measures to control this include management and personnel practices that promote high staff retention. THCH also strives to maintain competitive terms and conditions of employment designed to make it an employer of choice.

Development Funding

The main risk relates to the impact on the development programme of any reductions in government funding as a result of government measures to address the high level of government borrowings. Although most of the current development programme has committed funding, it is possible that future projects may not be adequately funded. THCH will keep its development plans and options under constant review and will ensure that it reacts quickly as funding changes emerge.

RISK MANAGEMENT

At THCH we view risk management as integral to good business practice. The Board accepts its responsibilities for ensuring that major risks to which THCH is exposed are identified and that there are systems to mitigate them. There is a continuous process for identifying, evaluating, and managing the significant risks faced by THCH. New procedures have also been implemented in the year to assist in identifying and controlling risks arising from new investment and business acquisitions.

TOWER HAMLETS COMMUNITY HOUSING LIMITED

BOARD REPORT AND OPERATING AND FINANCIAL REVIEW (continued)

CORPORATE GOVERNANCE

The Board

The Board consists of 18 non-executive directors comprising: 8 resident Board members elected by residents, 4 local authority Board members nominated by LBTH and 6 independent Board members.

The Board seeks to comply with the principles set out in the National Housing Federation's Code of Governance "Excellence in Governance: Code for Members" published in 2009. The Board is committed to integrity and accountability in the stewardship of THCH's affairs and considers that it has complied throughout the year with the provisions of the Code.

The Board is non-executive in its function and is responsible for the overall direction of THCH. The members of the Board are listed on page 1 of the financial statements.

Operational responsibility for THCH is delegated to the Senior Management Team that reports through the Chief Executive. The Board meets four times a year and is attended by the Senior Management Team.

The Board has a number of committees, which operate within defined terms of reference as follows:

Finance and Development Committee

This committee meets four times a year and deals with financial monitoring, IT, and review of the development and refurbishment programmes. It provides a means of detailed review of financial performance and development activities.

Audit Committee

This committee meets at least two times a year and deals with internal and external audit issues and provides a means of detailed review of internal control activities.

Service Delivery Committee

This committee meets four times a year and reviews management performance against key indicators and is primarily responsible for the standards of service delivery to residents.

Personnel Committee

This committee meets four times a year and reviews all aspects of the Human Resources function.

Related party disclosures

Six of the Board directors are tenants of THCH. Tenancies are on normal commercial terms and the directors cannot use their position to their advantage. Two of the Board directors are leaseholders of THCH. Leaseholders are on leases which are on normal commercial terms and the directors cannot use their position to their advantage.

Four Board directors are nominated by LBTH and currently these are all councillors. Some services were purchased from LBTH during the period. All agency services are covered by an arm's length contract which was negotiated to ensure that neither party subordinated its own separate interests. LBTH pays tenants housing benefit under the terms of current legislation and this is paid directly to THCH.

TOWER HAMLETS COMMUNITY HOUSING LIMITED

BOARD REPORT AND OPERATING AND FINANCIAL REVIEW (continued)

Internal Controls

The THCH Board of Management is responsible for the system of internal control and for monitoring its effectiveness. The Board however recognises that such a system can provide only reasonable and not absolute assurance against material misstatement or loss. Board meetings are held quarterly and there is a defined schedule of matters reserved for decision by the Board.

The Board reviews in March each year the Risk Management Strategy. This Strategy is developed after a thorough review of all aspects of the work of THCH by managers and staff. The Strategy is then reviewed and scrutinised by the Board in March. During the financial year, the risks are continually monitored by the Senior Management Team. Each quarter the Senior Management Team reports to the Board on those risks which are assessed to have both a high impact and a high likelihood.

The Board has delegated authority for the following aspects of internal controls to the Audit Committee:

- reviewing the draft audited accounts and the auditors' management letter, and discussing changes and concerns with the auditors;
- agreeing the objectives, scope and timing of internal audit work covering probity, compliance and efficiency issues;
- receiving reports on internal control, deciding upon additional actions required and monitoring implementation of improvements;
- reviewing all cases of fraud detected and the measures taken to prevent recurrence;
- reporting to the Board annually on internal control; and
- reviewing the appointment, remuneration, plans and performance of the external auditors.

However, the responsibility for internal controls firmly remains with the Board.

The Board confirms that steps taken in the discharge of its obligations on internal controls include:

- The establishment of a risk-based approach to internal control subject to the ongoing review of the Audit Committee;
- A comprehensive exercise to identify and evaluate key risks and controls;
- Procedures for the regular reporting of risk and control issues, including corrective action, to the Board; and
- Annual review by the Board of the effectiveness of THCH's system of internal control.

The Board is responsible for THCH's systems of internal control. Although no system of internal control can provide absolute assurance against material misstatement or loss, THCH's system is designed to provide the Board with reasonable assurance that:

- problems are identified on a timely basis and are dealt with appropriately;
- assets are safeguarded against unauthorised use or disposal;
- proper accounting records are maintained; and
- financial information used within the business or for publication is reliable.

The following mechanisms are in place to provide effective internal control:

- clearly defined corporate and directorate management and reporting structures including segregation of duties;
- careful staff recruitment (including vetting of temporary staff), appropriate training and individual performance monitoring systems;
- standing orders and financial regulations setting out clearly the system of delegation;
- electronic procedure manuals for all staff;
- performance control systems with monthly managers, and quarterly committee reporting of financial results and other performance indicators against budgets and other internal and external targets;

TOWER HAMLETS COMMUNITY HOUSING LIMITED

BOARD REPORT AND OPERATING AND FINANCIAL REVIEW (continued)

- clearly defined business and strategic planning processes including the preparation of area, central office and consolidated annual budgets, rolling three-year business plans and a 30 year financial forecasting model supported by specific financial, operational and development action plans and a process for the monitoring of results against forecasts and development plans;
- a Board approved treasury policy and an annual treasury strategy which is reported against on a quarterly basis;
- a Whistleblowing Policy and Anti-Fraud Policy and Procedure; and
- regular monitoring of the control system by the Audit Committee, the internal audit service and the Senior Management Team.

