

HEART OF ENGLAND HOUSING & CARE LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2009

HEART OF ENGLAND HOUSING & CARE LIMITED

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**Industrial and Provident
Society Number 28885R**

HEART OF ENGLAND HOUSING & CARE LIMITED

BOARD MEMBERS, EXECUTIVE OFFICERS AND AUDITORS

Registered Name Heart of England Housing and Care Limited

Registered Office 10 Greenhill Street
Stratford-upon-Avon
Warwickshire
CV37 6LG

Board of Management (The Board)

The Members set out below have held office during the whole of the period from 1 April 2008 to the date of this report unless otherwise indicated:

Chair	Steve Phillips (to 31/7/09)
Vice Chair	David Ashbourne (to 19/8/08)
Vice Chair	Robin Richmond (from 21/10/08)
	Lindsay Dennish
	Judith Lockhart (to 21/7/09)
	Rosemary Ratcliffe
	Robin Richmond (to 21/10/08)
	Carol Thompson
	Frances Wright

Senior Management Team

Managing Director	Sharon Blackburn (to 30/4/09)
Interim Managing Director	Paul Rabbetts (from 1/5/09)
Director of Care	John McCarthy
Assistant Director of Care	Michelle Shawcross

External Auditors

KPMG LLP
2 Cornwall Street
Birmingham
B3 2DL

Legal Advisors

Needham & James
Needham & James House
Bridgeway
Stratford-upon-Avon
Warwickshire
CV37 6YY

HEART OF ENGLAND HOUSING & CARE LIMITED

OPERATING AND FINANCIAL REVIEW

On 1 April 2008 the Company became a member of the Orbit Group as a result of the merger between the Orbit and Heart of England Groups. The company is now a subsidiary of Orbit Group Ltd.

NATURE OF THE BUSINESS

The principal activity of the Company is the operation of residential care homes for elderly people.

The Company's Mission is "to meet the needs of our clients by providing high quality accommodation and services".

The Company operates 9 homes (449 beds and 111 daycare places) all in Worcestershire where it is the largest single operator in the county. All homes have facilities for residential clients and for daycare clients.

The Company is regulated by the Care Quality Commission (CQC) previously Commission for Social Care & Inspection (CSCI). All the homes and the managers have been registered with them.

The accommodation and services have to comply with the requirements of the Care Standards Act 2000 and this is tested by regular inspection by CQC (previously CSCI). They publish reports on their findings.

The Company is governed by a Board of Management composed of seven to fifteen non-executive members. The Company has representation on the Board of the Parent (Orbit Group).

The Company is managed by a senior management team headed by a Managing Director and supported by a Director and Assistant Director of Care. Senior management team members attend Board meetings. Overall strategic direction and central support services are provided by the Parent.

Objectives and Strategy

The objectives and strategy of the Company are set out in a business plan that is reviewed annually and approved by the Board.

The business planning process includes an assessment of strengths and weaknesses, opportunities and threats which are discussed annually between the senior management team and the Board.

The Company's main objectives and strategies for both the past year and the coming year are summarised in the next table.

HEART OF ENGLAND HOUSING & CARE LIMITED

OPERATING AND FINANCIAL REVIEW

NATURE OF THE BUSINESS (continued)

Objectives and strategy (continued)

	Objectives	Strategy
Asset management	To maintain full compliance with the Care Standards Act 2000 and to offer higher standards than competitors	<ul style="list-style-type: none">• refurbishment programmes reviewed annually based on stock surveys• complete extension works at Ravenhurst
Corporate responsibility	To employ staff locally	<ul style="list-style-type: none">• offer competitive terms and training programmes
	To support the needs of the public and voluntary sectors	<ul style="list-style-type: none">• work with local authorities and local partners
	Commitment to Diversity	<ul style="list-style-type: none">• to apply through admission and recruitment policies
Personal Care	To provide high quality services	<ul style="list-style-type: none">• monitor performance against targets
	To seek continuous improvement	<ul style="list-style-type: none">• use Best Value techniques to challenge and improve services to residents and clients
	To undertake annual resident and relatives review meetings	<ul style="list-style-type: none">• use customer feedback to ensure quality
Finance	To meet targets sufficient to maintain adequate financial strength, support growth and refurbishment	<ul style="list-style-type: none">• continuous update of 30 year financial plan
	To meet lenders' covenants	<ul style="list-style-type: none">• assessment of impact of new investment on financial plan
	To have funding in place to finance all expected expenditure over next 5 years	<ul style="list-style-type: none">• facilities already in place
	To ensure Value for Money in all services provided	<ul style="list-style-type: none">• review procurement to maximise purchasing power

HEART OF ENGLAND HOUSING & CARE LIMITED

OPERATING AND FINANCIAL REVIEW

NATURE OF THE BUSINESS (continued)

Measures

The next table lists some of the key indicators used by senior management and the Board to monitor achievement of these objectives.

