

Octavia Housing

**Board report and consolidated financial
statements**

31 March 2012

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The Board, Executive Officers, Auditors, Bankers, Legal Advisors, Registered office

The Board

Andrew Herbert	Appointed Chairman 26 September 2011
Martin Young	Resigned - 26 September 2011
Eileen Crawford	Resigned – 17 October 2011
Aisha Ali	Appointed – 17 October 2011
Gwendoline Godfrey	
Grahame Hindes	
Annie Lathaen	
Simon Porter	Appointed – 26 September 2011
Jean Roch	
Laurie Soden	
Angus Taylor	
Sylvia Warman-James	Vice Chair

Executive Officers at 31st March 2012

Grahame Hindes	Chief Executive
Noel Brosnan	Asset Management Director
Mark Gayfer	Finance Director
Maeve MacAvock	Housing and Care Services Director
David Woods	Development Director

Secretary and Registered Office

Colin Hughes, Secretary
Emily House
202-208 Kensal Road Tel: 020 8354 5500
London W10 5BN Fax: 020 8354 4280

Registered Industrial and Provident Societies Acts no. 13991R
Registered with Homes and Communities Agency no. L0717

External Auditors

KPMG LLP
Arlington Business Park
Theale
Reading RG7 4SD

Bankers

HSBC
St Johns Wood Branch
1 Finchley Road
London NW8 9TS

Principal Legal Advisors

Trowers & Hamlins
3 Bunhill Row
London EC1Y 8YZ

Internal Auditors

Mazars
Tower Bridge House
St Katherine's Way
London E1W 1DD

Report of the Board, including statement on internal controls

The Board is pleased to present its report, the audited financial statements for Octavia Housing (“Octavia”) and the audited consolidated financial statements for Octavia and its subsidiary undertakings (“Group”) for the year ended 31 March 2012.

Overview of the Octavia Group

Octavia is a Registered Provider of social housing operating in central and west London. It is registered as an Industrial and Provident Society with the Financial Services Authority and as a social landlord with the Homes and Communities Agency (HCA). It reinvests all the surplus it generates in its social housing portfolio and related activities and, as an exempt charity, enjoys all of the benefits of full charitable status.

Octavia is one of the oldest housing associations in the UK with a history that originates with properties acquired in 1865 by Octavia Hill, the Victorian social pioneer. With some 4,000 homes in ownership and management in central and west London (most of which are in the Royal Borough of Kensington and Chelsea and the City of Westminster) Octavia exists to provide good quality accommodation to low income families and individuals at rents that are affordable. In addition, Octavia is actively engaged in developing new homes, providing care and support to some of its older and more vulnerable tenants and has invested in a portfolio of commercial properties and charity shops whose surpluses support its wider community engagement activities.

Its long standing portfolio of housing stock in the most expensive parts of London gives Octavia a significant level of underlying financial strength (see page 5 for further details). At 31 March 2012 this portfolio was valued at £1.35 billion on a vacant possession basis, a slight increase from the previous year – this compares with total borrowings of less than £120m. Having been built up over 150 years, this portfolio is an irreplaceable asset for the local community and one which delivers a substantial social dividend.

The Association is governed by a Board which comprises 9 non executives (of whom three are residents of Octavia) plus the Chief Executive. These Board members are listed on page 1. Each non executive Board member holds one fully paid share. Octavia has adopted the National Housing Federation Code of Governance in so far as its recommendations are relevant and appropriate to the organisation.

The day to day operational responsibility for Octavia is delegated to a senior management team that includes the Chief Executive and Directors of Housing and Care Services, Asset Management, Development and Finance (Directors Group).

Octavia now has four subsidiaries;

- a) **Octavia Living Ltd** (formerly called Kensal Developments Ltd) owns and develops the homes for outright sale and other commercial properties on developments being carried out by Octavia Housing.
- b) **Octavia Development Services Limited** provides development services to Octavia Housing.
- c) **Kensal Enterprises Limited** has the sole purpose of dealing with the traded goods that are sold through Octavia’s charity shops, and works closely with the Octavia Foundation, an independent charity.
- d) **Octavia Hill Ltd** (incorporated during the year and currently dormant)

External Environment in 2011/12

The financial year 2011/12 has seen a number of changes in the external environment with a mixture of outcomes.

