

united
welsh

annual report

& financial statements

for the year ended 31 March 2007



United Welsh

Tŷ Cennydd,
Castle Street,
Caerphilly, CF83 1NZ
Tel: 029 2085 8100
Fax: 029 2085 8110

and at

Walters Building,
Clarence Road, Butetown,
Cardiff, CF10 5UU
Tel: 029 2085 8193
Fax: 029 2089 5500



Email: tellmemore@uwha.co.uk **web:** www.uwha.co.uk

We are able to provide information in other formats including large print, audio tape or an alternative language. Please contact United Welsh for further assistance - Tel: 0800 294 0195 or Email: tellmemore@uwha.co.uk



CUSTOMER SERVICE EXCELLENCE



INVESTOR IN PEOPLE
BUDDSODDWR MEWN POBL





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Foreword from the Chair and Chief Executive

We are delighted to present the Annual Report for United Welsh for the year ended 31 March 2007. This year the report takes on a slightly different format. In keeping with our customer focused approach to service delivery, we have produced two distinct reports. This annual report, incorporating our financial statements, is designed primarily to cater for the needs of our business contacts. A summary leaflet focusing on the issues of most interest to our tenants has also been produced. By providing this choice we hope our reporting will become more accessible to a larger audience.

There have been many notable events and achievements this year. We continue to develop a wide range of quality new homes that people can afford to rent or buy. These include properties for rent through the 'Select-a-Home' allocation process (often referred to as "choice-based lettings") or for sale through our 'Homes within Reach' home-ownership initiative. In addition we have successfully completed a number of housing projects to assist people with specific support needs.

The planned growth of new homes seen this year will continue as we work towards the completion of 400 additional general needs homes over the next five years. In addition, first-time buyers will benefit through the sale of 125 affordable new homes delivered under 'Homes within Reach'.

Supported housing remains an important aspect of the work of the organisation. A number of new developments were completed during the year with a further 10 projects planned over the next 5 years.

United Welsh is committed to sustainable development. Every property built during the year contained at least two environmental

measures. Examples included solar panel heating, sun-pipes, timber-frame construction, and environmentally friendly insulation. This approach to development work is a long-term commitment by United Welsh and will involve continued investigation into new and innovative ways of protecting the environment. To support this approach the organisation will shortly embark on research work with the University of Glamorgan to investigate the effect of the sustainable building methods currently in use.

Our involvement in Integrate continues to develop with the launch of the contractor supply-chain in February 2007, the first of its kind in Wales. Integrate is a collaborative network of eight housing associations of which United Welsh is a member. We all serve our own customers but benefit from a greater pool of resources, skills, processes and experiences. This approach helps to improve performance for both customers and Integrate partners. This year saw further evidence of the performance of Integrate as a housing provider with the consortium being allocated nine development sites across Cardiff to deliver over 1,400 affordable homes. Over the next few years Integrate is committed to providing quality and value for money and is achieving far more collectively than it could as eight housing associations working in isolation.

Further improvements have been made to the way services are delivered to our tenants. We listened carefully to the views of our tenants and focused resources into the key areas of repairs, anti-social behaviour and communication. The implementation of a new IT system next year will greatly enhance our ability to provide even more customer focused services and respond more quickly to specific customer need.

There were two major decisions during the year that we believe will have major benefits in the years to come. First, we re-financed some of our long-term borrowings at significantly improved rates, but incurred breakage costs in doing so. Secondly, we sold our property holdings in Swansea to a local housing association because we felt that services could be better provided closer to that locality.

This report can only provide a snapshot of the work that has been completed throughout the year and inevitably misses many equally noteworthy events.

We remain fully aware that all our achievements depend on the hard work and dedication of our staff and Board members together with the valued contributions of the many other organisations with whom we work so closely. We would like to take this opportunity to thank them for their continued commitment and enthusiasm towards all we do as an organisation.

In particular we would like to show our appreciation for the work of two Board

members who retired during the year. Serge Lourie was one of the founding Board members and had served since 1989; Valerie Friday had been with us since 2001 and had also been an active member of our tenants forum. In addition, we would wish to recognise the contribution made by Philip Westwood who stood down as Chair in July 2006 after 4 years in office.

Our vision is to be the organisation of first choice and we believe great progress is being made towards this goal. We are also committed to upholding the principles of equality and diversity in employment and in the provision of services. We recognise that black and minority ethnic issues affect all areas of our work.

We are proud of all our achievements this year. The work of United Welsh is making a positive difference to many people's lives and we look forward to even higher achievement in the future.

Peter Laing (Chair)

Anthony Whittaker (Chief Executive)



Management and advisors

Board

Rt. Hon. Lord Raglan (President)

Member since 1989. Former Chairman of United Kingdom Housing Trust (Wales).

Peter Laing (Chair)

Member since 2003. Retired Deputy Chief Executive and Director of a Building Society. Local Magistrate.

David Davies (Vice Chair)

Member since 1998. Retired Solicitor. Local Magistrate.

John Skipper (Treasurer)

Member since 1989. Retired Chartered Accountant.

Wendy Bourton OBE

Member since 1995. Chief Executive of Care & Repair Cymru. Former Chair of United Welsh.

Mark Bugler

Member since 2004. Chartered Surveyor.

Derek Curtis

Member since 1996. Retired process worker. United Welsh tenant.

Paddy Doyle

Member since 2004. Criminal justice consultant.

Peter Fitzgerald

Member since 2000. Previously a member of the Board from 1994 to 1997. Solicitor.

Margaret Jones

Member since 1996. Retired shop proprietor. United Welsh tenant.

Judith Lewis

Member since 1999. Company Director and Chartered Accountant.

Philip Westwood

Member since 1998. Company Director and Former Chair of United Welsh.

Secretary and registered office

Secretary – Anthony Whittaker

Tŷ Cennydd, Castle Street, Caerphilly, CF83 1NZ.

United Welsh Housing Association Ltd is a charitable housing association, registered with the National Assembly for Wales (Reg. No. J099) and the Registrar of Friendly Societies under charitable rules (Reg. No. 26623R).

Senior executives

Anthony Whittaker
Chief Executive.

Gareth Hexter
Director of Finance and Corporate Services.

Paula Kennedy
Director of Housing and Community Services.

Richard Mann
Director of Development.

Auditors

KPMG LLP, Marlborough House, Fitzalan Court, Cardiff, CF24 0BE.

Solicitors

Eversheds LLP, 1 Callaghan Square, Cardiff, CF10 5BT.

Bankers

Lloyds TSB Bank plc, 5 Cathedral Road, Cardiff, CF11 9RH.

Operating and financial review

For the year ended 31 March 2007

Corporate strategy and performance for the year

United Welsh has enjoyed a successful year and performance has improved across a number of areas with progress being made in achieving all of our strategic objectives.

Our vision is to be the organisation of first choice for all customers. In order to make that vision a reality, three broad aims have been identified, together with more specific objectives. They will help United Welsh focus on what is important. The three broad aims are:

- Develop new homes
- People choose to become tenants of United Welsh and then stay with us
- Optimise organisational performance and use of resources.

For the year ended 31 March 2007 United Welsh achieved a surplus for the year of £721,000 (2006 - £855,000) which slightly exceeded the budgeted surplus for the year (£703,000). United Welsh has increased major repair expenditure on properties in order to meet Welsh Housing Quality Standards. The commitment to quality housing was demonstrated by United Welsh spending £2.8m on programmed maintenance and improvement of older properties.

During the year turnover increased to £12.5m (2006 - £12.0m). Operating costs in the same period rose to £9.9m (2006 - £9.4m).

Solar powered heating systems - Part of United Welsh's commitment to include two environmental measures in every new development scheme



Sustainable development
- Timber-frame construction using local sources



The official opening of 'Vesta Court' in Bridgend, a supported housing scheme to help tenants stay substance free.

