

Homes for Islington Board of Directors

Notice of Annual General Meeting 2007

7.00-9.00pm

The Annual General Meeting of Homes for Islington (the 'Company') will be held on Monday 5th November 2007, Board Room, Highbury House, 5 Highbury Crescent London N5 1RN

Agenda

Item	Subject
1.	Resolution 1: That the council member receives the accounts and reports of the Directors and the Auditors for the year ended 31 March 2007.
2.	Resolution 2: That the council member re-appoints Grant Thornton UK LLP, as the company's auditors'.
3.	Acceptance speech on behalf of the Council by Terry Stacy, Joint Deputy Leader and Executive Member for Housing & Communities.
4.	Guest speaker: Helen Evans, Chief Executive for Brent Housing Partnership and Kensington and Chelsea TMO.

Report of	Team	Job Title
David Selo	Chief Executive Directorate	Director of Resources

Name of Meeting	Date of Meeting	Agenda item	Status
HFI Annual General Meeting	5 th November 2007	1	Decision

Subject of Report: Directors Report and Financial Statements 2006/07

1. Synopsis

- 1.1 This report is the presentation by the Board of HFI of the Directors Report and Financial Statements for the 2006/07 financial year (1st April 2006 to 31st March 2007) to the Council representative for approval.
- 1.2 The report makes a recommendation to the Council representative on HFI's company auditors' for the next 12 months.

2. Recommendations

That the Board recommends:

- 2.1 The Directors Report and Financial Statements for 2006/07 to the Council representative for approval.
- 2.2 The appointment of the company auditors', Grant Thornton UK LLP, for next 12 months to the Council representative for approval.

3. Background

- 3.1 Homes for Islington Limited (HFI), as a limited company established under the Companies Act 1985, is required to keep accounting records for each accounting period. HFI's accounting period ends on 31st March each year. For 2006-7 HFI presents to both its member (the Council) and Companies House the following documentation:
 - directors' report signed by the Chair and the Company Secretary;
 - a balance sheet signed by the Chair and Company Secretary;
 - a profit and loss account;
 - an auditors' report signed by the auditor; and
 - notes to the accounts.
- 3.2 Section 233 of the Companies Act 1985 requires the Board to approve and sign the annual accounts. The Directors Report and Financial Statements 2006/07 are attached as Appendix A.
- 3.3 At its meeting on 15th October 2007 the Board approved the Directors Report and Financial Statements for 2006/07.

- 3.4 The company auditors' have issued their audit report, which is included with the Directors' Report and Financial Statements.
- 3.5 The Annual General Meeting on 23rd October 2006, appointed RSM Robson Rhodes LLP as the a company's auditors' for 2006/07 financial year. At the Board meeting on 20th August 2007 it was reported that on 20th July 2007 RSM Robson Rhodes LLP had resigned as HFI's auditors as a result of their merger with Grant Thornton UK LLP. The resignation gave rise to a casual vacancy. Under the provision of section 388 of the Companies Act 1985 the Board agreed to fill this casual vacancy by appointing Grant Thornton UK LLP.
- 3.6 At its meeting on 15th October 2007 the Board agreed to recommend to the Council representative at this Annual General Meeting, the reappointment as company auditors' Grant Thornton UK LLP for the next 12 months.

4.0 Implications

4.1 Financial implications

Included within the Directors Report and financial statements 2006/07.

4.2 Legal implications

Included within the report.

4.3 Equalities implications

None specific to this report.

4.4 Sustainability implications

None specific to this report.

4.5 Consultation Implications

None specific to this report.

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improving housing through partnership

Homes for Islington Limited

DIRECTORS' REPORT and FINANCIAL STATEMENTS

Company Limited by Guarantee

Company Registration Number 05063751

1st April 2006 – 31st March 2007

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Company Information

Board of Directors:

Director	Appointment	Retirement
Ann Lucas (Chair)		
Jessie White (Vice-Chair)		
Kathryn Barns		
Adam Borrie		
Steve Burd		16 th June 2006
Euan Cameron		16 th June 2006
Barbara Coventry		
Theresa Coyle		
William McGarvie		
Richard Greening		
Richard Rosser		4 th April 2006
Eddie Niles		
Louise Round		
Des Smith		
Stephen Town		
Jyoti Vaja	15 th May 2007	16 th June 2006
Claudia Webbe		
Caroline Jenkinson	19 th June 2006	
John Gilbert	19 th June 2006	
Barbara Sidnell	28 th July 2006	
Paula Belford	19 th June 2006	15 th May 2007

Company registration number: 05063751

Registered office:

Highbury House
 5 Highbury Crescent
 London N5 1RN

Advisors:

Secretary

Michael Sims
 Homes for Islington Ltd
 Highbury House
 5 Highbury Crescent
 London N5 1RN

Auditors

Grant Thornton UK LLP
 Bryanston Court
 Selden Hill
 Hemel Hempstead
 HP2 4TN

Bankers

The Co-operative Bank
Islington Branch
1 Islington High Street
London N1 9TR

Solicitors

London Borough of Islington
Law & Public Services
Islington Town Hall
London N1 2UD

Directors' report

The Directors present their annual report and the audited financial statements for the period 1st April 2006 to 31st March 2007.