Firstly, the coalition government implemented the first of the deficit reduction measures that it proposed in 2010 and has made progress in clarifying the operational detail for other changes which are due to be implemented later. Limits have been placed on new Housing Benefit claims and significant reductions were made in the rates of Social Housing Grant paid by the Homes and Communities Agency for new social housing developments. The impact of this reduction in grants has been slightly offset by the new system of Affordable Rents, which has come into force from April 2012. More details have been provided about the introduction of the Social Sector Size Criteria from April 2013, which will reduce the benefits provided to many tenants who are deemed to be under occupying their social rented home. The rolling implementation of Universal Credit is due to start from October 2013, which in most cases will mean the end the practice of direct payments of rent to social landlords by local authorities – a move which is expected to significantly increase rent arrears. Reductions in central government funding for local authorities has led to continuing pressure on care and support activities in many areas.

Report of the Board, including statement on internal controls (*continued*)

Secondly, the economic environment in the UK has continued to be difficult. This has led to a continuation of the low interest rate regime that has been in place since early 2009 and ongoing restrictions in the availability of credit from banks for both corporate borrowers like Octavia and also for individuals seeking a mortgage to buy property from us. Indeed the banking market tightened during the year and, while base rates have remained low, there has been an increase in the margins charged by banks for new borrowing. This has been coupled with reductions in the term of loan facilities available – five year loans appear to have become the maximum available from banks although bond markets have continued to make longer term credit available. The difficulties in the euro-zone and their banking markets have highlighted the need to keep a prudent level of liquidity available at short notice.

While wages and many prices in the UK have been subject to only modest increases during the year, the increases in fuel costs and VAT led the RPI index to rise to 5.6% in September 2011 – a high point from which it has subsequently fallen back. This level of RPI is specified by the Government as the basis for rent increases for the year from 1 April 2012 and the level of the increase led to concerns over the affordability of increases for tenants, many of whom are subject to pressures on their income.

Thirdly, while the property market outside London has continued to decline, continuing high demand in the higher value areas of London where Octavia is based has led to a relatively buoyant market and further increases in the prices achieved by sellers.

Highlights of Octavia's Performance in 2011/12

The Board are pleased to report that Octavia and the Group had another good year in 2011/12, even though turnover fell following the sale of the temporary accommodation business in late 2010.

With an emphasis on cost control and Value For Money and aided by the continuation of low interest rates and the buoyant property market in central London, the association made a surplus from operations of some £6.4m (2011: £5.8m). However, following a decision to act to reduce interest charges in the future, some £2.5m was applied to breaking the fixed rates on £36m of borrowings for two years from March 2012. The benefits from this action will be seen in the financial results of 2012/13 and 2013/14. Octavia's net surplus for the year amounted to £2.6m (2011: £3.8m), while the Group net surplus was £2.5m (2011: £3.4m).

Housing Services

Creating homes, neighbourhoods and services which our residents really value continues to be the overall aim of our service delivery plans. We believe that we will achieve this only if we work in partnership with residents and give them real influence over the services they receive. This has continued to be a priority for this year.

Key achievements in 2011/12 were:

- Developed 55 new homes for social rent and 33 for shared owners;
- Continuing improvement in resident satisfaction with our repairs service;
- A reduction in rent arrears on general needs properties to 4.6%;
- Agreed a 2% reduction in the level of rent increase for 2012/13;
- £5.5m spent on major repairs including compliance with fire regulations;
- 100% of domestic gas heating boilers with a current CP12 Safety Certificate;
- Repairs and general enquiry calls answered on average after only 12 seconds;
- Continued to fully meet the Decent Homes Standard in all our properties;
- Introduced a new Rent policy incorporating the new Affordable rents regime (see below)
- 30 major adaptations costing £0.2m completed in year enabling vulnerable tenants to remain in their own homes;

During the year average rents across all stock rose from £97.62 per week to £103.96 per week. Our rents and the rate of increase are set according to a government formula but Octavia's average rents continue to be well below the government target levels.