Develop new homes

United Welsh builds quality homes that people can afford to buy or rent. This year United Welsh spent £9.1m on acquisition and development of housing properties and received Social Housing Grant from the Welsh Assembly Government and other grants totalling £7.3m. At the end of the year capital commitments due to new developments amounted to £8.7m, which will be funded by a combination of public subsidy and private finance loans.

United Welsh received £4.8m (2006 - £5.8m) of Social Housing Grant from the Welsh Assembly Government to assist in developing new homes for rent in the year, against an initial allocation of £4.3m. In addition we were awarded £1.0m of funding from the Heads of the Valleys Initiative for regeneration projects in Forgeside and Bargoed.

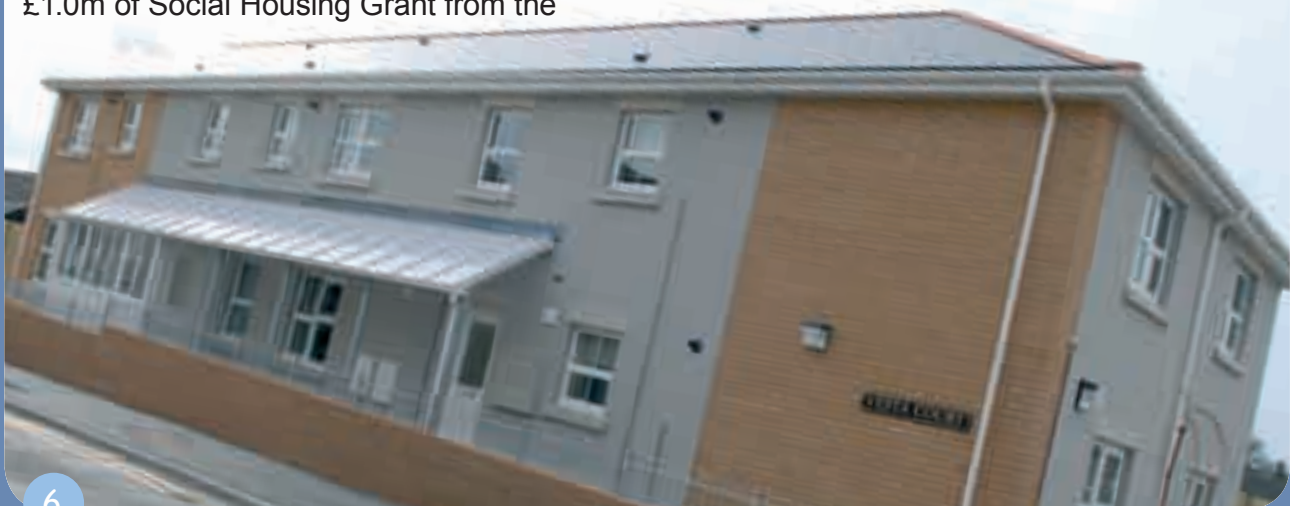
Another housing association in the Integrate consortium is currently developing a scheme for United Welsh and has drawn down £1.0m of Social Housing Grant from the

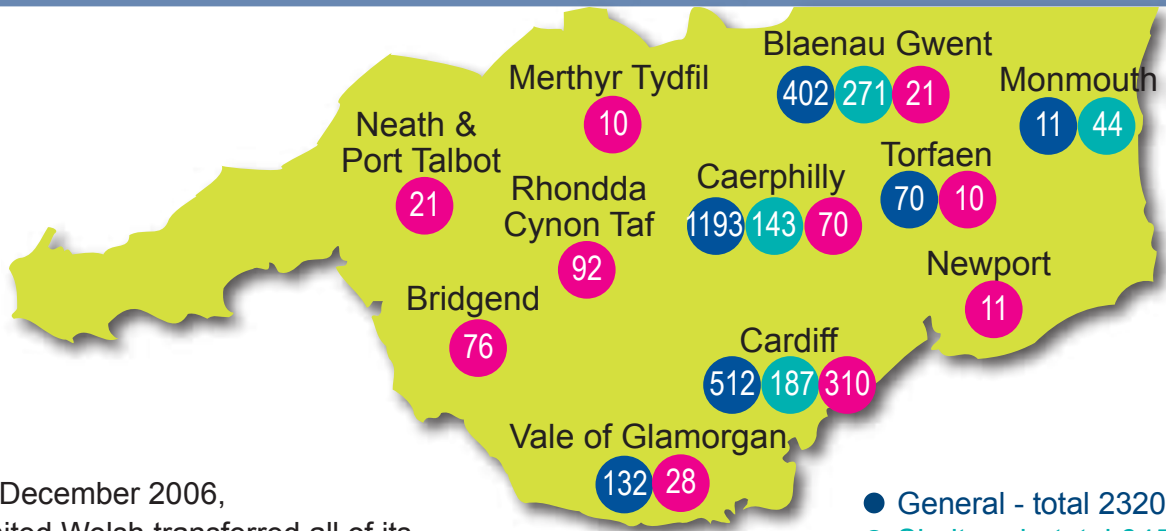
Welsh Assembly Government, which will be transferred to United Welsh next year.

United Welsh provided 19 new general needs homes for rent and refurbished a further 11. The homes were situated at Caerphilly Road, Cardiff and in Abertillery. In addition 15 new homes were completed for people requiring additional support. They ranged from a supported housing scheme in Bridgend to help tenants stay substance free to housing for people with learning difficulties in Porth.

We recognise that many of our customers would like to become home owners. This year we helped 25 families find new homes through a Low Cost Home Ownership scheme called 'Homes within Reach'. The main areas of operation were Caerphilly and Blaenau Gwent.

In relation to Homebuy and Low Cost Home Ownership (LCHO), United Welsh spent £1.6m (2006 - £268,000) and received £1.5m (2006 - £268,000) Social Housing Grant and other grants during the year.





- General - total 2320
- Sheltered - total 645
- Supported - total 649

In December 2006, United Welsh transferred all of its housing in Swansea to CT Dewi Sant because we recognised that services would be delivered more effectively from a local management base.

The number of homes managed at 31 March 2007 across all the local authorities in which we work is displayed on the map above.

Future developments

United Welsh is committed to developing quality new homes and our underlying objective is to complete an additional 525 homes and 10 new supported housing projects in the next five years. In the year to 31 March 2008 we are expecting to complete an additional 150 new homes, 90 of them assisted by Social Housing Grant and 60 being funded from our own resources. United Welsh will continue to support future development activity through land banking during the forthcoming year.



People choose to become tenants of United Welsh and then stay with us

Listening to tenant views

During summer 2006 United Welsh carried out the next cycle in its biennial tenant survey. Overall 78% of tenants expressed satisfaction with United Welsh as a landlord. When asked what United Welsh could do to improve housing services, the top priorities were:

- To improve the quality of materials used in repairs
- To improve communication about repairs progress
- To get repairs right first time.

These have been included into the corporate plan.

The specialist work on anti-social behaviour, introduced in 2005 in response to priorities highlighted in the 2004 tenant survey, has become well-established. A total of 232 incidents were logged during the year, and 197 successfully closed. As part of our work to combat anti-social behaviour we have run several community projects, such as tree planting, working with local communities to foster pride in their community and local area. We plan to expand the team next year so that we can focus on preventative work.

United Welsh is currently in the process of consulting with support providers to establish service standards across all client groups.

Communication

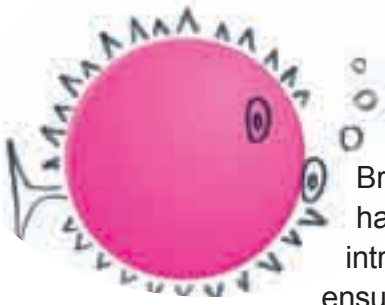
In the survey tenants indicated that good communication is important. United Welsh continues to look for more effective ways of communicating with customers. During the year text messaging was introduced for both arrears monitoring and for the 'Select-a-Home' scheme. One recipient commented, "I am very happy with the text message service. It was a useful reminder about my arrears."