Introduction – A message from the Chair

Homes for Islington Limited (HFI), one of the UK's largest arms length management organisations (ALMO), began operating in April 2004. It has responsibility for the management of approximately 37,000 properties throughout the borough. Owned by the London Borough of Islington (LBI), HFI is managed by a Board of Directors, made up of Islington tenants and leaseholders, council representatives and independent members.

In March 2005, our initial "fair one star service with promising prospects for improvement" rating from the Audit Commission progressed to a "good two star rating with excellent prospects for improvement". In 2006/7 we built upon a successful start for the new organisation and a 3 star action plan is underway for further inspection due in November 2007.

£175.8m additional funding is being released in stages up to 2010. The amount allocated by central government and spent by HFI, in delivering the government's Decent Homes Standard, for the years 2004-07 amounts to a total of £50.762M. The funding, just over £7,000 per home, allows HFI to improve kitchens and bathrooms and invest more on central heating, new windows and roofs, improved home security, damp proofing and insulation.

During the financial year 2006-07 HFI generated a surplus, excluding the effects of financial reporting standard 17 Retirement Benefits, of £300k. This will be reinvested in improving the management of the housing stock in 2007-08.

Our organisation is committed to continually improving service delivery to tenants and leaseholders, while increasing their involvement in all aspects of the services we provide.

Principal activities

HFI's principal activity during the year was the management and maintenance of the housing stock of the LBI and the management of the investment programme for the modernisation of the housing stock.

The company commenced trading on 5th April 2004. The company has adopted an accounting reference date to reflect LBI's financial year.

Under a management agreement with LBI, HFI receives a sum of money to carry out the business of managing and maintaining the housing stock on behalf of LBI. The Management Agreement was signed on 5th April 2004. The management fee for 2005/06 and 2006/07 was £41.6m and £42.7m respectively. In addition, HFI managed a capital programme of £75.1m in 2005/06 and £102.1m in 2006/07 on behalf of LBI: in respect of 2006/07 this can be analysed as follows: £81.7m HFI contracts and £20.4m LBI contracts.

The accounts presented in this report are for HFI's third year of operation.

The Board considers long-term business sustainability a high priority and has adopted a risk-based approach to managing the activities of the organisation throughout the year.

When Homes for Islington started in April 2004 it was estimated that 62% of the housing it managed did not reach the Government's Decent Homes Standard. At 31st March 2007, the number of homes below the Standard had fallen to 45%. During 2006/07 over £100m was spent in improving Islington's housing stock and it is anticipated that £96.8m will be spent in 2007/08. Since 2004 to 31st March 2007 HFI have installed 7,499 new kitchens and 4,684 new bathrooms.

Performance Indicators

HFI's performance is measured through a range of performance indicators. The table below gives HFI's performance for the percentage of invoices paid within 30 days (BVPI 8), proportion of rent collected (BVPI 66a), average re-let time (BVPI 212) and the average time taken to complete non-urgent repairs (LKPI 36).

PERFORMANCE INDICATOR	2004-05	2005-06	2006-07
BVPI 8	81.0%	96.0%	94.7%
BVPI 66a	95.8%	97.8%	98.2%
BVPI 212 (calendar days)	22*	26	23
LKPI 36 (days)	10	8	9
* previously LKPI 33 - calculated differently to subsequent years			

Resident Satisfaction

In 2006 we carried out a customer satisfaction survey to capture tenants' views on all aspects of our service, with 64% rating themselves as either satisfied or very satisfied. This is up from 52% in 2004. Satisfaction with the repairs service rose from 48% in 2004 to 65% in 2006. There were also high scores for:

- Overall satisfaction with accommodation 70%

- Finding HFI staff helpful 70%
- Keeping tenants informed 75%
- Ease of reporting a repair 80%
- Overall satisfaction with decent homes works 88%

Satisfaction with services has increased across the board in recent years:

Satisfaction levels	2002	2004	2006
Landlord services	41%	52%	64%
Opportunities to participate	26%	38%	53%
Repairs service	-	48%	65%
Keeping tenants informed	-	63%	74%
Taking views into account	-	64%	75%

Principal risks and uncertainties

Risk

The company's operations expose it to limited financial risks, these being credit and liquidity risk, and to a lesser extent interest rate risk.

The company's principal financial instruments comprise bank deposits, obligations under finance leases, trade debtors and creditors, that arise directly from its operations.

The main risks arising from the company's operations can be analysed as follows:

Credit Risk

The company's principal financial assets are bank balances and debtors, which represent the company's maximum exposure to credit risk in relation to financial assets.

The company's credit risk is primarily attributable to its debtors, of which 99% relates to amounts owing by its parent undertaking (LBI).