Corporate responsibility	<ul style="list-style-type: none">• reporting to board
Personal care	<ul style="list-style-type: none">• CQC (CSCI) reports• complaints/compliments
Financial	<ul style="list-style-type: none">• management accounts/budgets• loan covenants<ul style="list-style-type: none">○ interest cover○ gearing• occupancy levels• ratio of staff costs to turnover• average fee rates

OPERATING REVIEW

Performance in year

Turnover and operating surplus is reported in notes 5 and 6. This can be summarised as follows:

£000	Turnover		Operating Surplus	
	2009	2008	2009	2008
Care Services	10,536	9,747	1,304	1,196

Investment for the future

The Board is committed to spending sufficient each year to maintain its accommodation.

HEART OF ENGLAND HOUSING & CARE LIMITED

OPERATING AND FINANCIAL REVIEW

FINANCIAL REVIEW

The principal aim of this section is to explain the capital structure of the Company, its treasury policy, its sources of liquidity and their application including the implications of the financing requirements arising from its investment plans.

The main accounting policies that are critical to the results of the Company are the method of accounting for capital valuation, depreciation and debt repayment.

Capital structure and treasury policy

Borrowings at the year end were £15.6 million, borrowed wholly from Lloyds TSB. A further £186k can be drawn from this facility. Additionally, £2.45 million is owed to Orbit Heart of England being the sum of the outstanding instalments in respect of the purchase of the Care Homes in 2006.

Treasury management is the responsibility of the Orbit Group. Strategy is set annually and approved by the Group Board. The policy during the year was to maintain between 60% and 80% of borrowings at fixed rates of interest of more than one year. In response to the extreme volatility in the capital markets, the Group Board approved additional fixings to protect the Company. This resulted in the percentage of fixed rate borrowings exceeding the policy.

The Company did not make use of hedging instruments other than to fix variable rate debt. It borrowed only in sterling and so did not have any currency risk.

Current liquidity

Cash and bank balances at the year-end were £686k. Net current assets were £84k.

Prior year restatement

The comparative year has been restated to reflect the latest actuarial valuation of the Local Government Pension Scheme (Note 9 refers).

Going Concern

Under the governance requirements, the Board confirms that after making enquiries there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly the Board continues to adopt the going concern basis in preparing the Financial Statements.

HEART OF ENGLAND HOUSING & CARE LIMITED

OPERATING AND FINANCIAL REVIEW

Responsibility for the System of Internal Control

The Heart of England Housing and Care Board acknowledge that it has the overall responsibility for establishing and maintaining the whole system of internal control and for reviewing its effectiveness to provide the necessary assurances.

Scope of Assurance

The Board recognises that no system of internal control can provide absolute assurance or eliminate all risk. The system of internal control is designed to manage risk and to provide reasonable assurance that the key business objectives and expected outcomes will be achieved. It also exists to give reasonable assurance about the preparation and reliability of financial and operational information and the safeguarding of the Organisation's assets and interests.

Risk Management Process

The Organisation has in place a comprehensive and robust Risk Management Strategy.

The process for the identification and management of risks is an ongoing process and has been in place throughout the year under review. The control environment to manage these risks is continually evaluated and monitored by the Heart of England Housing and Care Board. The lead person for the Organisation on risk management is the Heart of England Housing and Care Managing Director. The Group's Audit Committee monitors the implementation of the Group Strategy and plan for Risk Management. The overall responsibility for risk management for the Organisation remains with the Heart of England Housing and Care Board.

Process for Reviewing the Effectiveness of the Internal Control System

The Heart of England Housing and Care Board has established a robust and comprehensive framework to assess the effectiveness of the internal control system. The framework comprises of different sources of assurance the more significant ones being Internal Audit, the Group Audit Committee, External Audit, and the Regulator. In addition, a major component of this assessment is the risk management process described above.

Briefly the key features are:

- The Heart of England Housing and Care Board retains responsibility for a defined range of issues covering strategic, operational, financial and compliance issues and new investment strategies. The Board also regularly reviews key performance indicators to assess the progress towards the achievement of key business objectives, targets and outcomes.
- Heart of England Housing and Care has in place an Internal Audit Plan. In 2008/09 the plan covered payroll and performance indicators. Formal procedures have been established for instituting appropriate action to correct weaknesses identified from these reports. Additionally, as part of each audit review, the Internal Audit Team follow up the previous year's recommendations and the extent to which these have been implemented form part of the Audit Report.