We have also introduced mobile hearing loops for use in our offices and provided computer access for customers in our reception areas.

United Welsh also recognises that communication with our business partners is essential. In July 2006 we hosted a conference on cross-sector partnership working held at the Wales Millennium Centre and chaired by Jason Mohammad. A range of high profile speakers gave their views on the need for partnership working. Guests included representatives from local authorities, Welsh Assembly Government, NHS Trusts, support providers and other housing associations.

Jason Mohammad -
Delivering an introduction
to the 2006 United Welsh
Annual Conference held
at the Wales Millennium
Centre, Cardiff





Brand guidelines have been introduced to ensure consistency

in all our communication, whichever customer group we are talking to. Our employment brand has been successful in attracting quality applicants for posts advertised during the year.

Achieving Welsh Housing Quality Standard

United Welsh is well on the way to achieving the Welsh Housing Quality Standard in all its homes by 2012. During the year we spent £2.8m on planned improvements and plan to spend £2.9m in the year to 31 March 2008.



Tenants' views were obtained on some aspects of the Standard to help us prioritise our work. We are participating directly in the work initiated by the Welsh Assembly Government to refine and develop the Standard further.

We have implemented a contract worth over £3.0m in total to replace all sub-standard kitchens.

This is the first contract to be awarded under our new partnering arrangements with Integrate. Over 250 kitchens have been



New Kitchens - Part of the £3.0m planned maintenance project to replace all sub-standard kitchens



Edwina Hart AM MBE - Officially launches the Integrate Supply Chain

replaced so far, starting with all those due in Blaenau Gwent and moving on to Caerphilly. Work on kitchens in Cardiff will commence next year.

Integrate

During the year members of the Integrate consortium continued to develop their partnership working and opportunities to work collaboratively resulting in a sharing of services, ideas and cost savings. A programme of staff training was completed and the first contracts under the consortium arrangements were awarded. The supply chain was officially launched in February 2007 by Assembly Minister for Social Justice and Regeneration, Edwina Hart.





Glan yr Afon - 21 years since the conversion from Bedwellty school



Celebrations

Tenants at our sheltered housing scheme in Glan yr Afon had cause to celebrate in November when the scheme 'came of age'. Glan yr Afon was converted from the former Bedwellty School 21 years ago in 1985 to provide flats for older people. Some tenants who moved in then are still tenants with United Welsh and were pleased to participate in the celebrations in the company of our President, Lord Raglan.

Integrate was nominated for the Outstanding Achievement in Social Housing in Wales award at the prestigious UK Housing Awards in November 2006. The nomination was for its skills and learning programme that had largely been devised by the Head of Human Resources at United Welsh.



Integrate - Nominated for the 'Outstanding Achievement in Social Housing in Wales Award 2006

Optimise organisational performance and use of resources

Targets are set for published Key Performance Indicators (KPIs) and they, together with other internal indicators, are used in the management of performance and in setting the strategies for continuous improvement. Performance during the period on key operational areas is set out on page 13. All indicators are derived from internal data and are calculated in accordance with published KPIs where applicable.

This year the suite of published KPIs was revised, involving the introduction of new indicators and using a different basis of calculation for others. The following new indicators have been calculated for this year:

	Days
Average time to re-let empty properties	15.8
Average time to complete repairs:	
Emergency	0.7
Urgent	5.2
Non-Urgent	17.9

Capital structure

Housing properties (cost £160m) are financed as follows:

Social Housing Grant (£118m)	74%
Private finance (£27m)	17%
Reserves and working capital (£15m)	9%

Treasury

At the end of the year United Welsh had a cash balance of £2.3m and the average cash balance held during the year was £1.0m. United Welsh has net current liabilities of £2.6m at 31 March 2007, a direct result of keeping its borrowings to a minimum by utilising cash earned through accumulated surpluses. This is supported by undrawn loan facilities of £18m at the end of the year.

During the year, United Welsh refinanced two loans totalling £12.2m. Redemption charges of £611,000 were incurred but will be off-set

by annual interest savings of £80,000 and net savings over the period of the loan of £829,000. The new loan facility offers more competitive margins and improved loan covenants and valuation methods.

Compliance with loan covenants is reported quarterly to the Board. A more in depth treasury performance review is presented to the Board annually. This includes a review of borrowings and investments. Loan balances at the year end totalled £27.1m.

Reserves

General reserves are used to fund major repairs in future years, to subsidise the shortfall between the cost and funding of housing properties and to meet unforeseen additional expenditure, which could not be met from the annual budget.

United Welsh has general reserves at the year end of £12.1m. This represents an increase on the previous year of 6%. In addition United Welsh has reserves of £1.9m relating to negative goodwill arising from the combination of United Welsh Housing Association Limited and South Wales Federated Housing Association Limited in 1996. A further £137,000 represents service charges receivable from tenants to cover the capital cost of replacement service equipment.

Regulation

In December 2006, landlord services delivered by United Welsh were the subject of an inspection by the Wales Audit Office under the regulatory regime introduced by the Welsh Assembly Government in 2005.

Employment

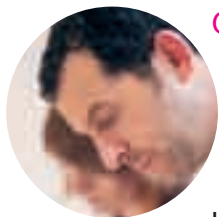
United Welsh has a strong partnership culture, which empowers and involves staff in the decision making process. Training and staff development are regarded as an investment and United Welsh achieved accreditation for the new Investors in People Standard during the year, the first housing association in Wales to do so. Our managers have completed a leadership development course over the last 12 months resulting in accreditation with the Institute of Leadership and Management. The training is now being rolled out to second tier managers and supervisors.

Senior Management Team



Anthony Whittaker

Chief Executive, appointed in 1993. Member of the Chartered Institute of Housing with over 30 years experience of working in local authority and housing associations.



Gareth Hexter

Director of Finance and Corporate Services, appointed in 1998. Over 25 years experience of the housing association sector.



Paula Kennedy

Director of Housing and Community Services, appointed in 2000. Fellow of the Chartered Institute of Housing.



Richard Mann

Director of Development, appointed in 2005. Member of the Royal Institute of Chartered Surveyors.

United Welsh contributes to a pension for each of the Senior Management Team on the same terms as for all staff. Each is required to give three months notice.

Staff

At 31 March 2007 United Welsh employed a total of 122 people (2006 - 122).

	2007		2006	
	Full time	Part time	Full time	Part time
Chief Executive	3	2	2	1
Housing and Community Services	68	17	68	22
Development and Technical Services	10	1	9	1
Finance and Corporate Services	18	3	17	2
Total	99	23	96	26



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Modular Build - An innovative method of construction currently being piloted by United Welsh

Five year financial summary

For the year ended 31 March 2007

	2007	2006	2005	2004	2003
	£'000	£'000	£'000	£'000	£'000
Income and expenditure account					
Net rents, service charges and other income	12,415	11,935	11,142	10,504	9,992
Operating surplus	2,595	2,656	2,531	2,577	2,548
Surplus for the year	721	855	955	866	789
Balance sheet					
Housing properties	160,254	154,709	145,898	141,300	137,200
Less: Social Housing Grant and other grants	(118,258)	(114,561)	(108,940)	(105,500)	(103,500)
Net book value	41,996	40,148	36,958	35,800	33,700
Other fixed assets	1,636	1,660	1,714	1,700	1,600
Total fixed assets	43,632	41,808	38,672	37,500	35,300
Fixed asset investments	156	-	-	-	-
Net current (liabilities)/assets	(2,649)	(1,791)	(1,956)	(1,400)	100
Other creditors due after more than one year	(27,026)	(26,625)	(24,179)	(24,500)	(24,700)
Share capital and reserves	14,113	13,392	12,537	11,600	10,700
Financial performance indicators					
Gearing	20%	21%	20%	21%	22%
Interest cover	1.60	1.69	1.68	1.64	1.62
Rent loss on empty properties as % of total rent due	0.50%	0.46%	0.65%	0.90%	1.10%
Rent owed net of housing benefit as % of total rent	2.04%	1.64%	2.00%	2.10%	2.18%
Cash collected as % of total rent collectable	98.7%	100.0%	99.0%	99.0%	99.0%
New units completed	34	41	57	24	67
Homebuy/LCHO completed	25	11	6	9	8

Board and governance report For the year ended 31 March 2007

The Board presents its report and the audited financial statements for the year ended 31 March 2007.