The company's concentration of credit risk is with its parent undertaking. However, by virtue of its relationship with LBI the company's credit risk is considered minimal.

The credit risk on liquid funds is limited because the counterparty is the CO-OP Bank, which has a high credit rating.

Liquidity Risk

To ensure the continuity of the company's business activities, funding requirements are assessed monthly, billed and settled accordingly.

Interest Rate Risk

Interest bearing assets comprise bank deposits held by the CO-OP Bank in a public sector reserve account, which earns interest at the bank base rate. The company's policy is to ensure that there are sufficient funds available in its

current account to meet its daily outgoings, any surplus cash remains in the reserve account ensuring that interest earned is maximised.

Uncertainty

The company's principal uncertainty is that it is bound by a management agreement, between the company and its parent undertaking LBI. The Council is at liberty to terminate this agreement subject to the requisite notice period and conditions. However, the Council's medium to long term strategy supports the continuance of this agreement.

Employment of people with disabilities

The company has signed up to the disability symbol with the Jobcentre Plus. This means that the company has agreed to take the necessary action in order to meet five commitments regarding the employment, retention, training and career development of employees with disabilities. This includes, among other actions, interviewing all applicants with disabilities that meet the minimum criteria for a job vacancy and making reasonable adjustments to enable the person to perform the duties of the post.

Employee involvement

The company seeks to engage all employees in both its short and long term goals. This is achieved through a number of communication methods such as senior management briefings, focus groups, staff conferences, newsletters and the intranet.

The Chief Executive chairs the staff involvement group where issues affecting employment and the working environment are discussed. There are other vehicles to ensure staff contribute to the formulation of policy around customer service, business efficiency and performance improvement, which include staff/managers conferences and focus groups.

Legal status of Company

The company is a local authority controlled company within the meaning of Part V of the *Local Government and Housing Act 1989*, being under the control of LBI.

HFI is limited by guarantee and does not have any share capital. LBI, the sole member of the organisation, undertakes, in the event of the company being wound up, to contribute such amount as may be required for the payment of the debts and liabilities of the company providing this amount does not exceed one pound. After the satisfaction of all the debts and liabilities the remaining assets will be transferred to LBI's Housing Revenue Account (as defined in the *Local Government & Housing Act 1989*.)

Composition of the Board

A Board of non-executive directors runs the company and comprises:

- 5 Council Directors
- 7 Resident Directors
- 5 Independent Directors

The composition of the Board reflects the range and mix of skills and experience required for the effective management of the company. A Chief Executive and senior management team support the Board, which is responsible for the day to day running of the company.

Directors' Responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice. Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

Select suitable accounting policies and then apply them consistently;

Make judgements and estimates that are reasonable and prudent;

State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;

Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' Interests

The directors who held office during the year are set out on page 2. The London Borough of Islington is the sole Member of the company. A register of Directors' interests is maintained at Highbury House.

Proposed dividend

The company has been set up not to accumulate profits.

Political contributions

The company made no contributions to political organisations in 2006/07.

Charitable contributions

The company made no contributions over £200 to charitable organisations in 2006/07.

Disclosure of information to auditors

At the date of making this report each of the company's directors, as set out on page 2, confirm the following:

In so far as each director is aware, there is no relevant information needed by the company's auditors in connection with preparing their report of which the company's auditors are unaware.

Each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant information needed by the company's auditors in connection with preparing their report and to establish that the company's auditors are aware of that information.

Auditors

RSM Robson Rhodes LLP (Robson Rhodes) merged its practice with that of Grant Thornton UK LLP (Grant Thornton) with effect from 2nd July 2007, with the successor firm being Grant Thornton. Robson Rhodes resigned as auditors on 20th July 2007, creating a casual vacancy, which the directors filled by appointing Grant Thornton.

In accordance with section 385 of the *Companies Act 1985* a resolution to re-appoint Grant Thornton UK LLP as auditors will be proposed at the annual general meeting.

By order of the Board and signed on its behalf by:

Signatures:



Ann Lucas

Chair

Dated: 15/10/07



Michael Sims

Company Secretary

Dated: 15/10/07

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF HOMES FOR ISLINGTON LIMITED

We have audited the financial statements of Homes for Islington Limited for the year ended 31 March 2007 which comprise the principal accounting policies, the profit and loss account, the balance sheet, the statement of total recognised gains and losses, cash flow statement and notes 1 to 24. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Directors' Report and financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' 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 and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' 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 directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company'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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2007 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Grant Thornton UK LLP