Information systems for detailed financial reporting including the preparation and review of annual budgets which are approved by the Board, quarterly reporting of actual results against the approved budgets and revised forecasts prepared at quarterly intervals. Regular management accounts are prepared promptly, providing reliable and up to date financial and other information. Any significant variations from budgets are investigated and reported to the Board.

The Board has adopted the revised NHF Code of Governance.

The Board has reviewed the effectiveness of the systems of internal control for the year ended 31 March 2010 and up to the date of approving these financial statements. This was substantially achieved by a monitoring process to ensure that there are appropriate control procedures in place for all THCH's financially significant business activities and that these procedures are being followed.

Specific measures undertaken to further enhance the control environment during the year ended 31 March 2010 included:

- Revising the Business Plan in the wake of the Credit Crunch to ensure the long-term financial health of the organisation; and
- Retendering both the internal and external audit services to ensure continual renewal and value for money.

With respect to fraud, THCH complies with the TSA's requirements on fraud. In particular, THCH has a clear Anti-Fraud Policy that was approved by the Board which has been distributed to all staff. The policy is supported by an Anti-Fraud Procedure which meets the latest standards in best practice. Further details of this are:

- THCH Anti-Fraud Policy and Procedures require a register to be maintained of all actual or attempted fraud. All such cases are reported to the Audit Committee and the Board. All cases in excess of £5,000 are reported to the TSA as required by the regulator.
- There have been no reported cases of fraud in the last financial year.

Board Responsibilities in respect of the Financial Statements

Company law and registered social housing legislation require the Board to prepare financial statements for each financial period which give a true and fair view of the state of affairs of THCH and of the surplus or deficit of THCH for that period. In preparing these financial statements the Board are 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; and
- Prepare the accounts on the going concern basis unless it is inappropriate to presume that THCH will continue in business.

TOWER HAMLETS COMMUNITY HOUSING LIMITED

BOARD REPORT AND OPERATING AND FINANCIAL REVIEW (continued)

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of THCH and its assets and liabilities and to enable them to ensure that the financial statements comply with the Companies Act 2006, and Schedule 1 to the Housing Act 1996. It has general responsibility for taking reasonable steps to safeguard the assets of THCH and to prevent and detect fraud and other irregularities.

GOING CONCERN

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

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on Thursday 30 September 2010 at a venue yet to be announced.

PUBLIC BENEFIT REPORTING

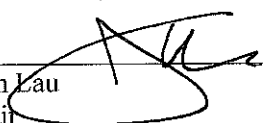
During the year ended 31 March 2010, THCH continued to undertake activities which meet its objectives. The Board has complied with its duty to report on public benefit under section 4 of the Charities Act 2006.

AUDITORS

The auditors, Nexia Smith & Williamson, having won the retendering of the external audit service during the year, have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Management and signed on behalf of the Board

John Lau
Chair



Date 16 September 2010

Nexia Smith & Williamson

Independent auditors' report to the members of Tower Hamlets Community Housing Limited

We have audited the financial statements of Tower Hamlets Community Housing Limited for the ended 31 March 2010 which comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes 1 to 27. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the association's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the association's members those matters we are required to state to them in an 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 association and the association's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of trustees and auditors

The Board's (who are also the directors of the Company for the purposes of Company Law) responsibilities for preparing the Board Report and Operating and Financial Review and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and for being satisfied that the financial statements give a true and fair view are set out in the Statement of the Board's Responsibilities.

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, have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, have been prepared in accordance with the Companies Act 2006 and comply with the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2006. We also report to you whether the information given in the Board Report and Operating and Financial Review is consistent with those accounts.

In addition we report to you if, in our opinion, the association has not kept proper accounting records, if the association has not maintained a satisfactory system of control over its accounting records, if the association's financial statements are not in agreement with the accounting records and returns, if we have not received all the information and explanations we require for our audit, or if certain disclosures of the Board's remuneration specified by law are not made.

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

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 trustees 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.

Opinion

In our opinion

- the financial statements give a true and fair view of the state of the association's affairs as at 31 March 2010 and of its income and expenditure, for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the Companies Act 2006;
- the financial statements comply with the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2006; and
- the information provided in the Board Report and Operating and Financial Review is consistent with the financial statements.

Jonathan Pryor
Senior Statutory Auditor, for and on behalf of
Nexia Smith & Williamson
Statutory Auditor
Chartered Accountants

25 Moorgate
London
EC2R 6AY

23 September 2010

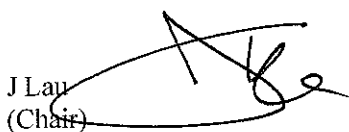
TOWER HAMLETS COMMUNITY HOUSING LIMITED**INCOME AND EXPENDITURE ACCOUNT for the year ended 31 MARCH 2010**

	Notes	2010 £'000	2009 £'000
Turnover	2,3	13,098	11,219
Operating costs	2,3	(10,209)	(8,975)
Operating surplus		2,889	2,244
Surplus from sale of fixed assets	8	368	12
Other interest receivable and similar income	6	19	76
Interest payable and similar charges	7	(3,215)	(3,326)
Surplus / (deficit) for the year		61	(994)

None of the Association's activities were discontinued during the current or previous year.