Principal activities

The primary activity of the Association is the provision of affordable quality housing accommodation for those in housing need. As well as managing existing properties the Association is a developer of new social housing in its area of activities.

Review of business

The surplus for the year was £721,000. After transfers from other reserves of £4,000, £725,000 has been added to the Association's general reserves, which now total £12.1m.

Changes in fixed assets

Details of fixed assets are set out in Notes 12, 13, 14, 15 and 16.

Property assets continue to be shown in the Balance Sheet at their historic cost. An impairment review carried out in May 2007 indicates that the Association is not suffering from impairment of any of its properties.

Board and senior executives

Board members and senior executives of the Association are listed on page 4. Each member of the Board holds one fully paid share of £1 in the Association. The senior executives of the Association hold no interest in the Association's share capital and, although not having the legal status of directors, they act as executives within the authority delegated to them by the Board.

Board and governance structure

The Board comprises up to fourteen non-executive members and is responsible for directing the affairs of the Association. New board members agree to serve for a term of three years, with the option to continue for two more three-year terms after that. Board members are drawn from a wide background bringing together professional, commercial and local experience.

Membership is reviewed every year to ensure the Board contains the range of necessary skills. Those skills include:

- Knowledge of the communities and people we serve
- General business, financial and management skills
- Knowledge of the operational environment for housing associations
- Experience in legal, property, development and public affairs
- Working effectively as a team.

In order to ensure that the Association is well governed it complies with the Code of Governance of Community Housing Cymru and the National Housing Federation Code.

The Board meets formally eleven times a year and is supported by the Audit Committee and the Remuneration Committee.

The Board is responsible for the Association's strategy and policy framework. It delegates the day-to-day management and implementation of that framework to the Chief Executive and other senior executives (the Senior Management Team). The Senior Management Team meets monthly and attends the Board meetings.

Audit Committee

The Audit Committee comprises up to six Board members selected by the Board. It is attended by the Senior Management Team and meets at least three times a year. The Committee advises the Board on its responsibilities in relation to financial reporting and considers the appointment of internal and external auditors, the scope of their work and their reports. It also reports to the Board on the effectiveness of the Association's internal control arrangements.

Remuneration Committee

The Remuneration Committee comprises the Chair and up to four Board members selected by the Board. The Committee advises the Board on the remuneration and terms and conditions of service of the Senior Management Team and on the skills and composition of the Board itself. It meets at least once a year.

Internal control statement

The Board is responsible for the Association's system of internal financial controls which is designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information. The Board has reviewed the effectiveness of the system of internal controls for the period from 1 April 2006 to 28 June 2007.

The procedures that have been established which are designed to provide effective internal financial control are:

- Corporate governance arrangements and an organisational structure with clearly defined lines of responsibility
- Written financial procedures with delegated authorities
- Comprehensive system of financial reporting including annual budgets and monthly management accounts, to report actual performance against budget and to highlight variances
- A register of risks is maintained and reviewed by the Senior Management Team and Audit Committee
- Audit Committee reviews the fraud register at each of its meetings
- Monitoring of the internal financial controls and procedures by the Association's internal auditors and external auditors.

Internal audit services were obtained under contract with Grant Thornton UK LLP for the year ended 31 March 2007.

Statement of responsibilities of the Board in respect of the Board and governance report and the financial statements

The Board is responsible for preparing the Board and governance report and the financial statements in accordance with applicable law and regulations.

Industrial and Provident Society law requires the Board to prepare financial statements for each financial year. Under those regulations the Board has elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to 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 these financial statements, the Board is required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable and prudent
- State whether applicable UK Accounting Standards and the Statement of Recommended Practice (SORP) have been followed, subject to any material departures disclosed and explained in the financial statements
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Association will continue in business.

The Board is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Association and enable them to ensure that its financial statements comply with the Industrial and Provident Societies Acts 1965 to 2002, the Housing Act 1996 and the Accounting Requirements for Social Landlords Registered In Wales: General Determination 2000. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Association and to prevent and detect fraud and other irregularities.

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

Disclosure of information to auditors

The Board members who held office at the date of approval of this Board report confirm that, so far as they are each aware, there is no relevant audit information of which the Association's auditors are unaware; and each Board member has taken all the steps that they ought to have taken as a Board member to make himself or herself aware of any relevant audit information and to establish that the Association's auditors are aware of that information.

By order of the Board

A Whittaker
Secretary
28 June 2007

Independent auditors' report to the members of United Welsh Housing Association Limited For the year ended 31 March 2007

We have audited the financial statements of United Welsh Housing Association Limited for the year ended 31 March 2007 which comprise Income and Expenditure account, Balance Sheet, Cash Flow Statement, Statement of Total Recognised Surpluses and Deficits and the related notes. 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 Schedule 1 paragraph 16 to the Housing Act 1996 and section 9 of the Friendly and Industrial and Provident Societies Act 1968. Our audit work has been undertaken so that we might state to the Association's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and the Association's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Board and auditors

The responsibility of the Association's Board for the preparation of the Board's report and the preparation of financial statements in accordance with applicable United Kingdom law and UK Accounting Standards (UK Generally Accepted Accounting Practice) is set out in the Statement of Board's Responsibilities on page 15.

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 Social Landlords Registered in Wales: General Determination 2000. We also report to you if, in our opinion, a satisfactory system of control over transaction 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.

In addition to our audit of the financial statements, we have reviewed whether the Board's statement on page 15 reflects the Association's compliance with the Housing for Wales Circular 8/97 ("the Circular") 'Internal financial control and financial reporting', and we report whether the Board has provided the disclosures required by the Circular and whether the statement is not inconsistent with information of which we are aware from our audit of the financial statements.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements within it. Our responsibilities do not extend to any other information.

Independent auditors' report to the members of United Welsh Housing Association Limited (continued) For the year ended 31 March 2007

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 an 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.

We carried out our review of the Association's compliance with the Circular having regard to Bulletin 1995/1 'Disclosures relating to Corporate Governance' issued by the Auditing Practices Board. That bulletin does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Association's system of internal financial control or its corporate governance procedures nor on the ability of the Association to continue in operational existence.

Opinion

In our opinion the financial statements:

- Give a true and fair view in accordance with UK Generally Accepted Accounting Practice, of the state of the Association's affairs as at 31 March 2007 and of its surplus for the year then ended
- Have been properly prepared in accordance with the Industrial & Provident Societies Acts 1965-2002, the Housing Act 1996 and the Accounting Requirements for Social Landlords Registered in Wales: General Determination 2000.

With respect to the Board's statement on internal financial controls on page 15 in our opinion the Board has provided the disclosures required by the Circular and the statement is not inconsistent with the information of which we are aware from our audit work on the financial statements.

KPMG LLP
Marlborough House
Fitzalan Court
Cardiff
CF24 OBE
29 June 2007

Income and expenditure account

For the year ended 31 March 2007

	Notes	2007 £'000	2006 £'000
Turnover	3	12,503	12,016
Operating costs	3	(9,908)	(9,360)
Operating surplus		2,595	2,656
Surplus on disposal of fixed assets	6	749	24
Interest receivable		56	48
Interest payable and similar charges	11	(2,679)	(1,873)
Surplus for the year	23	721	855

Statement of total recognised surpluses and deficits

There were no recognised surpluses and deficits, other than those shown on the Income and Expenditure account.