Control Environment

The Organisation has a number of measures in place to instil and encourage a suitable culture of effective internal control. These mechanisms include the following:

- It has adopted the Group Standing Orders which include appropriate delegations of Authority, signatories and mandates as well as the Schedule One of Housing Act 1996. A copy of the Group's Standing Orders is available to all staff and compliance is an implied term of an employee's contract of employment.
- The Organisation has adopted the NHF Code of Governance, which provides guidance to members on best practice in the governance of Housing Organisations, and the 'Terms of Reference', for Board and its Committees is based on the guidance therein.

HEART OF ENGLAND HOUSING & CARE LIMITED

OPERATING AND FINANCIAL REVIEW

- Formal policies and procedures are in place, including the documentation of key systems. A number of these are being reviewed and updated both at a Group and local level.
- Annual appraisal procedures are well established for staff, appropriate training and development opportunities are offered to all staff to maintain standards of performance.
- Forecasts and budgets are prepared which allow the Board and management to monitor the key business risks and financial objectives. Regular management accounts are prepared which provide relevant, reliable and up-to-date financial and other information. Significant variances from budgets are investigated and reported.
- All significant new initiatives, major commitments and investment projects are subject to formal authorisation procedures, through Board Members and others as appropriate including comprehensive risk assessments.
- The Group Audit Committee reviews reports from management, internal auditors and external auditors to provide reasonable assurance that control procedures are in place and are being followed across the Group. Formal procedures have been established for instituting appropriate action to correct weaknesses identified from these reports.

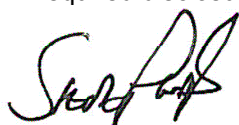
Fraud

The Group complies with the Tenant Services Authority's (TSA) requirements on fraud. The TSA's requirements and the Group's approach on fraud are reflected in a revised Policy and Fraud Response Plan which were approved in 2009/10. Relevant cases are reported to the TSA. The Group Standing Orders outline a policy on responding to suspected fraud and corruption. A fraud register is maintained and reviewed regularly by the Group Audit Committee and reported to the Orbit Group Board.

Board's Conclusion

The Board has received the Annual Report on Internal Controls Assurance and has conducted its annual review of the effectiveness of the system of internal control. In addition, the Heart of England Housing and Care Board has monitored and considered the outcomes arising as a consequence of the Organisation's Risk Management process and the corresponding reports from officers on the associated control environment.

The Board confirms that the process for identifying, evaluating and managing significant risks faced by the Organisation is ongoing and has been in place throughout the year under review, up to the date of the annual report, and is regularly reviewed by the Board. There is sufficient evidence to confirm that adequate systems of internal control existed and operated throughout the year. No fundamental weaknesses were identified which required disclosure in the financial statements.



Steve Phillips
Chair
21 July 2009

HEART OF ENGLAND HOUSING & CARE LIMITED

REPORT OF THE BOARD

The Board present their Report and audited Financial Statements for the year ended 31 March 2009.

Corporate Status

The Company is a member of the Orbit Group and has operated as a subsidiary of the Parent (Orbit Group Ltd) since 1 April 2008. Prior to this it had been a subsidiary of Heart of England Housing Group Ltd since its formation in July 1999.

The Company is a not-for-profit organisation registered on 9 April 1999 as an Industrial and Provident Society. It has exempt charitable status.

Competence and Accountability

Board Members and Executive Officers

The present Board membership is listed on page 2.

The Managing Director was employed by Orbit Heart of England and provided services through a Service Level Agreement with the Company. The Director of Care and Assistant Director of Care are employed by the Company. They held no interest in the Company's shares and have no legal status as directors although they acted as executives within the authority delegated by the Board.

Employees

The strength of the Company lies in the quality and commitment of its employees and those of the Parent. The ability to meet objectives and commitments to residents in an efficient and effective manner depends on the contribution of employees throughout the Group.

The Company continues to provide information on objectives, progress and activities through regular office and departmental meetings. Training programmes focus on quality, customer care and ways to improve services through the development of the staff.

The Company is committed to equal opportunities for all its employees and welcomes diversity.

Advisors and Contractors

The Company uses the services of professional advisors to support its staff. The key advisors are listed on page 2. The Company also employs a range of contractors and expects to receive high quality, good value service with a commitment to customer care.

Health and Safety

The Board is aware of its responsibilities on all matters relating to health and safety. The Company has prepared detailed policies and provides staff training and education on health and safety matters. The Group's risk appraisal and management processes address all health and safety matters in relation to property, residents and staff.

HEART OF ENGLAND HOUSING & CARE LIMITED

REPORT OF THE BOARD

Governance of the Company

NHF Code of Governance

The Company complies with the principal recommendations of the NHF Code of Governance. Compliance is monitored during the year.

Subsidiary Status

The Company is a subsidiary of Orbit Group Limited.