The financial statements were approved by the Board on 16 September 2010 and signed on their behalf by:

J Lau
(Chair)



M J Tyrrell
(Chief Executive)

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES for the year ended 31 MARCH 2010**

	Notes	2010 £'000	2009 £'000
Surplus / (deficit) for the year		61	(994)
Actuarial loss recognised on Pension Scheme	24	(2,911)	(395)
Total losses recognised since the last annual report		(2,850)	(1,389)

TOWER HAMLETS COMMUNITY HOUSING LIMITED

BALANCE SHEET as at 31 MARCH 2010

	Notes	2010 £'000	2009 £'000
Fixed assets			
Tangible assets:			
Housing properties: cost less depreciation		129,859	125,205
Estate renewal challenge fund		(15,772)	(15,794)
Social housing grant		(21,895)	(17,994)
Other grants		(16,881)	(16,172)
		<hr/>	<hr/>
	10	75,311	75,245
Other tangible fixed assets	11	5,214	4,892
Investments	12	100	11
		<hr/>	<hr/>
		80,625	80,148
Current assets			
Properties developed for sale	13	827	-
Debtors	14	8,358	9,267
Cash at bank and in hand		4,084	2,047
		<hr/>	<hr/>
		13,269	11,314
Creditors: Amounts falling due within one year	15	(3,316)	(4,136)
		<hr/>	<hr/>
Net current assets		9,953	7,178
		<hr/>	<hr/>
Total assets less current liabilities		90,578	87,326
		<hr/>	<hr/>
Creditors: Amounts falling due after more than one year	16	79,235	73,915
Pension scheme liability	24	3,603	763
Provisions for liabilities and charges	17	-	2,058
Capital and reserves			
Non equity share capital	20	-	-
Income and expenditure account	21	7,740	10,590
		<hr/>	<hr/>
		90,578	87,326
		<hr/>	<hr/>

The financial statements were approved by the Board on 16 September 2010 and signed on their behalf by:

J Lau
(Chair)



M J Tyrrell
(Chief Executive)

TOWER HAMLETS COMMUNITY HOUSING LIMITED**CASH FLOW STATEMENT for the year ended 31 MARCH 2010**

	Notes	2010 £'000	2009 £'000
Net cash inflow from operating activities	1	1,356	1,484
Returns on investments and servicing of finance			
Interest received		8	46
Loan finance costs paid		(3,400)	(3,253)
Net cash outflow from returns on investments and servicing of finance		(3,392)	(3,207)
Capital expenditure			
Acquisition and construction of housing properties		(10,934)	(21,167)
Investment		(89)	-
Purchase of other tangible fixed assets		(1,509)	(684)
Other grants received		8,521	3,860
Cash received from sale of properties		801	-
Net proceeds on sale of fixed assets		783	162
Net cash outflow from capital expenditure and financial investment		(2,427)	(17,829)
Net cash outflow before financing		(4,463)	(19,552)
Financing			
Loans received		6,500	20,500
Net cash inflow from financing		6,500	20,500
Increase in cash		2,037	948

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2010

1 Accounting policies

The following accounting policies are applied consistently in dealing with items which are considered to be material in relation to the accounts of the Association.

Basis of preparation

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards, the Statement of Recommended Practice "Accounting by Registered Social Landlords" (updated in 2008).

Tangible fixed assets and depreciation

Housing properties are stated at cost less SHG less depreciation and less provision for any impairment in value. Freehold housing properties are depreciated on a straight line basis over 100 years. Freehold land is not depreciated. Housing properties in the course of construction are stated at cost less provision for any diminution in value. Development overhead costs that are directly attributable to individual schemes are capitalised to housing properties in the course of construction up to the date of practical completion.

Other fixed assets are included at cost to the Association (i.e. net of any related grants) less depreciation, which is provided on a straight line basis on the net cost over the periods shown below:

Office buildings	50 years
Computer equipment	3 years
Office furniture and equipment	4 years
Motor vehicles	4 years

Estate Renewal Challenge Fund (ERCF)

If part funded by ERCF, the cost of housing properties has been reduced by the amount of ERCF received.

ERCF received at date of transfer of housing properties is not repayable if housing properties are disposed of. ERCF attributable to properties disposed of is credited to the income and expenditure account to reduce the cost of sale of housing properties.

Social Housing Grant

Social housing grant (SHG) is recognised when receivable. Where developments have been financed wholly or partly by SHG the cost of those developments has been reduced by the amount of the grant received.

Where SHG is received on items treated as revenue expenditure, e.g. elements of major repair expenditure, it is treated as a revenue grant and credited to the income and expenditure account. SHG receivable in excess of the cost to date of schemes in the course of construction is included in current liabilities as SHG in advance.

If housing properties are disposed of, Social Housing Grants are repayable to the Homes and Communities Agency or held as a creditor under most circumstances.

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2010 (Continued)

1 Accounting policies (Continued)

Other housing grants

The cost of housing properties has been reduced by the amount of other grants receivable.

Other grants received are not repayable if housing properties are disposed of. Other grants, attributable to properties disposed of are credited to the income and expenditure account to reduce the cost of sale of housing properties.

Finance costs

Finance costs on a mortgage loan financing a development are capitalised up to the date of practical completion of the scheme. Finance costs are allocated to periods over the term of the debt at a constant rate on the carrying amount.

Right to buy properties

The gain or loss on disposal of right to buy housing properties is recognised in the income and expenditure account at the date of completion.