Continuing operations

None of the Association's activities were acquired or discontinued during the above two financial years.

Balance sheet

As at 31 March 2007

	Notes	2007 £'000	2006 £'000
Tangible fixed assets			
Housing properties	12	160,254	154,709
Social Housing Grant and other grants	13	(118,258)	(114,561)
		41,996	40,148
Commercial property	14	86	89
Other fixed assets	15	1,550	1,571
		43,632	41,808
Investments	16	2,411	845
Less: Social Housing Grant and other grants	16	(2,255)	(845)
		156	-
Current assets			
Debtors	18	846	628
Cash at bank and in hand		2,311	1,278
		3,157	1,906
Creditors: amounts falling due within one year	19	(5,806)	(3,697)
Net current liabilities	20	(2,649)	(1,791)
Total assets less current liabilities			
		41,139	40,017
Creditors: amounts falling due after more than one year	21	(27,026)	(26,625)
		14,113	13,392
Capital and reserves			
General reserves	23	12,121	11,396
Other reserves	23	1,992	1,996
		14,113	13,392

The financial statements were approved by the Board on 28 June 2007 and signed on its behalf by:

P Laing
Chair

J Skipper
Treasurer

A Whittaker
Secretary

Cash flow statement

For the year ended 31 March 2007

	Notes	2007 £'000	2006 £'000
Net cash inflow from operating activities	(a)	3,138	3,453
Returns on investments and servicing of finance			
Interest received		56	48
Interest paid		(2,774)	(1,882)
		2,718	(1,834)
Capital expenditure			
Purchase and construction of housing properties		(5,618)	(9,260)
Social Housing Grant and other grants received		5,008	5,672
Social Housing Grant and other grants paid		-	(106)
Additions to LCHO and Homebuy		(1,636)	(268)
Social Housing Grant and other grants received in respect of LCHO and Homebuy		1,480	268
Purchase of other fixed assets		(203)	(208)
Sale of housing properties		1,229	72
		260	(3,830)
Financing			
Housing loans received		12,750	3,000
Housing loans repaid		(12,397)	(409)
	(b)	353	2,591
Increase in cash	(c)	1,033	380

Notes to the cash flow statement

For the year ended 31 March 2007

a. Reconciliation of operating surplus to net cash inflow from operating activities

	2007 £'000	2006 £'000
Operating surplus	2,595	2,656
Depreciation of tangible fixed assets	528	512
	<u>3,123</u>	<u>3,168</u>
Working capital movements		
(Increase)/decrease in operating debtors	(189)	84
Increase in operating creditors	266	113
(Decrease)/increase in provisions	(62)	88
Net cash inflow from operating activities	<u>3,138</u>	<u>3,453</u>

b. Reconciliation of net cash flow to movement in net debt

	2007 £'000	2006 £'000
Increase in cash	1,033	380
(Increase) in loans	(353)	(2,591)
Decrease/(increase) in net debt	<u>680</u>	<u>(2,211)</u>
Net debt at 1 April 2006	(25,485)	(23,274)
Net debt at 31 March 2007	<u>(24,805)</u>	<u>(25,485)</u>

c. Analysis of net debt

	Cash at bank and in hand £'000	Loans due in less than 12 months £'000	Loans due in over 12 months £'000	Changes in net debt £'000
At 1 April 2006	1,278	(467)	(26,296)	(25,485)
Net cash flows	1,033	64	(417)	680
At 31 March 2007	<u>2,311</u>	<u>(403)</u>	<u>(26,713)</u>	<u>(24,805)</u>

Notes to the financial statements

For the year ended 31 March 2007

1. Legal status

The Association is registered under the Industrial and Provident Societies Act 1965 and is a Registered Social Landlord. The Association has adopted charitable rules.

2. Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies is set out below.

Basis of accounting

The financial statements are prepared under the historical cost convention in accordance with applicable Accounting Standards in the United Kingdom and the Statement of Recommended Practice (SORP) Accounting by Registered Social Landlords Update 2005 and comply with the Accounting Requirements for Social Landlords Registered in Wales: General Determination 2000.

Turnover

Turnover represents rental and service charge income, sundry housing services and revenue grant receivable. In the case of supported housing managed by managing agents on behalf of the Association, turnover comprises rents charged to managing agents.

Housing properties

Housing properties are shown at historical cost net of Social Housing Grant (SHG) and other grants. Directly attributable costs such as land costs, contractor payments and architects fees are capitalised at cost. Directly attributable management expenses are allocated to the costs of schemes under construction to the extent that they represent incremental costs to the Association. The costs of improvement to existing housing properties are included if the improvements increase rental income, reduce future maintenance costs or significantly extend the life of the property. The Association does not capitalise interest on loans financing the development of housing properties.

Depreciation

Tangible fixed assets are stated at cost less accumulated depreciation. Freehold land and assets in the course of construction are not depreciated. The Association maintains a continual cycle of refurbishment and maintenance during the useful life of its properties. The depreciation charge adopted reflects this investment. Depreciation is charged over the expected useful economic lives of assets on the following bases:

(a) Housing properties	Lives
General needs properties:	
New build	150 years from date of construction
Rehabilitated properties	120 years from date of rehabilitation
Other properties	120 years from date of construction
Leasehold properties	50 years from the commencement of the lease or over the length of the lease (whichever is shorter)
(b) Other fixed assets	
Office building	100 years
Fixtures, furniture and equipment	5 – 20 years
Computer equipment and software	4 - 6 years
Commercial property	50 years
Motor vehicles	25% reducing balance

Impairment

Where it is recognised that there is a permanent diminution in value of any asset, the full reduction in value is written off to the Income and Expenditure account in the period in which the diminution is recognised. The Board received an impairment review of the Association's housing properties and offices in May 2007. The Board concluded that there was no impairment in value.

Notes to the financial statements (continued)

For the year ended 31 March 2007

Fixed asset investments

The accounting treatment adopted follows that of the SORP Accounting by Registered Social Landlords Update 2005 in that the loan to the purchaser of a property purchased under the 'Homebuy' initiative or 'Low Cost Home Ownership' (LCHO) scheme is treated as a fixed asset investment. The Association retains a 30% stake in homes purchased through the 'Homebuy' initiative. The investment in Homebuy is funded through SHG and is held in the Balance Sheet at historical cost less SHG. On sale of the property the Association will receive 30% of the sale proceeds. The Association retains a variable percentage stake in LCHO scheme properties. Where the land for LCHO has been granted through S106 it is grossed up so that its cost is included at open market value but with a reduction to nil net book value. Where the investment is funded through SHG it is held in the Balance Sheet at historical cost less SHG. On sale of the property the Association will receive the agreed percentage of the sale proceeds. Grant received on Homebuy and LCHO schemes is recyclable on sale of these properties.

Housing developments

The Association is developing housing for two other Registered Social Landlords. The projects will be sold to those organisations when they reach damp course stage. The costs of development incurred to date are held in work in progress in the Balance Sheet. The SHG received in relation to these projects is netted against the construction costs in work in progress. The excess of grant received over costs incurred is treated as deferred grant and is included within creditors less than one year.

Lease obligations

Rentals paid under operating leases are charged to the Income and Expenditure account on a straight line basis over the period of the lease.

Grants

Where developments have been financed wholly or partly by SHG and other grants, the cost of those developments has been reduced by the amount of the grant received. This is in accordance with the SORP Accounting by Registered Social Landlords Update 2005.