GRANT THORNTON UK LLP
REGISTERED AUDITOR
CHARTERED ACCOUNTANTS

Hemel Hempstead

17 October 2007

Profit and Loss Account

for the period 1st April 2006 - 31st March 2007

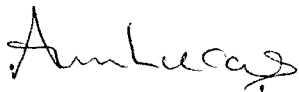
	Note	2007	2006
		£	£
Turnover: continuing operations	2	52,434,120	51,745,162
Operating costs	3	(53,980,935)	(51,258,635)
Operating profit / (loss): continuing operations	5	(1,546,815)	486,527
Interest receivable		156,761	106,192
Other finance income / (costs)	4	87,000	(15,000)
Profit / (loss) on ordinary activities before taxation		(1,303,054)	577,719
Tax charge on profit on ordinary activities	9	(32,946)	(26,719)
Profit / (loss) on ordinary activities after taxation		(1,336,000)	551,000
Brought forward profit / (loss)		(15,000)	(566,000)
Carried forward profit / (loss)	15	(1,351,000)	(15,000)

Balance Sheet

as at 31st March 2007

	Note	2007	2006
		£	£
Fixed assets			
Tangible assets	7	310,853	284,105
Current assets			
Debtors	10	17,598,426	10,805,429
Cash at bank and in hand	22	1,776,021	760,743
		19,374,447	11,566,172
Creditors: Amounts falling due within one year	11	(18,294,977)	(10,606,994)
Net current assets		1,079,470	959,178
Creditors: Amounts falling due after one year	12	(168,512)	(170,668)
Provisions for liabilities and charges	13	(921,811)	(1,072,615)
Net assets excluding pension assets / (liabilities)		300,000	-
Pension assets / (liabilities)			
Pension liability	23	(17,892,000)	(10,199,000)
Net assets including pension assets / (liabilities)		(17,592,000)	(10,199,000)
Capital and reserves			
Profit and loss reserve		(1,351,000)	(15,000)
Pension reserve		(16,241,000)	(10,184,000)
Shareholders' deficit	15	(17,592,000)	(10,199,000)

The financial statements were approved by the Board on 15th October 2007 and signed on its behalf by:



Ann Lucas
Chair

Date: 15/10/07



Michael Sims
Company Secretary

Date: 15/10/07

Statement of total recognised gains and losses

for the period 1st April 2006 - 31st March 2007

	Note	2007	2006
		£	£
Retained surplus / (loss) for the year		(1,336,000)	551,000
Actuarial gains / (losses) relating to the pension scheme	23	(6,057,000)	(1,915,000)
Total recognised gains and losses for the year		(7,393,000)	(1,364,000)
Prior year adjustment		-	(8,835,000)
Total gains and losses recognised since last annual report		(7,393,000)	(10,199,000)

Reconciliation of movements in shareholders' funds

for the period 1st April 2006 - 31st March 2007

	Note	2007	2006
		£	£
Opening shareholders' funds as previously stated		(10,199,000)	-
Prior year adjustment		-	(8,835,000)
Opening shareholders' funds as restated		(10,199,000)	(8,835,000)
Total recognised gains and losses for the period		(7,393,000)	(1,364,000)
Closing shareholders' funds		(17,592,000)	(10,199,000)

Cash Flow Statement

for the period 1st April 2006 - 31st March 2007

	Note	2007	2006
		£	£
Net cash inflow from operating activities	20	1,083,654	(2,582,124)
Returns on investments and servicing of finance			
Interest received		144,363	106,192
Interest element of Finance lease	5	(3,549)	(1,508)
Taxation			
Tax paid	9	(24,940)	(9,359)
Capital expenditure	7	(169,592)	(217,718)
Financing			
Capital element of finance lease		(14,658)	(4,561)
Net Financing		(14,658)	(4,561)
Increase / (decrease) in cash in the year	21	1,015,278	(2,709,078)

Notes to the Financial Statements

31st March 2007

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are required by Section 226 of the *Companies Act 1985* and are prepared in accordance with applicable accounting standards in the United Kingdom.

Basis of preparation of the financial statements

The financial statements are prepared under the historical cost convention and on an accruals basis.

Homes for Islington (HFI), along with many other companies is obliged to adopt the accounting adjustments as specified in FRS17 (Financial Reporting Standard-Retirement Benefits), as a result the balance sheet reflects net pension liabilities of £17.892m at 31st March 2007.

There has been a significant year on year increase in the FRS17 net pensions liability in the amount of £7.693m, this has arisen, in the main, because more contemporary mortality tables have been applied in the assessment of the future pensions liability.

HFI participates in LBI's Local Government Pension Scheme, the actuary employed by the scheme, determines the employer contribution rate & consequently the amount payable required to keep the pension fund in balance in the medium term.

HFI's management fee incorporates any variations to amounts payable in respect of employer pension contributions as deemed necessary by the actuary in order to manage any deficit or surplus that may arise.

Therefore, the FRS17 deficit in the sum of £17.892m is not considered detrimental to the long term viability of the company & consequently the accounts have been prepared on a going concern basis.

Comparative data

Audited comparative data for year 2006 has been presented in order to provide an understanding of the year on year changes in the financial position of HFI.

Turnover

Turnover consists of the invoiced value (excluding VAT) for goods and services supplied, except where the amount of VAT incurred is not recoverable from HM Customs & Revenue. All turnover arises in the United Kingdom.