Report of the Board, including statement on internal controls (continued)

In line with the requirements of the coalition government, preparations were made to introduce the new Affordable Rent regime for newly developed properties and a relatively restricted number of relet properties with effect from April 2012. These rents could have been charged at up to 80% of market rents, but given the Board's concern to ensure that rented property remains affordable to those in low paid employment, rent levels of £130 per week for 2 bedroom apartments up to a maximum of £200 per week for 4 bedroom accommodation were approved. For existing social tenants, the Board were concerned about the level of increase prospectively chargeable from April 2012 arising from the application of the government's RPI based rent regime – accordingly a rent policy was agreed with increases 2% lower than they would otherwise have been. As a result, the Board continues to believe that the rents charged by Octavia represent extremely good Value For Money for tenants.

Development Activity

With increasingly high levels of demand for social rented and low cost home ownership properties in our core areas of operation, the development of new homes for our portfolio and for other social landlords continues to be a high priority at Octavia Housing.

Highlights from our development activity during the year are

- Completed 88 new homes in the year representing a 2% expansion in Octavia's housing stock
- Working with other social landlords in the Connected Partnership a further 231 homes for social rent were completed and 208 for Shared Ownership
- Building on the success of last year's renovation of a Victorian street property to zero carbon emission "Passivhaus" standards, an estate of 30 Passivhaus properties is under construction in Shepherds Bush.

In November 2011, Octavia's bid to the Homes and Communities Agency on behalf of the Connected Partnership was approved in full with some £21.5m being allocated for the construction of 598 new homes by March 2015. Octavia's share of this grant allocation amounted to £7.9 m or some £43k per property for each of the 185 new homes to be developed in our core areas of operation. Given that the projected costs of development of these homes is expected to amount to some £37.6 m, Octavia will increase its borrowing and gearing levels substantially through existing secured loan facilities to deliver this programme of new homes for the local community.

Non Social Housing Activities

Octavia has an active community development programme that is delivered through its associated but independent charity, the Octavia Foundation. This meets the needs of tenants and the wider community and focuses on five key themes:

- Young people
- Older and vulnerable people
- Employment and training
- Financial inclusion
- Community cohesion

The income generated through Octavia Housing's 21 charity shops and from the commercial property portfolio is used to support the Foundation along with external funding from a range of charitable sources.

Over the last year the Foundation has directly assisted some 900 people through the wide range of projects which have included the provision of welfare benefits and debt advice, befriending support for vulnerable and isolated residents, employment and training projects and activities for young people including film-making and sports together with lunch clubs and support with gardening and small repairs for elderly residents.

123 Octavia tenants have also benefitted from welfare and educational grants awarded by the Friends of Octavia who continue to support our work, and the Board would like to express its thanks to them for this.

Report of the Board, including statement on internal controls *(continued)*

Financial Review

Octavia's financial performance over the last five years is illustrated in the tables below:

	2011/12	2010/11	2009/10	2008/09	2007/08
	£m	£m	£m	£m	£m
Turnover	32.9	37.0	33.0	33.2	30.3
Operating Costs	(26.5)	(31.2)	(28.3)	(29.5)	(26.6)
Operating surplus	6.4	5.8	4.7	3.7	3.7
Net interest payable	(4.3)	(4.5)	(4.6)	(4.2)	(3.0)
Interest breakage costs	(2.5)	-	-	-	-
Goodwill written off	-	-	(0.1)	(0.3)	(0.2)
Surplus on asset disposals	3.0	2.5	1.2	3.4	2.0
Surplus for the year	2.6	3.8	1.2	2.6	2.5
Borrowings	119	119	114	96	96
Housing in ownership (units)	4,071	4,026	3,914	3,897	3,802

Octavia has significant underlying financial strength as reflected in an independent desktop valuation of the completed housing property portfolio at 31 March 2012, which indicated the following:

	2012	2011
	£'m	£'m
Open Market Value with Vacant Possession (OMV-VP)	1,354	1,308
Market Value subject to existing Tenancies (MV-T)	668	640
Existing Use Value for Social Housing (EUV-SH)	324	301
Estimated annual market rent of social rented portfolio	68	63
Actual annual rent roll of social rented portfolio	20	19

This independent valuation indicates an average Vacant Possession value for each of our properties of approximately £350,000. However, there are significant variations in individual values, with the most valuable at £1.5 million and the least at £120,000. Octavia's social rented portfolio has been acquired gradually over the last hundred years or so and represents a unique asset to the local community.