Rules

The Company's constitution is contained in its Rules. These have provisions covering shareholding membership, Board membership and Committee membership. The Rules cannot be varied by the Board unless approved at a General Meeting.

Board of Management

The Board of Management comprises seven to fifteen non-executive members and is responsible for managing the affairs of the Company. The Board members are drawn from a wide background bringing together persons with professional, commercial, and care experience.

The Board meets, formally, seven times a year for regular business. It does not delegate routine work and responsibilities to Committees.

The Board is responsible for the Company's policy and strategy framework. It delegates the day-to-day management and implementation of policies to the Senior Management Team. They meet regularly and attend the Board meetings.

The Chair of Heart of England Housing and Care Board serves on the Orbit Group Board, and one Board member is nominated to the Group Audit Committee and one to the Group Remuneration Committee.

The Company obtains liability insurance cover for the Board members who are now paid within the scale recommended by the National Housing Federation.

The terms of reference and standing orders of the Board are reviewed at least every two years.

Board Members' Responsibilities

Registered Social Landlord legislation and Accounting Determinations require the Board to prepare Financial Statements for each financial year, which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the income and expenditure of the Company for the year ended on that date.

In preparing the Financial Statements, suitable accounting policies have been used, framed, to the best of the Board's knowledge and belief, by reference to reasonable and prudent judgements and estimates, and applied consistently. Applicable accounting standards have been followed. The Board is also required to indicate where the Financial Statements are prepared other than on the basis that the Company is a going concern.

The Board is responsible for ensuring that arrangements are made for keeping proper books of account in respect of the Company's transactions and its assets and liabilities and for maintaining a satisfactory system of control over the Company's books of account and transactions. The Board is also responsible for ensuring that arrangements are made to safeguard the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

HEART OF ENGLAND HOUSING & CARE LIMITED

REPORT OF THE BOARD

The Board has received the Managing Director's annual report and has taken account of any changes needed to maintain the effectiveness of the risk management and control process. The effectiveness of the system of internal control is reviewed by the Group Board.

The Board confirms that there is an ongoing process identifying, evaluating and managing significant risks faced by the Company. The process has been in place throughout the year under review, up to the date of the annual report, and is reviewed by the Board.

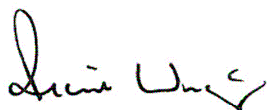
Annual General Meeting

The AGM will be held on 21 July 2009 and will receive this Report and Financial Statements.

Auditors

A resolution to reappoint KPMG, will be proposed at the AGM.

The Report of the Board of Management was approved on 21 July 2009 and signed by:



Richard Wright
Company Secretary
21 July 2009

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HEART OF ENGLAND HOUSING & CARE LIMITED

We have audited the financial statements of Heart of England Housing & Care Limited for the year ended 31 March 2009 which comprise the income and expenditure account, the balance sheet, the cash flow statement, the statement of total recognised surpluses and deficits, the note of historical cost 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 Company's members, as a body, in accordance with relevant legislation. 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 The Board and auditors

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002, Part III of Schedule 1 to the Housing Act 1996 and the Accounting Requirements for registered social landlords General Determination 2006. We also report to you if, in our opinion, the Board Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, if a satisfactory system of control over books of account and transactions has not been maintained or if information specified by law regarding Board members' transactions with the Company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 at 31 March 2009 and of its income and expenditure for the year then ended and;
- the financial statements have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002, Part III of Schedule 1 to the Housing Act 1996 and the Accounting Requirements for registered social landlords General Determination 2006.

KPMG LLP

19/08/09

KPMG LLP – Chartered Accountants, Birmingham

HEART OF ENGLAND HOUSING & CARE LIMITED

INCOME AND EXPENDITURE For the Year Ended 31 March 2009

	NOTES	2009 £'000	Restated 2008 £'000
Turnover	5	10,536	9,747
Operating Costs		(9,232)	(8,551)
Surplus on Ordinary Activities before Interest	6	1,304	1,196
Interest Receivable and Similar Income	10	48	86
Interest Payable and Similar Charges	11	(862)	(879)
Financing (cost)/income	9	(38)	28
Surplus for year		452	431
Revenue Reserves brought forward		(704)	(844)
Actuarial losses taken to reserves	9	(288)	(291)
Revenue Reserves at 31 March		(540)	(704)

All amounts derive from continuing operations.