Excluded from the turnover figure is the recovery of money spent by HFI directly on the capital programme managed on behalf of the LBI.

Interest

HFI operates a high interest savings account at the Co-operative Bank PLC. Funds are available at call, interest income is recognised on a receivable basis.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash

Cash includes notes and coins held and any deposits held at call with a bank or financial institution. Cash is recognised at its nominal amount.

Provisions

Legal Provision

A provision has been made for outstanding legal disrepair cases where it is probable that HFI will be making a compensation payment to the tenant and a reliable estimate can be made.

Provisions for doubtful debts

Provision has been made in the statements for doubtful debtors.

Leases

A distinction is made between finance leases, which effectively transfers from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased fixed tangible assets, and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Operating lease rentals are charged against the profit and loss account on a straight line basis over the term of the lease except where the contractual payment terms are considered to be a more systematic and appropriate basis.

HFI entered into a finance lease in 2005-06 in respect of the home computer initiative.

Assets held under finance leases are capitalised in the balance sheet and are depreciated over their useful lives. The capital element of future obligations under leases are included as liabilities in the balance sheet.

Lease payments are apportioned between finance charges and a reduction to the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are attributed directly to the P&L.

Tangible fixed assets and depreciation

The majority of assets used by HFI are owned by LBI and provided to HFI free of charge or under an operating lease.

In accordance with LBI's policy any individual asset with a value of less than £20,000 is written off to the P&L in the year of acquisition.

Individual assets with a value in excess of £20,000 are recognised and depreciated at rates calculated to write off the costs on a straight-line basis over their useful economic lives as follows:-

Computer Equipment: 2 - 3 years

Office Equipment: 2 - 3 years

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement Benefits

HFI's pension scheme is a defined benefit scheme based on final pensionable salary. The assets of the scheme are held separately from those of HFI in an independently administered fund.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality bond of equivalent term & currency to the liability.

The FRS17 pension scheme surplus (to the extent to which it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is allocated between the P&L (operating costs & other finance charges/income) and the statement of total recognised gains & losses.

The pension reserve represents the impact of actuarial gains & losses, which have been accounted for in the statement of total recognised gains & losses.

Tax

The charge for taxation is based on profits for the year after taking into account the effects of non-trading status.

Deferred Income

The management fee received in respect of the acquisition of tangible fixed assets is credited to the deferred income account and released to the P&L in line with the depreciation of the fixed assets.

Notes to the Financial Statements

31st March 2007

2 ANALYSIS OF TURNOVER

Turnover is wholly attributable to the principal activities of the company and arises solely within the United Kingdom.

	2007	2006
	£	£
Management fee paid by London Borough of Islington in respect of:		
Housing management and support services	42,718,737	41,634,692
Delivery of the 'Decent Homes Standard'	9,261,264	9,661,614
Sub total	<u>51,980,001</u>	<u>51,296,306</u>
Other income - LBI	417,699	429,310
Other income - Other external sources	36,420	19,546
	<u>52,434,120</u>	<u>51,745,162</u>

3 OPERATING COSTS

Analysis of operating costs by activity is as follows:

	2007	2006
	£	£
Expenses by division:		
Operations	28,149,811	31,792,036
Property Services	15,215,047	14,433,427
Resources	8,893,077	5,599,172
FRS17 pension adjustments:-		
Current service cost	3,943,000	3,122,000
Past service cost on settlements / curtailments	-	(1,708,000)
Employer contributions	(2,220,000)	(1,980,000)
	<u>53,980,935</u>	<u>51,258,635</u>

4 OTHER FINANCE INCOME / (COSTS)

	2007	2006
	£	£
Expected return on Pension Fund assets	3,586,000	2,991,000
Interest on Pension Fund liabilities	(3,499,000)	(3,006,000)
	<u>87,000</u>	<u>(15,000)</u>

5 OPERATING PROFIT: CONTINUING OPERATIONS

Operating profit on continuing operations is stated after charging:

	2007	2006
	£	£
Auditors' remuneration - statutory audit	26,650	25,750
Operating lease costs - land and buildings	1,130,375	1,075,750
Depreciation of finance asset	15,747	5,249
Finance charges payable on finance lease	3,549	1,508
	<u>1,176,321</u>	<u>1,108,257</u>

6 EMPLOYEES

	2007	2006
	No.	No.
The average number of persons employed by the Company during the year was:	738	745
Employees by division:		
Operations	515	514
Property Services	153	148
Resources	70	83
	<u>738</u>	<u>745</u>

The aggregate payroll costs of these persons were as follows:

	2007	2006
	£	£
Wages and salaries	22,192,462	20,217,676
Social security costs	1,776,499	1,623,115
Pension costs	2,161,751	2,054,851
	<u>26,130,712</u>	<u>23,895,642</u>

7 TANGIBLE ASSETS

	Plant, Equipment & Vehicles	Computer Equipment	Total
	2007	2007	2007
	£	£	£
Cost at 1st April	217,718	127,925	345,643
Additions	133,367	36,225	169,592
Disposals	-	-	-
At 31st March	351,085	164,150	515,235
Depreciation			
At 1st April	(2,500)	(59,038)	(61,538)
Charge for year	(94,165)	(48,679)	(142,844)
Disposals	-	-	-
At 31st March	(96,665)	(107,717)	(204,382)
Net book value at 1st April	215,218	68,887	284,105
Net book value at 31st March	254,420	56,433	310,853

The net book value of tangible assets includes £26,246 (2006: £47,242) in respect of assets held under finance leases. Depreciation charged in the year on those assets amounted to £15,747 (2006: £5,249).