The social rents charged by Octavia Housing on its general needs rented properties are equivalent to approximately 30% of market levels. This represents a social dividend of some £48 million per annum to the local community and the UK exchequer, which has over the years provided some £173 million in Social Housing Grant to assist Octavia acquire its portfolio of social rented properties.

This portfolio of property requires significant levels of reinvestment to take place each year to maintain our properties to the standards expected by our tenants and respond to the increasing requirements of health and safety legislation. The current financial plan adopted by the Board in March 2012 envisages spending just under £26m on such issues over the next five years.

In previous years, this level of reinvestment was achieved with the assistance of the proceeds of sale of peripheral and uneconomic housing stock, however in 2011/12 the Board is pleased to note that operating cashflow was able to cover all such reinvestment needs, excluding the costs of breaking future interest arrangements and is planning for this to continue in the future.

Report of the Board, including statement on internal controls (*continued*)

Value For Money (“VFM”)

The Board has made VFM one of its principal priorities and has put in place a strategy to improve the value being obtained from the substantial sums spent each year by the Association. This strategy has three main elements;

- (a) The Smarter Working and Spending Projects - these are aimed at increasing the levels of automation and transparency in the Association’s operations through better use of modern technology, reducing cost and improving quality through better procurement
- (b) The Service Charge Project – a multi year project aimed at bringing service charge income and expenditure into balance
- (c) Benchmarking - using results from our benchmarking exercise to identify where our costs are outliers and identify where action needs to be taken to address this

Benchmarking has identified that Octavia Housing generally has similar levels of expenditure per home in most areas compared with its peers and has good and rising levels of tenant satisfaction. Spending on component renewals and other major repairs and improvements is higher than at most peer associations but reflects the major renewal programme approved by the Board and the central London locations of most of the housing stock.

Targets have been set for reductions in unit costs for replacements of a number of principal components and the unit costs of day to day repairs, as well as for reductions in the net cost of providing services to tenants.

In line with the HCA’s Regulatory Standards, an increasing focus is being placed on operating efficiency through improvements being generated by the Smarter Working project, where greater automation and transparency of information are being targeted, and savings in procurement through the Smarter Spending Project. More generally the Board and officers are increasing the focus on value for money throughout the organisation in line with regulatory expectations.

Accounting policies and Impairment

As the accounts for 2010/11 were prepared on the basis of the Statement of Recommended Practice issued in 2010 (SORP Update 2010), no changes to Octavia’s accounting policies have been considered necessary in the production of these accounts for 2011/12.

The Financial Statements show no provision for impairment this year. We carry out an impairment review at the end of every financial year. The calculations are based on the Board’s estimate of the costs and market values of development schemes in progress.

Remuneration Policy

Octavia seeks to have both clarity and consistency in its remuneration policy which will:

- a) Assist in recruiting and retaining staff;
- b) Reward responsibility and performance at an appropriate rate in relation to the sector and the market; and
- c) Provide terms and conditions that meet statutory obligations and better these where appropriate.

All posts other than Directors are graded within our salary scale, using a job evaluation scheme. The Chief Executive and Directors have spot salaries based on an independent salary survey of market rates. These salaries are set by the Remuneration Committee for Directors and by the Board for the Chief Executive. Octavia’s policy is to offer fees to Board members.

Board members receive fees in line with the recommended scale of fees previously set by the Regulator. The level of fees was reviewed during 2011 and some increases agreed which were within the fee guidance applicable at the time.

Octavia has a staff forum where there is representation at all levels to ensure that staff are widely consulted on staffing policies and procedures. We also invest significantly in learning and development and a structured management and development training programme for all managers was run during the year.

Report of the Board, including statement on internal controls *(continued)*

Capital structure, Treasury policy and Going Concern

At 31 March 2012, Octavia's gross borrowings stood at £119m with a further £40m of borrowing facilities in place, all of which were fully secured and available to draw immediately. These funds, together with the agreed Social Housing Grant on schemes under development, are sufficient to complete our current developments and re-investment programmes. However, given the significant levels of cash flow expected over the next three years from new properties developed for sale and shared ownership and from sales of existing properties, it has been decided to arrange an additional £15m revolving loan facility which was completed in July 2012, to provide additional flexibility if the planned property sales at reasonable prices prove difficult to achieve.