STATEMENT OF TOTAL RECOGNISED SURPLUSES AND DEFICITS For the Year Ended 31 March 2009

		2009 £'000	Restated 2008 £'000
Surplus for the Financial Year		452	431
Actual return less expected return on pension scheme assets	9	(1,333)	(1,028)
Gains & losses arising on pension scheme liabilities	9	1,045	737
Total Surplus Recognised		164	140
Prior year restatement:			
Pension Valuation	9	(15)	-
		149	140

NOTE OF HISTORICAL COST SURPLUSES AND DEFICITS For the Year Ended 31 March 2009

		2009 £'000	Restated 2008 £'000
Surplus for the Financial Year		452	431
Difference between an historical cost depreciation and actual depreciation charge for the year calculated on the revalued amount		53	109
		505	540


HEART OF ENGLAND HOUSING & CARE LIMITED

BALANCE SHEET

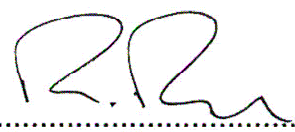
At 31 March 2009

	NOTES	2009		Restated 2008	
		£'000	£'000	£'000	£'000
Tangible Fixed Assets					
Care Homes	12		27,119		26,047
Current Assets					
Stocks	13	20		23	
Debtors	14	345		1,756	
Cash at Bank and in Hand		686		96	
		<u>1,051</u>		<u>1,875</u>	
Creditors: Amounts falling due within one year	15	<u>(967)</u>		<u>(1,022)</u>	
NET CURRENT ASSETS			84		853
TOTAL ASSETS LESS CURRENT ASSETS			<u>27,203</u>		<u>26,900</u>
Creditors: Amounts falling due after more than one year	16		18,064		18,247
Pension Liability	9		1,325		1,003
Capital and Reserves					
Called up Share Capital	17	-		-	
Revenue Reserves	18	(540)		(704)	
Revaluation Reserve	18	8,354		8,354	
			<u>7,814</u>		<u>7,650</u>
			<u>27,203</u>		<u>26,900</u>

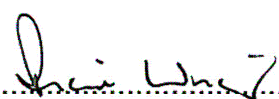
The financial statements on pages 13 to 25 were approved by the Board on 21 July 2009 and signed on its behalf by:



 Steve Phillips
 CHAIR



 Robin Richmond
 BOARD MEMBER



 Richard Wright
 SECRETARY

HEART OF ENGLAND HOUSING & CARE LIMITED

CASHFLOW STATEMENT

For the Year Ended 31 March 2009

	2009		2008	
	£'000	£'000	£'000	£'000
NET CASH INFLOW FROM OPERATING ACTIVITIES (Note 21)		3,223		1,200
Returns on Investments and Servicing of Finance				
Interest Received	48		86	
Interest Paid	<u>(867)</u>		<u>(906)</u>	
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(819)		(820)
Capital Expenditure and Financial Investment				
Acquisition and investment in care homes		<u>(1,762)</u>		<u>(129)</u>
NET CASH INFLOW BEFORE FINANCING		642		251
Financing (Note 22)				
Loans Received	-		-	
Loan redemption repayments	<u>(183)</u>		<u>(203)</u>	
NET CASH INFLOW FROM MANAGEMENT OF LIQUID RESOURCES AND FINANCING		(183)		(203)
INCREASE IN CASH AT BANK AND IN HAND (Note 22)		<u>459</u>		<u>48</u>

HEART OF ENGLAND HOUSING & CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2009

1 LEGISLATIVE PROVISIONS

The Company is incorporated under the Industrial and Provident Societies Act 1965 - Registration No. 28885R.

2 FINANCIAL REPORTING STANDARDS

The Financial Statements have been prepared in accordance with applicable financial reporting standards.

3 ACCOUNTING POLICIES

(a) *Accounting convention*

The Financial Statements are prepared under historical cost convention with the exception of the care home properties which are reported at open market value in the Balance Sheet (refer to note 12).

(b) *Turnover*

Turnover represents fees receivable in respect of residential care and amounts invoiced in respect of the provision of services.

(c) *Valuation of Properties*

The Company's residential care homes are shown at market value as fully operational going concerns.

(d) *Depreciation*

Depreciation is calculated to write off the cost of certain fixed assets on a straight line basis over their estimated useful lives. These are:

- residential care homes	3.33% p.a.
- computer and communication equipment	33% p.a.
- furniture, fittings and equipment	25% p.a.

The depreciable amount in respect of the care homes is the value less residual value. Residual value is considered to be the vacant possession value of the land.

(e) *Interest and finance costs*

Interest and finance costs are charged in the year in which they are incurred.

(f) *Operating Leases*

Rentals payable under operating leases are charged in accordance with the terms of the lease. There were no annual commitments under non-cancellable operating leases at 31 March 2009 (2008: none)

HEART OF ENGLAND HOUSING & CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2009

3 ACCOUNTING POLICIES (CONTINUED)

(g) *Pension costs*

The Pension costs relating to the Local Government Pension Scheme are charged against income based on an actuarial method and actuarial assumptions. These are designed to provide the anticipated pension cost over the average service lives of the employees in the scheme in a way that seeks to ensure that the regular pension cost represents a broadly level percentage of the current and expected future pensionable payroll in the light of current actuarial assumptions. Variations from the current cost are spread over the remaining service lives of current employees in the pension scheme. The Group has adopted the provisions of FRS 17 'Retirement Benefits' in preparing these accounts.