Right to acquire properties

THCH is required to credit a Disposal Proceeds Fund with the net proceeds of Right to Acquire property sales. Net proceeds comprise the sales proceeds and grant towards the discount, less permitted deductions. The purpose of the fund is to provide replacement properties for rent, at no greater cost than properties provided through the approved development programme. If unused within a three year period it may be repayable to the Homes and Communities Agency with interest. The development programme of the Association is such that the Disposal Proceeds Fund is likely to be used before it becomes repayable. Any unused proceeds held within the Disposal Proceeds Fund are disclosed in the balance sheet within creditors.

Shared ownership properties

Properties developed for shared ownership sale are split between the proportion expected to be sold which is shown as a current asset and the remainder, together with any applicable grant, included in fixed assets. Proceeds from first tranche sales are included within turnover and the related portion of the cost of the asset recognised as operating costs.

Subsequent tranches are dealt with in the same way as other property sales, and shown as a separate item after operating surplus in the income and expenditure account.

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2010 (Continued)

1 Accounting policies (Continued)

Investments

Investments in subsidiary undertakings are stated at cost less any provision for impairment. Investments include equity mortgages arising from purchase of an interest in a leaseholder's property. These are stated at cost less any provisions for impairment. Income from investments is included in the income and expenditure account as approved.

Cyclical maintenance and internal decorations

The costs of repairs, cyclical maintenance and internal decorations are recognised when work is performed.

Operating leases

Rental costs under operating leases are charged to the income and expenditure account in equal annual amounts over the period of the lease.

VAT

Since a large proportion of the Association's income, including its rents, is exempt for VAT purposes whilst the majority of its expenditure is subject to VAT that cannot be reclaimed, expenditure is shown inclusive of irrecoverable VAT. Any VAT recovered is included within other income.

Provisions

Provision for improvements to housing properties – from time to time, THCH enters into commitments in relation to a programme of improvements and repairs to properties transferred from Tower Hamlets Borough Council. Where the nature of the commitment is such that valid expenditure have been established with other parties (particularly the residents of the properties concerned) that THCH will honour that commitment, to such an extent that THCH has no realistic alternative, then a provision is established for the obligation.

These commitments are provided for with effect from the transfer date. The provision is calculated by reference to the latest estimate of the cost of the commitment, discounted to the present value at the period end. The corresponding amount of the provision at the transfer date is capitalised in the cost of the housing properties.

As expenditure relating to items recognised within the provision is incurred, it is allocated against the provision. At the period end, the provision is re-assessed in the light of the estimates of future income and costs at that point in time. Variations from changes in estimates and the unwinding of the discount are reflected in adjustments to the provision and the cost of housing properties.

Capitalisation of interest and development overheads

Interest on loans financing development is capitalised using the weighted average cost of capital when the development is in progress and ceases at the date of practical completion. Development overheads are capitalised to the extent that they are directly attributable to bringing the properties into their intended use and are incremental as a result of the specific scheme.

Turnover

Turnover comprises rental income, revenue grants and income from services charges. All income is recognised on a receivable basis. It also includes sales proceeds from first tranche shared ownership sales.

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2010 (Continued)

1. Accounting policies (Continued)

Agencies

The transactions incurred directly by agencies managing THCH's properties are not consolidated in the financial statements.

Major repairs

THCH capitalises expenditure on housing properties which increases the net rental income from the property or extends its useful life, provided that the expenditure is not already included within the provision for commitments in respect of housing properties. All other major repair expenditure is charged to the income and expenditure account.

Taxation

THCH has charitable status and is therefore not subject to Corporation Tax on surpluses derived from charitable activities.

Pension costs

THCH operates two defined benefit (final salary) contributory pension schemes. One is administered independently by London Borough of Tower Hamlets and the other by The Pensions Trust.

The pension costs relating to the London Borough of Tower Hamlets scheme are accounted for in accordance with Financial Reporting Standard 17 "Retirement Benefits" (FRS 17). Current service costs and net finance returns are included in the income and expenditure account in the period to which they relate. Actuarial gains and losses are recognised in the statement of recognised surpluses and deficits. The pension cost relating to The Pensions Trust scheme represents the contributions payable by THCH.

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2010 (Continued)

2 Turnover, operating surplus, and surplus before taxation by class of business

	Turnover £'000	2010 Operating Costs £'000	Operating Surplus £'000	Turnover £'000	2009 Operating Costs £'000	Operating Surplus £'000
Social Housing Lettings (Note 3)	11,656	9,066	2,590	10,786	8,929	1,857
Non Social Housing Activities						
1 st Tranche Sales	738	738	-	-	-	-
Sales to other RP	309	309	-	-	-	-
Commercial rent	341	96	245	360	46	314
Revenue grant	54	-	54	73	-	73
	<u>395</u>	<u>96</u>	<u>299</u>	<u>433</u>	<u>46</u>	<u>387</u>
	<u>13,098</u>	<u>10,209</u>	<u>2,889</u>	<u>11,219</u>	<u>8,975</u>	<u>2,244</u>

3 Income and expenditure from lettings

	2010 £'000 General Needs	2010 £'000 Shared Ownership	2010 £'000 Total	2009 £'000 Total
Income from lettings				
Rent receivable net of void loss	9,939	206	10,145	9,485
Service charges receivable	1,270	40	1,310	1,116
	<u>11,209</u>	<u>246</u>	<u>11,455</u>	<u>10,601</u>
Rents receivable	200	1	201	185
Other housing income				
	<u>11,409</u>	<u>247</u>	<u>11,656</u>	<u>10,786</u>
Expenditure on letting activities				
Management	3,417	1	3,418	3,427
Services	2,054	20	2,074	1,760
Routine maintenance	1,380	6	1,386	1,895
Programmed repairs	1,118	3	1,121	405
Rent losses from bad debts	40	-	40	84
Depreciation of housing properties	788	-	788	779
Community development	206	-	206	213
Scheme costs written off	33	-	33	366
	<u>9,036</u>	<u>30</u>	<u>9,066</u>	<u>8,929</u>
Total expenditure on lettings				
	<u>2,373</u>	<u>217</u>	<u>2,590</u>	<u>1,857</u>
Operating surplus on social housing lettings				
Rent losses from voids	41	8	49	58

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2010 (Continued)

4 Directors' emoluments	2010	2009
	£'000	£'000
The emoluments of the Chief Executive and senior management team were:		
Gross salary	337	313
Employer's pension contributions	62	60
	<hr/>	<hr/>
	399	373
	<hr/>	<hr/>

None of the Board members received emoluments.