Grant received in respect of revenue costs is accounted for through the Income and Expenditure account in the period in which those costs are incurred. SHG only becomes repayable in the event

of a related property being sold and if not utilised within three years it is then repayable to the Welsh Assembly Government and is shown under creditors as 'recycled capital grant fund' (notes 19 and 21).

Pensions

The Association participates in the centralised Social Housing Pension Scheme which is a final salary scheme. It is not possible to identify the Association's underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS17 'Retirement Benefits', the scheme is accounted for as if it were a defined contribution scheme. As a result the amount charged in the Income and Expenditure account represents the contributions payable to the scheme in respect of the accounting period (note 28).

Designated reserve – service equipment

Service charges receivable from tenants include an element to cover the capital cost of replacement of service equipment. The Association therefore sets this amount aside out of service income into the Service Equipment Reserve. Transfers may be made from this reserve to general reserves in order to fund the replacement of service equipment.

Goodwill reserve

Negative goodwill represents the excess of the fair value of assets and liabilities acquired over the consideration paid. Negative goodwill arising from the combination of United Welsh Housing Association Limited with South Wales Federated Housing Association Limited has been included within reserves as a separate reserve. This is in accordance with the SORP Accounting by Registered Social Landlords Update 2005. Negative goodwill is amortised over the estimated life of the assets.

Corporation tax

The Association is exempt from Corporation Tax on its charitable activities.

Value added tax

The Association charges Value Added Tax (VAT) on some of its income and is able to recover part of the VAT it incurs on expenditure. The financial statements include VAT to the extent that it is suffered by the Association and not recoverable from HM Revenue and Customs. The balance of the VAT payable or recoverable at the year end is included as a current liability or asset.

Notes to the financial statements (continued)
For the year ended 31 March 2007

3. Turnover, operating costs and surplus

	Year ended 31 March 2007			Year ended 31 March 2006		
	Turnover	Operating costs	Operating surplus	Turnover	Operating costs	Operating surplus
	£'000	£'000	£'000	£'000	£'000	£'000
Income and expenditure from lettings						
General needs housing	9,941	(8,009)	1,932	9,590	(7,448)	2,142
Supported housing	2,518	(1,889)	629	2,391	(1,887)	504
Total from lettings	<u>12,459</u>	<u>(9,898)</u>	<u>2,561</u>	<u>11,981</u>	<u>(9,335)</u>	<u>2,646</u>
Other income and expenditure						
Other activities	44	(10)	34	35	(25)	10
Total	<u>12,503</u>	<u>(9,908)</u>	<u>2,595</u>	<u>12,016</u>	<u>(9,360)</u>	<u>2,656</u>

Notes to the financial statements (continued)

For the year ended 31 March 2007

4. Turnover from lettings

	General needs housing	Supported housing	2007 Total	2006 Total
	£'000	£'000	£'000	£'000
Rents	8,975	1,689	10,664	10,166
Service charges	1,008	125	1,133	1,132
Less: rent losses from voids	(50)	(8)	(58)	(56)
	<u>9,933</u>	<u>1,806</u>	<u>11,739</u>	<u>11,242</u>
Grant from local authorities and other agencies	8	-	8	13
Grant for supported housing	-	712	712	726
	<u>9,941</u>	<u>2,518</u>	<u>12,459</u>	<u>11,981</u>

5. Operating costs from lettings

	General needs housing	Supported housing	2007 Total	2006 Total
	£'000	£'000	£'000	£'000
Fully rented housing accommodation				
Services	1,092	127	1,219	1,164
Management	2,244	1,095	3,339	3,228
Development administration	173	61	234	352
Day to day maintenance	1,850	371	2,221	2,183
Major repairs	2,563	234	2,797	2,327
	<u>7,922</u>	<u>1,888</u>	<u>9,810</u>	<u>9,254</u>
Rent losses from bad debts	87	1	88	81
	<u>8,009</u>	<u>1,889</u>	<u>9,898</u>	<u>9,335</u>

6. Surplus on disposal of fixed assets

Proceeds of £1.2m were received on the disposal of housing properties, generating a surplus of £749,000. This largely arises from the disposal of 59 properties in Swansea to CT Dewi Sant.

Notes to the financial statements (continued)

For the year ended 31 March 2007

7. Operating surplus for the year

	2007 £'000	2006 £'000
Operating surplus for the year is stated after charging:		
Depreciation	528	512
Operating leases	72	71
Auditors' remuneration: in their capacity as auditors	26	25
	<hr/>	<hr/>

8. Emoluments of officers and senior executives

The remuneration paid to the senior executives of the Association was:

	2007 £'000	2006 £'000
Emoluments (including pension contributions and benefits in kind)	292	261
Emoluments (excluding pension contributions) paid to the highest paid senior executive	85	78
	<hr/>	<hr/>

No remuneration was paid to members of the Board during the year (2006 - £Nil).

The emoluments of Board members and senior executives, excluding pension contributions, were in the following ranges:

	2007 No.	2006 No.
£Nil	12	14
£50,001 - £55,000	-	1
£55,001 - £60,000	1	2
£60,001 - £65,000	2	-
£75,001 - £80,000	-	1
£80,001 - £85,000	1	-
	<hr/>	<hr/>

The Chief Executive is an ordinary member of the pension scheme with no special terms attaching to his membership. The Association's contribution in respect of the Chief Executive's pension fund amounted to £8,717 (2006 - £8,190).

Notes to the financial statements (continued)

For the year ended 31 March 2007

9. Interests and related party transactions

During the year the Association provided rented accommodation to three Board members who were tenants of the Association and charged rent to those members on the Association's standard terms. Board members who are tenants are unable to use their position to their advantage in accordance with FRS 8 'Related Party Transactions'.

10. Employees and employee costs

	2007 £'000	2006 £'000
Staff costs during the period:		
Wages and salaries	2,508	2,319
Social security costs	189	175
Other pension costs	191	182
	<u>2,888</u>	<u>2,676</u>
	No.	No.
The average monthly number of staff (full time equivalent) employed during the year	<u>112</u>	<u>108</u>

11. Interest payable and similar charges

	2007 £'000	2006 £'000
On loans repayable by instalments	2,290	1,485
On loans repayable other than by instalments	389	388
	<u>2,679</u>	<u>1,873</u>

Interest payable during the year included £611,000 loan breakage costs relating to the redemption of two loans. A discounted cash flow appraisal demonstrated that significant savings will be made over the period of the loan.

Notes to the financial statements (continued)

For the year ended 31 March 2007

12. Tangible fixed assets - housing properties

	Housing properties held for letting £'000	Housing properties in the course of construction £'000	2007 Total £'000
Cost			
At beginning of year	148,154	8,148	156,302
Transferred on completion	5,094	(5,094)	-
Additions during the year	-	7,517	7,517
Disposals during the year	(1,674)	-	(1,674)
At end of year	<u>151,574</u>	<u>10,571</u>	<u>162,145</u>
Depreciation			
At beginning of year	1,593	-	1,593
Charge for the year	316	-	316
Disposals during the year	(18)	-	(18)
At end of year	<u>1,891</u>	<u>-</u>	<u>1,891</u>
Net book value			
At end of year	<u>149,683</u>	<u>10,571</u>	<u>160,254</u>
At beginning of year	<u>146,561</u>	<u>8,148</u>	<u>154,709</u>
Net book value at end of year is represented by:			
Gross cost less depreciation	149,683	10,571	160,254
Less: SHG and other grants	(109,769)	(8,489)	(118,258)
	<u>39,914</u>	<u>2,082</u>	<u>41,996</u>

	2007 £'000	2006 £'000
Housing properties comprise:		
Freeholds	39,229	37,986
Leaseholds	2,539	1,919
Short leaseholds	228	243
	<u>41,996</u>	<u>40,148</u>
	2007 No.	2006 No.
General needs housing properties in management	2,965	3,010
Supported housing bed spaces	649	638
	<u>3,614</u>	<u>3,648</u>

Fixed charges have been granted on all housing properties to secure Social Housing Grant.