(h) *Stocks*

Stocks are stated at value.

(i) *VAT*

The Company is VAT registered, as part of the Orbit Group, but the majority of its income, being care fees, is exempt for VAT purposes.

(j) *Taxation*

As an exempt charity the Company is not liable for Corporation Tax on surpluses.

(k) *Designated and Restricted reserves*

The Company has none at present.

4 GROUP STRUCTURE

(a) At 31 March 2009 the Company is a subsidiary of the Orbit Group and is not required to prepare group accounts.

(b) The parent of the Group is Orbit Group Ltd.
The parent was incorporated under the Industrial & Provident Societies Act 1965 (Registration No. R28503R) and a Registered Social Landlord (no. L4123).

(c) All Group members are incorporated. The registered office for the group is:

Garden Court
Harry Weston Road
Binley Business Park
Coventry
West Midlands
CV3 2SU

(d) There are no inter company guarantees within the Group. The parent provides services on a commercial basis to the subsidiaries via the Inter Group Agreement. The Company adopts the exemptions offered in FRS 8 - Related Party Disclosures and has therefore not disclosed transactions or balances with entities which form part of the Group. Group accounts are publicly available.

HEART OF ENGLAND HOUSING & CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2009

5 TURNOVER

Turnover of the Company has arisen entirely within the United Kingdom and from charitable activities.

6 OPERATING SURPLUS

	2009 £'000	2008 £'000
Operating Surplus is Stated after Charging		
On Care Homes:		
Depreciation (owned assets)	533	533
Auditor's Remuneration:		
In their capacity as Auditors	12	7
In respect of other services	-	-

7 STAFF COSTS

The average number of employees expressed in full time equivalents (35 hour week)

	2009 Number	2008 Number
Office Staff	4	3
Care staff	368	367
	<u>372</u>	<u>370</u>
Staff costs for the Above	2009 £'000	2008 £'000
Wages and salaries	5,349	5,064
Social security costs	331	316
Other pension costs	90	81
	<u>5,770</u>	<u>5,461</u>

8 DIRECTORS' AND EXECUTIVE OFFICERS' EMOLUMENTS

The Directors of the Company are its Board and Managing Director. The Managing Director is employed by Heart of England Housing Association Limited. She provided her service through an Intra Group Agreement and Customer Supplier Agreement with the Company.

	2009 £'000	2008 £'000
Aggregate emoluments paid to or received by Directors who are not executive staff members including salaries, honoraria and other benefits	<u>26</u>	<u>29</u>
Aggregate emoluments paid to or received by Directors who are executive staff members including salaries, honoraria and other benefits	<u>109</u>	<u>104</u>
Emoluments of the highest paid Director excluding Pension Contributions included in aggregate emoluments of Directors who are executive staff members	<u>95</u>	<u>91</u>

HEART OF ENGLAND HOUSING & CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2009

9 PENSIONS

Contributory

The Company participates in a defined pension scheme as an "Admitted Body" to the Local Government Pension Scheme administered by Warwickshire County Council.

The latest actuarial valuation was as at 31 March 2007 when the Scheme's assets were valued at £1,000,800,000.

Employer contributions made by the Company to the Scheme for the year were £90,280 (2008: £81,269) in respect of ordinary contributions. The cost is assessed in accordance with advice from a qualified actuary. Employer contributions to the Scheme of £7,432 (2008: £7,061) were included in creditors and paid after the year end.

The following information in respect of the Warwickshire County Council Pension Fund is provided for Heart of England Housing and Care Limited.

The Warwickshire County Council Scheme is a multi-employer defined benefit scheme. The full actuarial valuation carried out at 31 March 2007 was updated to 31 March 2009, using suitable approximate methods, by a qualified independent actuary.

The financial assumptions underlying the valuation were as follows:

Per Annum	2009	2008	2007
Retail Price Inflation	3.3%	3.6%	3.1%
Wage Inflation	5.05%	5.35%	4.85%
Discount rate	7.1%	6.1%	5.4%
Allowance for future pension increases	3.3%	3.6%	3.1%

The Company's share of fair values of each class of assets held by the Fund as at 31 March and the expected rates of return for the ensuing year are set out the following table:

	Value at 31/03/09 £000	Value at 31/03/08 £000	Value at 31/03/07 £000
Equities	2,598	3,340	4,580
Government Bonds	413	463	700
Other Bonds	619	737	463
Property	206	214	-
Cash/Liquidity	83	71	40
Other	206	259	-
Total	4,125	5,084	5,783
	Expected Rates of Return at 31 March		
	2009	2008	2007
Equities	7.5%	7.5%	7.5%
Government Bonds	4.0%	4.6%	4.7%
Other Bonds	6.0%	6.1%	5.4%
Property	6.5%	6.5%	6.5%
Cash/Liquidity	0.5%	5.25%	5.25%
Other	7.5%	7.5%	N/A
Total	6.7%	7.0%	7.0%

HEART OF ENGLAND HOUSING & CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2009

9 PENSIONS (CONTINUED)

Under the Local Government Pension Scheme, it is not possible separately to identify each main class of assets with a particular member of the Scheme. The above assets as a whole are allocated to participating bodies on the consistent and reasonable basis. The actuary has amended the classification of assets and the fair values shown above have been amended to reflect this.

The Company's share of the net assets and liabilities of the Warwickshire County Council Fund is set out below:

	2009 £000	2008 £000	2007 £000
Share of assets in the Fund	4,125	5,084	5,783
Estimated liabilities in the Fund	<u>(5,450)</u>	<u>(6,087)</u>	<u>(6,508)</u>
Share of deficit in the Fund	<u>(1,325)</u>	<u>(1,003)</u>	<u>(725)</u>

The movement in the net deficit of the Company for the year to 31 March is as follows:

	2009 £000	2008 £000
Net deficit at 1 April	(1,003)	(725)
Movement in the year:		
Operating charge - Current service cost	(89)	(77)
Operating charge – Past service gain	-	(19)
Contributions	93	81
Finance Income:		
Expected return on Pension Fund assets	334	378
Interest on Pension scheme liabilities	<u>(372)</u>	<u>(350)</u>
Total Finance Income	(38)	28
Actuarial loss	<u>(288)</u>	<u>(291)</u>
Net deficit at 31 March	<u>(1,325)</u>	<u>(1,003)</u>

The actuarial loss is further analysed as follows:

	2009 £000	2008 £000
Actuarial loss on pension scheme assets	(1,333)	(1,028)
Experience gains and losses arising on scheme liabilities	<u>1,045</u>	<u>737</u>
	<u>(288)</u>	<u>(291)</u>

HEART OF ENGLAND HOUSING & CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2009

9 PENSIONS (CONTINUED)

Reconciliation to the balance sheet at 31 March

	2009	2008
	£000	£000
Net Assets		
Net assets excluding pension liability	9,139	8,653
Pension liability	<u>(1,325)</u>	<u>(1,003)</u>
Net assets including pension liability	<u>7,814</u>	<u>7,650</u>
Reserves		
Income and expenditure reserve excluding pension liability	785	299
Pension liability	<u>(1,325)</u>	<u>(1,003)</u>
Income and expenditure reserve including pension liability	<u>(540)</u>	<u>(704)</u>

History of experience gains and losses at end of year

	2009	2008	2007	2006	2005
Difference between the expected and actual return on scheme assets:					
Amount £000	(1,333)	(1,028)	(45)	744	106
Percentage of scheme assets	(32.3)	(20.2)	(0.8)	13.5	2.5
Experience gains and losses arising on the scheme liabilities:					
Amount £000	1,045	737	0	(81)	510
Percentage of scheme liabilities	(19.2)	(12.1)	0	1.2	(9.2)
Total amount recognised gains and losses:					
Amount £000	(288)	(291)	263	178	311
Percentage of scheme liabilities	5.3	4.8	(4.0)	(2.7)	(5.6)

Non Contributory

The Company participates in a stakeholder pension scheme operated by Standard Life. The scheme meets the government's requirement for access to pensions by low paid employees. The Company does not contribute to the scheme.

Pension Prior Year Restatement

The actuarial valuation undertaken during the year has resulted in a prior year restatement.

	£'000
Restatement of opening reserve at 1 April 2007	(17)
Restatement of surplus for year ended 31 March 2008	2
	<hr/>
Total prior year restatement	<u>(15)</u>

The restatement of £15k is disclosed on the face of the statement of total recognised surpluses & deficits.