	2010	2009
	£'000	£'000
The total expenses reimbursed to the Board not chargeable to United Kingdom income tax was:	-	-
	<hr/>	<hr/>
The emoluments of the highest paid director were:		
Gross salary (excluding pension contributions)	101	97
	<hr/>	<hr/>

The Chief Executive officer is a member of the LBTH pension scheme on standard terms. Contributions made on his behalf for the year totalled £30,000 (2009: £29,000).

5 Employee information

The total full time equivalent numbers of persons (excluding Board members) employed during the period was:

	2010	2009
	No.	No.
Office staff	33	31
Housing management	24	24
Handypersons, caretakers and concierge	21	20
	<hr/>	<hr/>

Total number	78	75
	<hr/>	<hr/>

Staff costs (including the Chief Executive, senior management team and temporary staff)

	£'000	£'000
Wages and salaries	2,542	2,405
Social security	220	212
Pension costs	382	380
	<hr/>	<hr/>
	3,144	2,997
	<hr/>	<hr/>

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2010 (Continued)

	General Needs		Shared Ownership Completed	Total
Housing properties	In Development	Completed		
COST				
At 1 April 2009	9,228	116,626	3,573	129,427
Reclassified to other fixed assets (Note 11)	(116)	-	-	(116)
Additions	5,276	763	-	6,039
Interest capitalised	81	324	-	405
Transfers of completed units	(5,073)	3,911	1,162	-
Adjustment due to change in estimate of costs	-	18	-	18
Variation due to change in timing of future costs	-	16	-	16
Transferred to other Registered Provider	(810)	-	-	(810)
Disposals	-	(29)	(81)	(110)
At 31 March 2010	8,586	121,629	4,654	134,869
ESTATE RENEWAL CHALLENGE FUND				
At 1 April 2009	-	15,794	-	15,794
Disposals	-	(22)	-	(22)
At 31 March 2010	-	15,772	-	15,772
SOCIAL HOUSING GRANT				
At 1 April 2009	5,216	12,625	153	17,994
Additions	3,255	1,074	93	4,422
Transfers of completed units	(877)	538	339	-
Transferred to other Registered Provider	(500)	-	-	(500)
Disposals	-	-	(21)	(21)
At 31 March 2010	7,094	14,237	564	21,895
OTHER GRANTS				
At 1 April 2009	1,662	13,910	600	16,172
Reclassified to other fixed assets (Note 11)	(300)	-	-	(300)
Additions	-	1,009	-	1,009
At 31 March 2010	1,362	14,919	600	16,881
DEPRECIATION				
At 1 April 2009	-	4,195	27	4,222
Reclassified to other fixed assets (Note 11)	-	-	-	-
Charge for the year	-	773	15	788
At 31 March 2010	-	4,968	42	5,010
NET BOOK VALUE				
At 31 March 2010	130	71,733	3,448	75,311
At 31 March 2009	2,350	70,102	2,793	75,245

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2010 (Continued)

10. Housing properties (Continued)

The amounts provided for future works to properties are discounted over time using a real rate of 6.0% to give a present value of the works. As time goes by, the discount unwinds and the amount the provision increases by is capitalised. The total amount spent during the year ended 31 March 2010, before discount, was £2,225,000 (2009: £11,626,000), all of which related to properties from the Mansford & Avebury East Estate transferred on 30 January 2006.

Costs incurred in the year on existing properties are analysed as follows:	2010 £'000	2009 £'000
Amounts capitalised	3,183	10,662
Amounts charged to the income and expenditure account	1,121	405
	4,304	11,067

11 Other Fixed Assets

	Office Buildings £'000	Community Centres & Commercial Buildings £'000	Computer Equipment £'000	& Office Furniture & Equipment £'000	Motor Vehicles & Estate Equipment £'000	Total £'000
Cost						
At 1 April 2009	2,437	2,572	801	260	76	6,146
Reclassified from Housing Properties (Note 10)	-	116	-	-	-	116
Additions	1	1,301	46	33	12	1,393
Disposal	-	(139)	-	(27)	-	(166)
	2,438	3,850	847	266	88	7,489
Depreciation						
At 1 April 2009	215	79	668	228	64	1,254
Charge for year	49	64	100	25	15	253
Disposal	-	(5)	-	(27)	-	(32)
	264	138	768	226	79	1,475
Grants						
At 1 April 2009	-	-	-	-	-	-
Reclassified from Housing Properties (Note 10)	-	300	-	-	-	300
Additions	-	500	-	-	-	500
	-	800	-	-	-	800
Net book value						
At 31 March 2010	2,174	2,912	79	40	9	5,214
At 31 March 2009	2,222	2,493	133	32	12	4,892

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2010 (Continued)

12	Fixed asset investments	Subsidiary	2010		2009	
			Equity Mortgage	Total	Total	Total
		£'000	£'000	£'000	£'000	£'000
	As at 1 April 2009	11	-	11	11	
	Equity mortgage issued during the year	-	89	89	-	
	As at 31 March 2010	<u>11</u>	<u>89</u>	<u>100</u>	<u>11</u>	

As part of its strategy to support residents in financial need, THCH acquired a 35% share in a leaseholder's property under the equity mortgage scheme allowed by the regulations. The amount of £89,000 (2009: £nil) includes capitalised legal costs incurred in the transaction.