Notes to the financial statements (continued)

For the year ended 31 March 2007

13. Tangible fixed assets - Social Housing Grant and other grants

	Housing properties held for letting £'000	Housing properties in the course of construction £'000	2007 Total £'000
At beginning of year	107,965	6,596	114,561
Transferred on completion	3,246	(3,246)	-
Additions during the year	-	5,139	5,139
Disposals during the year	(1,442)	-	(1,442)
At end of year	<u>109,769</u>	<u>8,489</u>	<u>118,258</u>

At 31 March 2007 total SHG received amounted to £125,254,000 (2006 - £120,147,000). This includes SHG of £4,741,000 in respect of grant aided repair schemes, and £2,255,000 in respect of Homebuy properties.

14. Commercial property

Commercial property consists of a parade of seven freehold retail units in Cardiff.

	2007 £'000
Cost	
At beginning and end of year	148
Depreciation	
At beginning of year	59
Charge for year	3
At end of year	62
Net book value	
At end of year	86
At beginning of year	89

Notes to the financial statements (continued)

For the year ended 31 March 2007

15. Tangible fixed assets - other

	Office premises £'000	Scheme equipment £'000	Vehicles & office equipment £'000	2007 Total £'000
Cost				
At beginning of year	1,191	1,199	975	3,365
Additions during year	-	108	82	190
Disposals during the year	-	(89)	(242)	(331)
At end of year	<u>1,191</u>	<u>1,218</u>	<u>815</u>	<u>3,224</u>
Depreciation				
At beginning of year	250	687	857	1,794
Charge for year	28	121	60	209
Disposals during the year	-	(87)	(242)	(329)
At end of year	<u>278</u>	<u>721</u>	<u>675</u>	<u>1,674</u>
Net book value				
At end of year	<u>913</u>	<u>497</u>	<u>140</u>	<u>1,550</u>
At beginning of year	<u>941</u>	<u>512</u>	<u>118</u>	<u>1,571</u>

16. Fixed asset investments

	Homebuy loans £'000	LCHO £'000	LCHO under construction £'000	2007 Total £'000
Cost				
At beginning of year	845	-	-	845
Additions during the year	403	619	614	1,636
Disposals during the year	(70)	-	-	(70)
At end of year	<u>1,178</u>	<u>619</u>	<u>614</u>	<u>2,411</u>
Social Housing Grant and S106 commitments				
At beginning of year	845	-	-	845
Additions during the year	403	619	458	1,480
Disposals during the year	(70)	-	-	(70)
At end of year	<u>1,178</u>	<u>619</u>	<u>458</u>	<u>2,255</u>
Net book value				
At end of year	<u>-</u>	<u>-</u>	<u>156</u>	<u>156</u>
At beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Fixed asset investments relate to properties which the Association has funded under the Homebuy Option scheme and the construction and sale of properties through Low Cost Home Ownership. Further details are provided in the accounting policies under note 2, 'Fixed asset investments'.

Notes to the financial statements (continued)

For the year ended 31 March 2007

17. Work in progress

	2007 £'000	2006 £'000
Capital expenditure on housing developments	1,326	-
Less: SHG	(1,326)	-
	<u>-</u>	<u>-</u>

The above development costs and SHG receipts relate to two developments which are on behalf of other Registered Social Landlords. SHG of £1.7m received in advance of development is included in 'Creditors: amounts falling due within one year'.

18. Debtors: amounts falling due within one year

	2007 £'000	2006 £'000
Arrears of rent and service charges	344	283
Less: provision for bad and doubtful debts	(42)	(36)
	<u>302</u>	<u>247</u>
Staff car loans	40	30
Other debtors and prepayments	504	351
	<u>846</u>	<u>628</u>

Staff car loans consist of loans to 11 employees (2006 - 10). Loans are payable over periods of between one and five years with interest charged at HM Revenue and Customs recommended rates.

19. Creditors: amounts falling due within one year

	2007 £'000	2006 £'000
Maintenance and other supplies	2,452	1,752
Capital expenditure on housing properties	500	271
SHG in advance	1,684	-
Loan principal	403	467
Accruals and deferred income	172	267
Prepayments of rents and service charges	267	302
Recycled capital grant fund	178	29
Other capital creditors	84	548
Tax and social security	66	61
	<u>5,806</u>	<u>3,697</u>

Notes to the financial statements (continued)

For the year ended 31 March 2007

20. Net current liabilities

The Association's policy of maximising its resources and funding new developments out of existing revenue reserves where possible, has led to net current liabilities at the year end. If required, the Association can fund its net current liabilities by utilising undrawn loan facilities of £18 million.

21. Creditors: amounts falling due after more than one year

	2007 £'000	2006 £'000
Housing loans	26,713	26,296
Recycled capital grant fund	313	329
	<u>27,026</u>	<u>26,625</u>

Housing loans are secured by fixed charges on housing properties. The interest rates are fixed at between 5.67% and 11.21% or vary with the market rate. The loans are repayable in the years 2015 to 2037. The loans are repayable as follows:

	2007 £'000	2006 £'000
Loans repayable by instalments fall due as follows:		
In five years or more	20,081	19,655
Between two and five years	1,719	1,655
Between one and two years	413	486
	<u>22,213</u>	<u>21,796</u>
In one year or less	403	467
	<u>22,616</u>	<u>22,263</u>
Loans repayable other than by instalments fall due as follows:		
In five years or more	4,500	4,500
Total housing loans	<u>27,116</u>	<u>26,763</u>

22. Share capital

	2007 £	2006 £
Shares of £1 each fully paid		
At beginning of year	46	54
Issued during the period for cash	1	-
Cancelled during the period	(6)	(8)
	<u>41</u>	<u>46</u>

Shareholders have no equity interest in the Association. The shares carry no rights to dividend payments or distribution on winding up. Shares cancelled or redeemed are written back to reserves.

Notes to the financial statements (continued)

For the year ended 31 March 2007

23. Reserves

	Goodwill £'000	Service equipment reserve £'000	Total £'000	General reserve £'000	2007 Total £'000	2006 Total £'000
At beginning of year	1,874	122	1,996	11,396	13,392	12,537
Surplus for the year	-	-	-	721	721	855
Transfers to reserves	-	109	109	(109)	-	-
Transfers from reserves	(19)	(94)	(113)	113	-	-
At end of year	<u>1,855</u>	<u>137</u>	<u>1,992</u>	<u>12,121</u>	<u>14,113</u>	<u>13,392</u>

24. Operating leases

Annual commitments under non-cancellable operating leases amount to £15,800 (2006 - £19,400), all of which expire within two to five years.

25. Capital commitments

	2007 £'000	2006 £'000
Contracted less certified	<u>8,658</u>	<u>3,746</u>

Another Registered Social Landlord within the Integrate consortium is currently developing a scheme for the Association. The land value for this scheme is £400,000 and is included in capital commitments. The developing association has drawn SHG of £1m which will be transferred to the Association next year.

26. Contingent liabilities

At 31 March 2007 there were no contingent liabilities.

27. Post balance sheet events

There were no events requiring reporting between the balance sheet date and the date on which these financial statements were approved.

Notes to the financial statements (continued) For the year ended 31 March 2007

28. Pension costs

The Association participates in the Social Housing Pension Scheme (SHPS). The Scheme is funded and is contracted out of the state scheme.

SHPS

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

The Scheme operated a single benefit structure, final salary with a 1/60th accrual rate, to March 2007. From April 2007 there are three benefit structures available, namely:

- Final salary with a 1/60th accrual rate
- Final salary with a 1/70th accrual rate
- Career average revalued earnings with a 1/60th accrual rate.