Octavia's Treasury Strategy is set annually by the Board. As part of this strategy the Board agrees the treasury policy and has recently agreed a number of changes. In particular the Board has agreed that, in view of the current turbulence in financial markets worldwide, more funds should be held available as short term deposits rather than as undrawn banking facilities. Accordingly, actions are in hand to increase the level of short term deposits to more than £20m. This has required the basis of placing deposits to be reviewed and action taken to reduce the limit on money market deposits with one bank to £3m and to establish collateralised money market placement arrangements.

The review also identified ways that the Association could take advantage of the lower levels of LIBOR rates currently available in the markets and reduce interest costs for the future. In March 2012 the interest rates on some £36m of borrowings were re-fixed for two years at less than 1%. The proportions of short to long term fixed rate debt are summarised in the table below:

Strategy	Target Balance of Total Debt Outstanding	At 31 March 2012	At 31 March 2011
Fixed for more than 10 years	At least 50%	53%	58%
Fixed for more than 1 year but less than 10 years	Between 0% and 50%	38%	34%
Variable	Less than 25%	9%	8%

Octavia's future development plans will involve increasing our borrowings. Due to the relatively low level of present borrowing and the location of our stock in central and west London, only some 40% of our rented housing stock is used to secure our current facilities. The Board therefore considers that we have the capacity and security to support an increase in our borrowing.

The Board monitor loan covenants on a regular basis. At 31 March 2012 they stood at:

- Interest cover - 181% (lowest permitted level 110%)
- Gearing - 47% (highest permitted level 65%)

At 31 March 2012 Octavia had substantial levels of available liquidity comprising net cash and short term deposits of £10m and committed and secured un-drawn banking facilities of £40m.

Net indebtedness for the Group at 31 March 2012 stood at £109m of which £35m was funding the construction of properties under the development programme and a further £1m funding shared ownership properties unsold at that date. The borrowing of £75m to fund the social rented properties represents an average debt of less than £20k per home. In addition to the housing property portfolio, Octavia has commercial properties shown in the balance sheet at £3.8m which were last valued in July 2011 for accounts purposes at £8.2m, and have been funded through Octavia's reserves.

Based on the significant levels of cash and undrawn but secured loan facilities at 31 March 2012 and the planned levels of expenditure in its business plan, the Board has a reasonable expectation that Octavia Housing will continue to have adequate resources to be considered as a Going Concern for the foreseeable future.

Report of the Board, including statement on internal controls (*continued*)

Board statement on internal controls

The Board has overall responsibility for establishing and maintaining Octavia's system of internal controls and for reviewing its adequacy and effectiveness. The system for internal control covers all aspects of Octavia's activities, not just internal financial control.

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

The Board requires the Chief Executive to prepare a detailed report on Risk Management and Internal Control Systems. This report of the Board has been based on this statement.

Some of the key elements of the internal control framework that have been established by the Board are as follows:

- The adoption of a business plan and 30-year Long Term Financial Plan model which is regularly updated and reviewed by the Board;
- A comprehensive budgeting process, the production and review of monthly management accounts and key performance indicators for all areas of operational activity, including quarterly external reporting;
- The review and approval of the Governance Manual and Financial Regulations of the organisation and a clear set of delegated authorities detailing responsibilities for expenditure and authorisation of payments;
- The incorporation of key risks into a Risk Map and the consideration of this and significant risks on individual projects by the Board;
- A programme of internal audit work which is linked to the Risk Map and which is reported regularly to the Audit Committee and annually to the Board. The Audit Committee also regularly monitors the implementation of external and internal audit recommendations;
- Job descriptions which clearly allocate responsibilities to manage risk;
- A programme of Service Improvement Reviews to seek continuous improvement;
- An operational work plan which seeks to ensure that our IT systems are reliable and efficient; and
- Processes and systems for appraising development projects via the officers Project and Approvals Panel, Directors Group and the Board.