8 DIRECTORS REMUNERATION

The Directors are defined as being the members of HFI's main board. None of the directors currently receive any emoluments but they are entitled to the reimbursement of incidental expenses incurred when attending board meetings and other formal events in their capacity as members of the board.

9 TAXATION

The taxation charge for the year is analysed below:

	2007	2006
	£	£
Current taxation:		
United Kingdom Corporation tax	32,946	24,940
Balance of tax payable in respect of 2005	-	1,779
Tax charge on profit on ordinary activities	<u>32,946</u>	<u>26,719</u>

Factors affecting the tax charge for the current year:

The tax charged for the year is less than the standard rate of corporation tax in the United Kingdom (30%) as explained below:

	2007	2006
	£	£
Profit (loss) on ordinary activities for the year	<u>(1,303,054)</u>	<u>577,719</u>
Theoretical tax at UK corporation tax of 30%	(390,920)	173,317
Less effects of:		
Turnover not taxed as a result of non-trading status	(15,745,410)	(15,509,799)
Expenses not deductible as a result of non-trading status	16,188,350	15,375,861
Small companies tax relief (UK tax rate for small companies is 19%)	(19,074)	(14,439)
Actual current tax charge	<u>32,946</u>	<u>24,940</u>

In line with other ALMOs, HFI Limited believes that its activities with LBI do not amount to a trade for corporation tax purposes. This is on the basis of guidance issued by HM Revenue & Customs' (HMRC) which states that the relationship between an ALMO and its parent council, as they understand it, lacks the necessary level of commerciality for the activities to be considered a trade for corporation tax purposes. Any surpluses arising, and similarly any losses, are therefore outside the scope of corporation tax. The guidance issued by HMRC does not provide any definitive list of the matters which determine non trading status.

An application was made in May 2006 on the company's behalf to HMRC to obtain confirmation that HFI is correct in assuming non-trading status in respect of its financial relationship with LBI. No definitive answer has been provided by HMRC. However KPMG LLP received confirmation from HMRC in June 2006 that the taxable profits reflected in the company tax return for the period ended 31 March 2005 were acceptable on the basis that the company is a non-trading entity in respect of its transactions with LBI. While there have been some small amendments to the legal relationship between HFI and LBI since this date it would seem acceptable in KPMG LLP's view to continue to prepare the accounts on the assumption that non-trading status will be granted.

10 DEBTORS

	2007	2006
	£	£
Trade debtors	89,248	104,447
Bank Interest	12,400	-
Less provision for doubtful debt	(33,723)	(29,757)
Other debtors	32,369	35,764
Finance lease receivable	1,777	688
Prepayments	29,775	10,990
Amount owed by parent undertaking (LBI)	17,476,821	10,759,144
Less provision for doubtful debt	(10,241)	(75,847)
	<u>17,598,426</u>	<u>10,805,428</u>

11 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2007	2006
	£	£
Trade creditors	449,514	2,575,119
Corporation tax	32,946	24,940
Other taxation and social security	1,274,303	1,395,329
Accrued expenses & deferred income	11,901,077	2,643,033
Amount owing to parent undertaking (LBI)	4,620,898	3,953,915
Obligations under finance leases	16,239	14,658
	<u>18,294,977</u>	<u>10,606,994</u>

12 CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	2007	2006
	£	£
Amount owing to parent undertaking (LBI)	137,392	142,645
Accrued expenses & deferred income	19,335	-
Total obligations under finance leases are payable as follows:		
Between one and two years	11,785	16,239
Between two and five years	-	11,784
In five or more years	-	-
	<u>168,512</u>	<u>170,668</u>

13 PROVISIONS FOR LIABILITIES AND CHARGES

	2006	2005
	£	£
Balance as at 1st April	1,072,615	1,166,021
Charge to the profit and loss for the year	(150,804)	(93,406)
Balance as at 31st March	<u>921,811</u>	<u>1,072,615</u>
Comprises:		
Legal disrepair compensation	<u>921,811</u>	<u>1,072,615</u>

14 SHARE CAPITAL

The company is limited by guarantee and does not have any called-up share capital.