The company holds 100% of the share capital of the following subsidiary:

Company	Country of incorporation	Shares held	
		Class	%
THCH New Homes Ltd	England	Ordinary	100

The aggregate amount of capital and reserves and the results of the subsidiary for the financial year were as follows:

Principal activity	Capital and reserves	Loss for the period
	as at 31 March	ended 31 March
	2010	2010
	£'000	£'000
Home development	(361)	(206)

13	Properties developed for sale	In	Completed	2010	2009
		Development	£'000	£'000	£'000
	Properties for sale	<u>752</u>	<u>75</u>	<u>827</u>	<u>-</u>

14	Debtors	2010	2009
		£'000	£'000
	Rental debtors	724	691
	Less: provision for bad debts	(482)	(469)
		<u>242</u>	<u>222</u>
	Leasehold debtors	1,199	1,321
	Other debtors	347	4,745
	Amount due from subsidiary undertakings	6,361	2,876
	Prepayments and accrued income	209	103
		<u>8,358</u>	<u>9,267</u>

The amount due from subsidiary undertakings is receivable on completion of sale expected within the next financial year.

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2010 (Continued)

15	Creditors: Amounts falling due within one year	2010	2009
		£'000	£'000
	Trade creditors	97	84
	Other creditors including other taxes and social security	678	631
	Accruals and deferred income	2,283	3,421
	Grant received in advance	258	-
		<hr/>	<hr/>
		3,316	4,136
		<hr/> <hr/>	<hr/> <hr/>
16	Creditors: Amounts falling due after more than one year	2010	2009
		£'000	£'000
	Housing loans	77,211	70,831
	Disposals proceeds fund (Note 18)	2,003	3,084
	Recycled capital grant fund (Note 19)	21	-
		<hr/>	<hr/>
		79,235	73,915
		<hr/> <hr/>	<hr/> <hr/>
	Housing loans		
	Santander	78,000	71,500
	Unamortised loan issue costs	(789)	(669)
		<hr/>	<hr/>
		77,211	70,831
		<hr/> <hr/>	<hr/> <hr/>

THCH has in place total facilities of £90.0 million with Santander Corporate Banking Services plc. THCH has drawn down £21.5 million of this facility at variable rates of interest and £56.5 million of the facility is for fixed periods between 5 and 20 years. The facility includes a revolving credit facility for £18.0 million which ceases to be a revolving facility one month prior to 27 March 2030 (maturity date). The loans are secured on the properties of THCH. Two of the loans are repayable on an amortised basis from 2013 and one from 2016. However, the lender has acquiesced to a deferment of repayment in line with the repayment profile agreed through the approved Business Plan.

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2010 (Continued)

17	Provisions for liabilities and charges	2010	2009
		£'000	£'000
	Provision for improvements to housing properties		
	At 1 April 2009	2,058	14,350
	Unwinding of discount	133	698
	Adjustment due to change in estimates of costs	18	(1,962)
	Utilised in the year	(2,225)	(11,626)
	Variation due to change in timing of future costs	16	598
		<hr/>	<hr/>
	At 31 March 2010	-	2,058
		<hr/> <hr/>	<hr/> <hr/>

Provision for improvements to housing properties – THCH entered into a number of commitments in relation to a programme of improvements and repairs to the properties transferred from the London Borough of Tower Hamlets. The programme of works was completed during the year, hence the winding down of the provision to nil.

The provision at 31 March 2009 related to the last of the improvement works and was for Mansford & Avebury East Estate which transferred to THCH in January 2006.

The adjustment to the provision as a result of the unwinding of the discount represents the recalculation of the present value of the provision for improvements to housing properties at the year end. The undiscounted cost of the committed works programme is £nil (2009: £2,207,000 discounted at 6.0%).

The total amount capitalised due to the unwinding of the discount on provisions at 31 March 2010 is £13,006,000 (2009: £12,872,000).

18	Disposal proceeds fund	2010	2009
		£'000	£'000
	At 1 April 2009	3,084	2,869
	Grant transferred	172	-
	Allowable expenses	(2)	-
	Grants recycled	(1,265)	109
	Interest accrued	14	106
		<hr/>	<hr/>
	At 31 March 2010	2,003	3,084
		<hr/> <hr/>	<hr/> <hr/>
	Amounts falling due within one year (Note 15)	-	-
	Amounts falling due after more than one year (Note 16)	2,003	3,084
		<hr/>	<hr/>
		2,003	3,084
		<hr/> <hr/>	<hr/> <hr/>

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2010 (Continued)

19	Recycled capital grant fund	2010 £'000	2009 £'000
	At 1 April 2009	-	-
	Grant transferred	22	-
	Allowable expenses	(1)	-
	Interest accrued	-	-
		<hr/>	<hr/>
	At 31 March 2010	21	-
		<hr/> <hr/>	<hr/> <hr/>
20	Non equity share capital		
	THCH is a company limited by guarantee and has no issued share capital. In the event of a winding up the members of the company are liable to subscribe for £1 each to satisfy their guarantee to the company.		
21	Income and expenditure account	2010 £'000	2009 £'000
	At 1 April 2009	10,590	11,105
	Surplus / (deficit) for the year	61	(994)
	Actuarial loss on pension scheme	(2,911)	(395)
		<hr/>	<hr/>
		7,740	9,716
	Transfer from designated reserve	-	874
		<hr/>	<hr/>
	Balance at 31 March 2010	7,740	10,590
		<hr/> <hr/>	<hr/> <hr/>
	The income and expenditure account comprises:		
	Income and expenditure account excluding pension liability	11,343	11,353
	Pension liability	(3,603)	(763)
		<hr/>	<hr/>
	At 31 March 2010	7,740	10,590
		<hr/> <hr/>	<hr/> <hr/>