There is significant emphasis on the Board's internal control responsibilities with regard to fraud. Octavia's anti-fraud policy expresses a commitment to the highest ethical standards. The policy sets out:

- The importance of operating procedures and control systems for detecting and deterring fraud, reinforced by a culture of openness and honesty among staff;
- Octavia's policies on whistle-blowing and concerning the investigation of fraud (whether suspected, attempted or actual);
- The disciplinary procedures which may follow the discovery of a fraud or attempted fraud and reporting actions (including to the HCA and to the police where appropriate); and
- Octavia's policy to seek recovery of losses from those responsible, report them to the police and to maintain fidelity cover against fraud.

While the risk of fraud being committed can never be fully eliminated, a strong internal control system reduces the opportunity for fraud and increases the likelihood that attempted frauds will be detected. Octavia maintains a fraud register which is reviewed regularly by the Audit Committee and annually by the Board.

External Review

The work of our internal and external auditors is an important part of the control environment. There is a programme of internal audit visits each year and the risk of fraud is always considered when deciding on the scope of work for each visit.

During the year, Mazars carried out their planned programme of internal audit reviews and KPMG were retained as external auditors.

Report of the Board, including statement on internal controls (*continued*)

The Board confirms that for the year ended 31 March 2012 and up to the date of the approval of these financial statements, there have been no regulatory concerns which have led any regulatory authority to intervene in the affairs of Octavia, nor are there significant problems in relation to failures of internal controls which required disclosure in the financial statements.

Auditors

The Board will recommend the re-appointment of KPMG LLP at the next Annual General Meeting, pending the outcome of a tender of the external audit service which last took place seven years ago.

Looking forward

The next few years offer Octavia a number of opportunities but will also present some challenges.

The opportunities include

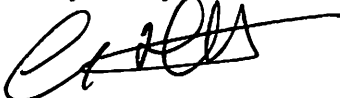
- Building on the existing momentum for improving and developing services to our tenants and other customers with a view to improving satisfaction levels and creating an organisation that tenants really value.
- Working with developers in central London on new S106 development opportunities and with the Homes and Communities Agency to develop more cost effective and sustainable housing for Londoners.
- The ability to generate surpluses from developments of housing for sale by our subsidiary, Octavia Living Ltd.
- The potential to improve our operating efficiency through the “Smarter Working Project” which is currently under way. This aims to improve information flows and reduce manual interventions in processes, taking advantage of modern technology.
- Taking advantage of the current competitive marketplace for development and maintenance work to procure on advantageous terms.
- Utilising the recent reduction in regulation to consider business opportunities in new markets, while retaining an appropriate level of risk management.

The challenges include:

- Adjusting our cost base, while continuing to improve services and deliver an enhanced re-investment programme covering kitchens and bathrooms, as well as fire prevention works.
- Maintaining a rent policy which remains affordable to our prospective tenants in the high value areas in which we operate.
- Adapting to the new higher levels of borrowing that will arise from the lower capital grant rates that will apply for future development and the pressures on gearing levels if development of social rented housing is to continue beyond 2015.
- The increasing interest charges that are expected over the next few years as market interest rates rise from the historically low levels we are experiencing at present, coupled with pressures from providers of loan finance to increase their margins.

The Board are optimistic about Octavia Housing’s ability to take advantage of these opportunities and deal with the challenges.

By order of the Board



A Herbert
Chairman

Statement of Board's responsibilities in respect of the Board of Management's report and the financial statements

The Board are responsible for preparing the Board's 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 have 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 Group and of the surplus or deficit for that period.

In preparing these financial statements, the Board are required to:

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

The Board are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that its financial statements comply with the Industrial & Provident Societies Acts 1965 to 2003, the Industrial & Provident Societies (Group Accounts) Regulation 1969, the Housing and Regeneration Act 2008 and the Accounting Requirements for Registered Social Landlords General Determination 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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



Arlington Business Park
Theale
Reading RG7 4SD
United Kingdom

Independent auditor's report to the members of Octavia Housing

We have audited the financial statements of Octavia Housing (the Association) for the year ended 31 March 2012 which comprise the Group and Association Income and Expenditure Account, the Consolidated Statement of Total Recognised Surpluses and Deficits, the Group and Association Balance Sheets, the Group Cash flow and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the association's members, as a body, in accordance with section 128 of the Housing and Regeneration Act 2008 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the association and the association's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Board and auditor

As more fully explained in the Statement of Board's Responsibilities set out on page 10, the association's Board is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

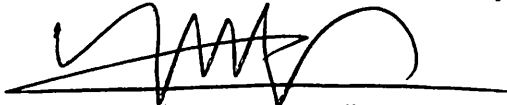
- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the Group and Association as at 31 March 2012 and of the Group and Association's surplus for the year then ended; and
- have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2003 and the Industrial and Provident Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Requirements for Registered Social Landlords General Determination 2006.