HEART OF ENGLAND HOUSING & CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2009

10 INTEREST RECEIVABLE AND SIMILAR INCOME

	2009 £'000	2008 £'000
Interest Receivable from Unlisted Investments	<u>48</u>	<u>86</u>

11 INTEREST PAYABLE AND SIMILAR CHARGES

	2009 £'000	2008 £'000
On Bank Loans, Overdrafts and Other Loans		
Repayable within 5 years, not by instalments	-	-
Repayable by instalments wholly or partly, in more than 5 years	862	879
Loan Refinancing Costs	<u>-</u>	<u>-</u>
	<u>862</u>	<u>879</u>

12 TANGIBLE FIXED ASSETS – CARE HOMES

	Completed Homes £'000	Improvements £'000	Total £'000
Valuation			
At start of year	26,200	380	26,580
Improvements at cost	-	1,605	1,605
At end of year	<u>26,200</u>	<u>1,985</u>	<u>28,185</u>
Depreciation			
At start of year	533	-	533
Charged during year	533	-	533
At end of year	<u>1,066</u>	<u>-</u>	<u>1,066</u>
Net Book Value			
At end of year	<u>25,134</u>	<u>1,985</u>	<u>27,119</u>
End of year Net Book Value is represented by:			
Revaluation	8,354	-	8,354
Gross Cost	18,450	1,985	20,435
Depreciation	<u>(1,670)</u>	<u>-</u>	<u>(1,670)</u>
Net Book Value	<u>25,134</u>	<u>1,985</u>	<u>27,119</u>

The properties were valued on 31 March 2007 by Pinders Professional & Consultancy Services Limited. Each care home was assessed at market value as a fully operational going concern. The Company holds the freehold title of each care home.

The improvements during the year relate to ongoing works at Ravenhurst Care Home in Stourport on Severn. These works are shown at cost until complete.

HEART OF ENGLAND HOUSING & CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2009

13 STOCKS

	2009 £'000	2008 £'000
Consumable stocks held by individual homes	<u>20</u>	<u>23</u>

14 DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2009 £'000	2008 £'000
Fees	295	175
Prepayments and Accrued Income	3	47
Amounts Due from other Group Members	-	1,513
Other Debtors	<u>47</u>	<u>21</u>
	<u>345</u>	<u>1,756</u>

15 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2009 £'000	2008 £'000
Bank Overdraft (unsecured)	192	60
Trade Creditors	296	319
Amounts Due to Other Group Members	4	2
Other taxation and social security payable	85	85
Other Creditors	145	142
Accruals and Deferred Income	40	224
Fees received in advance	<u>205</u>	<u>190</u>
	<u>967</u>	<u>1,022</u>

16 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2009 £'000	2008 £'000
Loans	15,614	15,797
Monies due to OHE for purchase of care homes	<u>2,450</u>	<u>2,450</u>
	<u>18,064</u>	<u>18,247</u>

The loan facility of £16 million was completed on 31 December 2005 and fully drawn by January 2006. Principal repayments of £182,807 were made during the year. The majority of the loan has been fixed, with callable options, at rates from 4.715% to 6.065%. The loans are secured on fixed charges on the Company's care homes.

The monies due to OHE will be paid in instalments over the next 8 years.

HEART OF ENGLAND HOUSING & CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2009

17 CALLED UP SHARE CAPITAL

	2009 £	2008 £
Shares of £1 Each, allotted, issued and fully paid		
At 1 April	9	9
Adjusted during the year	(1)	-
At 31 March	<u>8</u>	<u>9</u>

18 RESERVES

	Revenue Reserve £'000	Revaluation Reserve £'000	Total £'000
At 1 April 2008 (as restated)	(704)	8,354	7,650
Surplus for year	452	-	452
Actuarial losses taken to reserves	(288)	-	(288)
At 31 March 2009	<u>(540)</u>	<u>8,354</u>	<u>7,814</u>

19 CONTINGENT LIABILITIES

There were no contingent liabilities at 31 March 2009 (2008: £Nil).

20 CAPITAL COMMITMENTS

	2009 £'000	2008 £'000
Capital Expenditure which has been contracted for but has not been provided for in the financial statements	150	1,375
Capital Expenditure which has been authorised under authority from the Board but has yet to be contracted for	-	-
	<u>150</u>	<u>1,375</u>

The Company expects these commitments to be financed from revenue

21 RECONCILIATION OF OPERATING SURPLUS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2009 £'000	2008 £'000
Operating Surplus	1,304	1,196
Depreciation	533	533
(Increase)/Decrease in Stocks	3	0
Difference between pension charge and paid	(4)	15
(Increase)/Decrease in Debtors	1,409	(661)
Increase/(Decrease) in Creditors	(22)	117
Net Cash Inflow from Operating Activities	<u>3,223</u>	<u>1,200</u>

HEART OF ENGLAND HOUSING & CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended 31 March 2009

22 ANALYSIS OF CHANGES IN NET DEBT

	At Beginning of the Year	Cash Flows	At End of the Year
	£'000	£'000	£'000
Cash at Bank and in Hand	96	590	686
Bank Overdraft	<u>(61)</u>	<u>(131)</u>	<u>(192)</u>
	35	459	494
Loans	<u>(15,797)</u>	<u>183</u>	<u>(15,614)</u>
	<u>(15,762)</u>	<u>642</u>	<u>(15,120)</u>