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2010 (Continued)

22	Capital commitments	2010 £'000	2009 £'000
	Capital expenditure contracted for of which £nil (2009: £2.1 m) is included in the provision in Note 17.	<u>24,174</u>	<u>15,072</u>

The capital expenditure contracted for will be developed in conjunction with the local authority. SHG of £8.9 million is expected to be received against the expenditure. The balance of the capital expenditure is to be funded by cash received from THCH New Homes Limited (owes £6.3million) and by existing loan facilities.

Capital expenditure that has been authorised by the Board of Management but has not yet been contracted for	<u>3,461</u>	<u>12,295</u>
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The capital expenditure not yet contracted for includes the acquisition of certain properties which will be developed in conjunction with the local authority. SHG of £1.1 million (2009: £7.2 million) is expected to be received against this expenditure. The balance of the capital expenditure is to be funded by existing loan facilities.

23 **Operating leases**

At 31 March 2010 THCH had annual operating lease commitments as follows:

Office equipment	2010 £'000	2009 £'000
Due within one year	-	-
Due between two and five years	44	43
	<u> </u>	<u> </u>

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2010 (Continued)

24 Pension scheme

THCH participates in two defined benefit final salary schemes, the London Borough of Tower Hamlets Pension Scheme and the Social Housing Pension Scheme.

The disclosures required by Financial Reporting Standard 17 are as follows:

London Borough of Tower Hamlets Pension Scheme

This fund is a defined benefit scheme administered by the London Borough of Tower Hamlets under regulations governing the Local Government Pension Scheme (LGPS). The fund's assets are held separately from the assets of THCH.

Contributions to the scheme are determined by a qualified actuary on the basis of valuations, using the projected unit method. A full actuarial valuation was carried out at 31st March 2007 and updated to 31st March 2010 by a qualified independent actuary. The major assumptions used by the actuary were as follows:

Assumptions	31st March 2010 %	31st March 2009 %	31st March 2008 %
Rate of inflation	3.8	3.1	3.6
Rate of salary increases (inflation and promotion)	5.3	4.6	5.1
Expected return on assets	6.9	6.2	7.0
Discount rate	5.5	6.9	6.9

The expected rates of return are summarised as follows:

Expected long-term rate of return at 31st March	31st March 2010 %	31st March 2009 %	31st March 2008 %
Equities	7.8	7.0	7.7
Bonds	5.0	5.4	5.7
Other fixed interest	5.8	4.9	5.7
Cash	4.8	4.0	4.8

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2010 (Continued)

24 **Pension scheme** (continued)

London Borough of Tower Hamlets Pension Scheme (continued)

Reconciliation of defined benefit obligation

	2010	2009
	£'000	£'000
Opening defined benefit obligation	4,190	4,151
Interest cost	294	198
Current service cost	124	298
Contributions by members	63	92
Actuarial losses/(gains)	3,840	(593)
Past service costs	-	63
Estimated benefits paid	(44)	(19)
	<hr/>	<hr/>
Share of scheme liabilities	8,467	4,190
	<hr/> <hr/>	<hr/> <hr/>

Reconciliation of fair value of employer assets

	2010	2009
	£'000	£'000
Opening fair value of employer assets	3,427	3,737
Expected return on assets	221	277
Contributions by members	63	92
Contributions by the employer	268	328
Actuarial gains/(losses)	929	(988)
Benefits paid	(44)	(19)
	<hr/>	<hr/>
Share of scheme assets	4,864	3,427
	<hr/> <hr/>	<hr/> <hr/>

Amounts for the current and previous accounting periods

	2010	2009	2008	2007	2006
Fair value of employer assets	4,864	3,427	3,754	2,683	2,348
Present value of defined benefit obligation	(8,467)	(4,190)	(4,151)	(4,367)	(4,345)
Deficit	(3,603)	(793)	(397)	(1,684)	(1,997)
Experience gains/(losses) on assets	929	(988)	633	2	293
Experience losses on liabilities	-	-	(639)	-	-

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2010 (Continued)

24 **Pension scheme** (continued)

London Borough of Tower Hamlets Pension Scheme (continued)

Amount recognised in Statement of Total Recognised Gains and Losses

Analysis of amount recognised in statement of total recognised gains and losses	2010 £'000	2009 £'000	2008 £'000
Actual return less expected return on pension scheme assets	1,371	(436)	(365)
Experience gains and losses arising on scheme liabilities	(7,885)	(722)	354
Value of the scheme liabilities	3,603	763	1,293
Amount recognised in the statement of total recognised gains and losses	<u>(2,911)</u>	<u>(395)</u>	<u>1,282</u>

The experience gains and losses recognised in the Statement of Total Recognised Gains and Losses can also be interpreted as follows:

	2010	2009	2008	2007	2006
Actual return less expected return on pension scheme assets (£'000)	1,371	(436)	(365)	2	292
Percentage of scheme assets at balance sheet date (%)	28.1	(8.7)	(9.6)	0.1	12.4
Experience gains and losses arising on scheme liabilities (£'000)	(7,885)	(722)	354	-	-
Percentage of scheme liabilities at balance sheet date (%)	(93.1)	0.9	8.5	-	-
Changes in financial assumptions underlying the present value of the scheme liabilities (£'000)	3,603	763	1,293	403	(738)
Percentage of scheme liabilities at balance sheet date (%)	42.5	(9.4)	31.0	9.2	(17.0)
Total amount recognised in the Statement of Total Recognised Gains and Losses (£'000)	<u>(2,911)</u>	<u>(395)</u>	<u>1,282</u>	<u>405</u>	<u>(446)</u>
Percentage of scheme liabilities at balance sheet date (%)	<u>(34.4)</u>	<u>(9.4)</u>	<u>31.0</u>	<u>9.3</u>	<u>(10.3)</u>