An employer can elect to operate different benefit structures for their active members (as at the first day of April in any given year) and their new entrants. An employer can only operate one open benefit structure at any one time. An open benefit structure is one which new entrants are able to join. The Association has elected to operate the first benefit structure i.e. final salary with a 1/60th accrual rate, for active members as at 1 April 2007 and final salary with a 1/60th accrual rate benefit structure for new entrants from 1 April 2007.

The Trustee commissions an actuarial valuation of the Scheme every 3 years. The main purpose of the valuation is to determine the financial position of the Scheme in order to determine the level of future contributions required, in respect of each benefit structure, so that the Scheme can meet its pension obligations as they fall due. From April 2007 the split of the total contribution rate between member and employer is set at individual employer level, subject to the employer paying no less than 50% of the total contribution rate.

The actuarial valuation assesses whether the Scheme's assets at the valuation date are likely to be sufficient to pay the pension benefits accrued by members as at the valuation date. Asset values are calculated by reference to market levels. Accrued pension benefits are valued by discounting expected future benefit payments using a discount rate calculated by reference to the expected future investment returns.

During the accounting period the Association paid contributions at the rate of 11.7%. Member contributions varied between 4.1% and 6.1% depending on their age. As at the Balance Sheet date there were 66 active members of the Scheme employed by the Association. It continues to offer membership of the Scheme to its employees.

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

The last formal valuation of the Scheme was performed as at 30 September 2005 by a professionally qualified actuary using the Projected Unit Method. The market value of the Scheme's assets at the valuation date was £1,278 million. The valuation revealed a shortfall of assets compared with the value of liabilities of £283 million, equivalent to a past service funding level of 82%.

Notes to the financial statements (continued)

For the year ended 31 March 2007

The Scheme Actuary has prepared an Actuarial Report that provides an approximate update on the funding position of the Scheme as at 30 September 2006. 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 £1,515 million and indicated a decrease in the shortfall of assets compared to liabilities to approximately £235 million, equivalent to a past service funding level of 87%. Annual funding updates of the SHPS Scheme are carried out using approximate actuarial techniques rather than member by member calculations, and will therefore not produce the same results as a full actuarial valuation. However they will provide a good indication of the financial progress of the scheme since the last full valuation.

Since the contribution rates payable to the Scheme have been determined by reference to the last full actuarial valuation the following notes relate to the formal actuarial valuation as at 30 September 2005.

The financial assumptions underlying the valuation as at 30 September 2005 were as follows:

	% pa
Investment return pre retirement	7.2
Investment return post retirement	4.8
Rate of salary increases to 30 September 2010	5.0
Rate of salary increases from 1 October 2010	4.0
Rate of pension increases	2.5
Rate of price inflation	2.5

The valuation was carried out using the PA92C2025 mortality table for non-pensioners and PA92C2013 mortality table for pensioners. The table below illustrates the assumed life expectancy in years for pension scheme members at age 65 using these mortality assumptions:

	Males	Females
Non-pensioners	20.4	23.3
Pensioners	19.4	22.4

The long-term joint contribution rates required from employers and members to meet the cost of future benefit accrual were assessed at:

	Long-term joint contribution rate (% of pensionable salaries)
Benefit structure	
Final salary with a 1/60th accrual rate	17.6
Final salary with a 1/70th accrual rate	15.3
Career average revalued earnings with a 1/60th accrual rate	14.1

Notes to the financial statements (continued) For the year ended 31 March 2007

If an actuarial valuation reveals a shortfall of assets compared to liabilities the Trustee must prepare a recovery plan setting out the steps to be taken to make up the shortfall.

Following consideration of the results of the actuarial valuation it was agreed that the shortfall of £283 million would be dealt with by the payment of deficit contributions of 4.4% of pensionable salaries with effect from 1 April 2007. These deficit contributions are in addition to the long-term joint contribution rates set out in the table above. With effect from 1 April 2007 the employer and employee contribution rates for the Association will be 14.1% and 6.4% to 8.4% of pensionable salaries respectively.

Employers that participate in the Scheme on a non-contributory basis pay a joint contribution rate (i.e. a combined employer and employee rate). Employers that have closed the Scheme to new entrants are required to pay an additional employer contribution loading of 3.0% to reflect the higher costs of a closed arrangement.

A small number of employers are required to contribute at a different rate to reflect the amortisation of a surplus or deficit on the transfer of assets and past service liabilities from another pension scheme into the SHPS Scheme.

Employers joining the Scheme after 1 October 2002 that do not transfer any past service liabilities to the Scheme pay contributions at the ongoing future service contribution rate. This rate is reviewed at each valuation and applies until the second valuation after the date of joining the Scheme, at which point the standard employer contribution rate is payable. Contribution rates are changed on the 1 April that falls 18 months after the valuation date.

If the valuation assumptions are borne out in practice this pattern of contributions should be sufficient to eliminate the past service deficit by 30 September 2020.

A copy of the recovery plan, setting out the level of deficit contributions payable and the period for which they will be payable, must be sent to the Pensions Regulator. The Regulator has the power under Part 3 of the Pensions Act 2004 to issue scheme funding directions where it believes that the actuarial valuation assumptions and/or recovery plan are inappropriate. For example the Regulator could require that the Trustee strengthens the actuarial assumptions (which would increase the scheme liabilities and hence impact on the recovery plan) or impose a schedule of contributions on the Scheme (which would effectively amend the terms of the recovery plan). The Regulator has reviewed the recovery plan for the SHPS Scheme and confirmed that, in respect of the September 2005 actuarial valuation, it does not propose to issue any scheme funding directions under Part 3 of the Pensions Act 2004.

The next full actuarial valuation will be carried out as at 30 September 2008. An Actuarial Report will be prepared as at 30 September 2007 in line with statutory regulations.

Following a change in legislation in September 2005 there is a potential debt on the employer that could be levied by the Trustee of the Scheme. The debt is due in the event of the employer ceasing to participate in the Scheme or the Scheme winding up. The debt for the Scheme as a whole is calculated by comparing the liabilities for the Scheme (calculated on a buyout basis i.e. the cost of securing benefits by purchasing annuity policies from an insurer, plus an allowance for expenses) with the assets of the Scheme. If the liabilities exceed assets there is a buy-out debt.

Notes to the financial statements (continued)

For the year ended 31 March 2007

The leaving employer's share of the buy-out debt is the proportion of the Scheme's liability attributable to employment with the leaving employer compared to the total amount of the Scheme's liabilities (relating to employment with all the currently participating employers). The leaving employer's debt therefore includes a share of any 'orphan' liabilities in respect of previously participating employers. The amount of the debt therefore depends on many factors including total Scheme liabilities, Scheme investment performance, the liabilities in respect of current and former employees of the employer, financial conditions at the time of the cessation event and the insurance buy-out market. The amounts of debt can therefore be volatile over time.

The Association has been notified by the Pensions Trust of the estimated employer debt on withdrawal from the Social Housing Pension Scheme based on the financial position of the Scheme as at 30 September 2005. As of this date the estimated employer debt for the Association was £6.1m.

Pensions Trust's Growth Plan

The Association participates in the Pensions Trust's Growth Plan. The Plan is funded and is not contracted out of the state scheme. The Growth Plan is a multi-employer pension plan. The Association offers the Growth Plan as an Additional Voluntary Contribution investment option for members of the Social Housing Pension Scheme. The members pay contributions at a rate of their choice. The Association does not pay any contributions to the Growth Plan.



united
welsh

United Welsh

Tŷ Cennydd,
Castle Street,
Caerphilly, CF83 1NZ
Tel: 029 2085 8100
Fax: 029 2085 8110

and at

Walters Building,
Clarence Road, Butetown,
Cardiff, CF10 5UU
Tel: 029 2085 8193
Fax: 029 2089 5500

Email: tellmemore@uwha.co.uk

web: www.uwha.co.uk

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