15 RESERVES

	Pension Reserve	Profit and loss reserve	Total
	£	£	£
At 1st April 06	(10,184,000)	(15,000)	(10,199,000)
Profit and loss	-	(1,336,000)	(1,336,000)
Actuarial gain / (loss)	(6,057,000)	-	(6,057,000)
At 31st March 07	<u>(16,241,000)</u>	<u>(1,351,000)</u>	<u>(17,592,000)</u>

16 RELATED PARTY TRANSACTIONS

HFI is a local authority controlled company of the LBI with no share capital and limited by guarantee.

A number of agreements exist between HFI and LBI; namely a management agreement setting out the services to be provided by HFI and a number of Islington support service contracts setting out services to be provided to HFI by LBI.

Under the management agreement, HFI receives the majority of its funding in the form of a management fee, in addition HFI invoice LBI for additional services provided (refer to Note 2 for further details.)

HFI make payments to LBI for the provision of administrative services (ie payroll) and professional services (ie legal) in accordance with the support service contracts.

HFI's accommodation is leased from LBI (refer to Note 17 for further details.)

Details as to the status and composition of the Board of Directors is given in the Directors' Report.

Transactions and balances with group and related undertakings:

	2007	2006
	£	£
Net P&L transactions with parent:		
Expenses charged by parent	(15,663,817)	(18,227,896)
Income from parent - management fee	51,980,001	51,296,306
Income from parent - other	417,699	429,310
	<u>36,733,883</u>	<u>33,497,720</u>
Net debtor (creditor) relating to parent:		
Debtors balance relating to parent	215,973	161,930
Accrued income relating to parent	7,638,839	7,751,708
Accrued income arising from the delivery of the 'Decent Homes Standard' relating to parent	9,622,009	2,845,506
Creditors balance relating to parent	(222)	(1,041,495)
Accrued expenses and deferred income relating to parent	(4,758,068)	(3,044,006)
Accrued expenses arising from the delivery of the 'Decent Homes Standard' relating to parent	-	(11,059)
	<u>12,718,531</u>	<u>6,662,584</u>
Fixed asset relating to parent:		
Tangible fixed assets purchased from parent	<u>133,367</u>	<u>217,718</u>

16 RELATED PARTY TRANSACTIONS (Continued)

	2007	2006
	£	£
Delivery of the 'Decent Homes Standard' managed on behalf of LBI:		
Expenditure incurred in delivering the 'Decent Homes Standard'	81,733,072	62,696,518
Costs recovered from LBI	81,733,072	62,696,518

HFI acts as LBI's agent in terms of delivering the 'Decent Homes Standard' in respect of LBI owned social housing stock. Costs incurred in this respect cover a range of enhancements to properties, including for example: - refurbishment of externals (including kitchens & bathrooms, replacement and/or refurbishment of lifts, boilers and wiring).

The payment protocol requires that immediately prior to the payment of contract certificates HFI recovers the value of the certificates from LBI. All costs associated with the enhancement of assets owned by LBI and the recovery of these costs are processed through HFI's balance sheet.

17 FINANCIAL COMMITMENTS**Operating lease commitments:**

The payments which the company is committed to make in the next year under operating leases are as follows:

	2007	2006
	£	£
(i) Land and buildings, leases expiring:		
within one year	12,341	30,242
one to five years	-	-
beyond five years	1,023,125	1,063,750
	<u>1,035,466</u>	<u>1,093,992</u>

Capital Contractual commitments:

	2007	2006
	£	£
The payments which the company is committed to make in the next year under 'Decent Homes Standard' capital contracts:	<u>54,240,337</u>	<u>46,944,719</u>

18 CONTINGENT LIABILITIES

The company is party to certain legal actions arising in the ordinary course of business. Whilst the outcome of these cases is uncertain, the directors believe, on the basis of advice received, that no material loss to the company will occur.

The largest case is estimated at £100,000, however, under HFI's insurance policy the maximum payment possible is £500 insurance excess per case.

19 POST BALANCE SHEET DATE EVENTS

There were no post balance sheet date events in 2006/07.

20 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2007	2006
	£	£
Operating profit (loss)	(1,546,815)	486,527
Movement in provisions	(150,804)	(93,406)
FRS17 Current service cost	3,943,000	3,122,000
FRS17 Employer contributions	(2,220,000)	(1,980,000)
FRS17 Past service costs on settlements / curtailments	-	(1,708,000)
Finance lease receivable	1,089	688
Finance lease	18,207	6,069
Depreciation	127,097	29,395
(Increase) in debtors	(6,780,598)	(4,803,964)
Increase in creditors	7,692,478	2,358,567
Net cash inflow from operating activities	<u>1,083,654</u>	<u>(2,582,124)</u>

21 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	2007	2006
	£	£
Increase in cash	1,015,278	(2,709,078)
Opening net funds 1st April 06 / 1st April 05	760,743	3,469,821
Closing net funds 31st March	<u>1,776,021</u>	<u>760,743</u>

22 ANALYSIS OF NET FUNDS

	At 1st April 2006	2007	At 31st March 2007
	£	£	£
Cash at bank and in hand	760,743	1,015,278	1,776,021
Net debt	<u>760,743</u>	<u>1,015,278</u>	<u>1,776,021</u>

23 PENSIONS - FRS17 RETIREMENT BENEFITS

In accordance with the requirements of FRS17 - Retirement Benefits, the following monetary items have been recognised in the company's primary financial statements (see also notes 3 & 4).