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2010 (Continued)

24 **Pension scheme (continued)**

London Borough of Tower Hamlets Pension Scheme (continued)

The impact on the balance sheet has been as follows:

	2010	2009	2008
	£'000	£'000	£'000
Market value of assets	4,864	3,427	3,754
Present value of scheme liabilities	(8,467)	(4,190)	(4,151)
	<hr/>	<hr/>	<hr/>
Deficit in the scheme - net pension liability	(3,603)	(763)	(397)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The impacts on THCH's net assets and income and expenditure account reserve have been as follows:

	2010	2009	2008
	£'000	£'000	£'000
Net assets, excluding pension liability	11,296	11,353	11,502
Pension liability	(3,603)	(763)	(397)
	<hr/>	<hr/>	<hr/>
Net assets, including pension liability	7,693	10,590	11,105
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The movements in the deficit in the scheme over the year have been as follows:

	2010	2009	2008
	£'000	£'000	£'000
Deficit at beginning of year	(763)	(397)	(1,684)
Expected return on pension scheme assets	221	260	211
Interest cost on pension scheme liabilities	(294)	(298)	(241)
Current service cost	(124)	(198)	(177)
Past service cost	-	(63)	-
Contributions	268	328	212
Actuarial (losses)/gains	(2,911)	(395)	1,282
	<hr/>	<hr/>	<hr/>
Deficit at end of year	(3,603)	(763)	(397)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2010 (Continued)

24 Pension scheme (continued)

The Social Housing Pension Scheme

THCH participates in the Social Housing Pension Scheme (SHPS). SHPS is a multi-employer defined benefit scheme. The Scheme is funded and is contracted out of the state scheme.

The Scheme operated a single benefit structure, final salary with a 1/60th accrual rate to 31st March 2008. THCH has elected to operate the final salary with a 1/60th accrual rate for active members as at 31st March 2008 and the career average re-valued earnings with a 1/60th accrual rate for new entrants from 1st April 2008. For the year ended 31 March 2010, the employee and employer contribution rates of pensionable salaries were as follows:

Scheme	Employee	THCH
Final salary with 1/60 th benefit	6.40%-8.40%	14.1%
CARE with 1/60 th benefit	4.70%-6.70%	12.3%

As at the balance sheet date there were 20 (2009:18) active members of the final salary scheme and 9 (2009:5) active members in the CARE Scheme employed by THCH.

It is not possible in the normal course of events to identify on a consistent and reasonable basis the share of underlying assets and liabilities belonging to individual participating employers. This is because the Scheme is a multi-employer scheme where the Scheme assets are co-mingled for investment purposes, and benefits are paid from total Scheme assets. Accordingly, due to the nature of the Scheme, the accounting charge for the period under FRS17 represents the employer contribution payable. The total charge to THCH for the year was £114,000 (2009:£107,000).

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

The last formal valuation of the Scheme was performed as at 30 September 2008 by a professionally qualified Actuary using the Projected Unit Method. The market value of the Scheme's assets at the valuation date was £1,527 million. The valuation revealed a shortfall of assets compared with the value of liabilities of £663 million, equivalent to a past service funding level of 69.7%.

The Scheme Actuary has prepared an Actuarial Report that provides an approximate update on the funding position of the Scheme as at 30 September 2009. Such a report is required by legislation for years in which a full actuarial valuation is not carried out. The funding update revealed an increase in the assets of the Scheme to £1,723 million and indicated an increase in the shortfall of assets compared to liabilities to approximately £738 million, equivalent to a past service funding level of 70.0%.

The next triennial formal valuation of the Scheme is due as at 30 September 2011. The results of the valuation will be available in the Autumn of 2012.

The shortfall of £663 million is to be funded by the payment by each participating employer of additional contributions amounting to 7.5% of pensionable salaries as at 30 September 2008, increasing each year by 4.7% from 1 April 2010 to 30 September 2020, with further reduced contributions from 1 October 2020 to 30 September 2023. The additional contributions for the year ended 31 March 2011 will be £64,000. These additional contributions are in addition to the long-term joint contribution rates set out above.

TOWER HAMLETS COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2010 (Continued)

25 Analysis of accommodation	2010 No.	2009 No.
Housing accommodation:		
Owned and managed:		
General needs	1,900	1,870
Shared ownership	71	62
	<hr/>	<hr/>
	1,971	1,932
	<hr/> <hr/>	<hr/> <hr/>

26 Subsidiary undertakings

On 20 March 2007, THCH formed a commercial subsidiary company, THCH New Homes Limited, in which THCH holds a 100% shareholding interest. The main purpose of the company is to undertake market sale developments. As transactions in THCH New Homes Limited were not material in the year, no group accounts have been produced.

THCH New Homes Limited is registered with Companies House under Number 6171492.

27 Related party transaction

During the year THCH provided a loan of £3,094,000 to THCH New Homes Limited. In addition it charged £94,000 for services provided.

At the end of the year, the amount owed by THCH New Homes Limited was £6,360,000 which is included in debtors and this has since been repaid in full.

On 4 March 2010 THCH granted a 125 year lease on the underground car park at St Peter's Close London to THCH New Homes Limited for £320,000.