HFI participates in the LBI's Local Government Pension Scheme and made contributions of £2.220m in 2006-07. The scheme is a defined benefit pension scheme based on final pensionable salary.

It has been agreed that an employer contribution rate of 10.80% of pensionable pay will apply in the financial year 2007-08.

The most recent valuation was carried out on 31st March 04 by a qualified independent actuary Mercer Human Resources Consulting Ltd.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured on an actuarial basis using the projected unit method, which assesses future liabilities discounted to their present value.

The major financial assumptions used by the actuary were:

	@31st March.07	@31st March.06
Rate of increase in salaries	4.85%	4.65%
Rate of increase in pensions	3.10%	2.90%
Discount rate	5.40%	4.90%
Inflation rate	3.10%	2.90%

The assets in the scheme and the expected rate of return were:

	Long-term rate of return expected at 31st March.07	Long-term rate of return expected at 31st March.06
Equities	7.50%	7.00%
Government bonds	4.70%	4.30%
Other bonds	5.40%	4.90%
Property	6.50%	6.00%
Cash	5.25%	4.50%
Other	7.50%	0.00%
HFI's share of the Total market value of assets	66,667,000	58,485,000
Present value of scheme liabilities in respect of HFI employees	<u>(84,559,000)</u>	<u>(68,684,000)</u>
HFI's surplus / (deficit) in the scheme	<u>(17,892,000)</u>	<u>(10,199,000)</u>

23 PENSIONS - FRS17 RETIREMENT BENEFITS (Continued)

The proportions of total assets held in each asset type, as shown below, reflect the proportions held by the fund as a whole at:-

	31st March.07	31st March.06
Equities	70.70%	72.30%
Government bonds	9.40%	10.50%
Other bonds	10.50%	10.70%
Property	3.70%	4.10%
Cash	1.10%	2.40%
Other	4.60%	0.00%

The fair value of each assets type held is as follows:-

	Fair Value at 31st March.07	Fair Value at 31st March.06
Equities	47,133,000	42,284,000
Government bonds	6,267,000	6,141,000
Other bonds	7,000,000	6,258,000
Property	2,467,000	2,398,000
Cash	733,000	1,404,000
Other	3,067,000	-

The movement in surplus / (deficit) during the year is as follows:

	31st March.07	31st March.06
Surplus / (deficit) at the beginning of the year	(10,199,000)	(8,835,000)
Movement in year:		-
Current service cost	(3,943,000)	(3,122,000)
Employer contributions	2,220,000	1,980,000
Past service costs & gain / (loss) on settlements / curtailments	-	1,708,000
Financing income / (costs):		
Expected return on Pension Fund assets	3,586,000	2,991,000
Interest on Pension Fund liabilities	(3,499,000)	(3,006,000)
Total Financing income / (costs)	87,000	(15,000)
Total actuarial gains / (losses)	(6,057,000)	(1,915,000)
Net surplus / (deficit) at year end	<u>(17,892,000)</u>	<u>(10,199,000)</u>

The actuarial gain / (loss) can be further analysed as follows:

Actual return less expected return on pension scheme assets	850,000	7,828,000
Experience gains and (losses) arising on the scheme liabilities	(5,100,000)	(2,904,000)
Changes in assumptions underlying the present value of the scheme liabilities	(1,807,000)	(6,839,000)
Actuarial gain (loss) recognised in the STRGL	<u>(6,057,000)</u>	<u>(1,915,000)</u>

23 PENSIONS - FRS17 RETIREMENT BENEFITS (Continued)

	31st March.07	31st March.06
History of experience gains and losses:		
Difference between the expected and actual return on scheme assets:		
Amount	850,000	7,828,000
% of scheme assets	1.30%	13.40%
Experience gains and losses on scheme liabilities:		
Amount	(5,100,000)	(2,904,000)
% of scheme Liabilities	6.00%	4.20%
Changes in assumptions underlying the present value of the scheme:		
Amount	(1,807,000)	(6,839,000)
% of scheme Liabilities	2.10%	9.96%

HFI's admission to LBI's pension fund commenced on 5th April 04. The initial deficit on HFI's share of the fund measured under FRS17 is due to the difference in triennial valuation assumptions and assumptions used to measure the liabilities under FRS17. The triennial valuation assumptions were used as a basis for setting the initial employer contribution rate with effect from 5th April 2004. HFI's share of the pension fund liabilities were deemed fully funded as at 5th April 04.

24 GUARANTEE BY MEMBER

In the event of winding-up or dissolution of the company, under the terms of the guarantee, the liability of LBI as sole shareholder shall be limited to £1.