Independent auditor's report to the members of Octavia Housing (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Industrial and Provident Societies Acts 1965 to 2003 and the Industrial and Provident Societies (Group Accounts) Regulations 1969 require us to report to you if, in our opinion:

- a satisfactory system of control over transactions has not been maintained; or
- the Association has not kept proper accounting records; or
- the financial statements are not in agreement with the books of account; or
- we have not received all the information and explanations we need for our audit.



Harry Mears (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

Dukes Keep
Marsh Lane
Southampton
SO14 3EX

8 August 2012

Income and expenditure account
for the year ended 31 March 2012

	<i>Note</i>	Octavia 2012 £000	Group 2012 £000	Octavia 2011 £000	Group 2011 £000
Turnover	2	32,902	32,947	37,008	36,853
Operating costs	2	(26,490)	(26,613)	(31,237)	(31,370)
Operating surplus	2	<u>6,412</u>	<u>6,334</u>	5,771	5,483
Surplus on disposal of fixed assets	20	2,990	2,990	2,491	2,491
Net Interest payable and similar charges	6	(6,808)	(6,808)	(4,488)	(4,538)
Surplus for the year	7/18	<u><u>2,594</u></u>	<u><u>2,516</u></u>	<u>3,774</u>	<u>3,436</u>

There is no difference between the surplus for the year reported above and its historical cost equivalent.

All results arise from continuing operations.

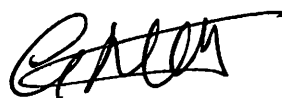
Consolidated Statement of Total Recognised Surpluses and Deficits

	<i>Note</i>	2012 £000	2011 £000
Recognised surplus for the year		2,516	3,436
Prior year adjustment re depreciation of shared ownership		-	540
Pension fund deficit charged to reserves	23	-	(200)
Total recognised surpluses since last financial statements		<u><u>2,516</u></u>	<u><u>3,776</u></u>

Balance sheet
As at 31 March 2012

	<i>Note</i>	Octavia 2012 £000	Group 2012 £000	Octavia 2011 £000	Group 2011 £000
Tangible fixed assets					
Housing properties	8	366,585	366,128	355,665	355,285
Social housing grant	8	(195,983)	(195,983)	(192,156)	(192,156)
Depreciation and Impairment	8	(15,276)	(15,276)	(13,774)	(13,774)
		<hr/>	<hr/>	<hr/>	<hr/>
	8	155,326	154,869	149,735	149,355
Other tangible fixed assets	9	11,708	11,708	10,325	10,325
Investment in subsidiaries	10	10	-	-	-
		<hr/>	<hr/>	<hr/>	<hr/>
		167,044	166,577	160,060	159,680
Intangible fixed assets					
Goodwill	10	-	-	-	-
Current assets					
Stock – housing properties	11	10,420	15,518	11,619	14,598
Stock- charity shops	11	-	46	-	58
Properties for sale	11	225	225	4,030	4,030
Debtors – amounts receivable within one year	12	5,876	4,309	4,945	5,230
Debtors – amounts receivable after one year	12	3,555	-	3,023	-
Short term deposits	13	8,418	8,418	8,698	8,698
Cash at bank and in hand		1,495	1,563	3,588	3,824
		<hr/>	<hr/>	<hr/>	<hr/>
		29,989	30,079	35,903	36,438
Creditors: amounts falling due within one year	14	(11,664)	(11,746)	(13,251)	(13,787)
		<hr/>	<hr/>	<hr/>	<hr/>
Net current assets		18,325	18,333	22,652	22,651
		<hr/>	<hr/>	<hr/>	<hr/>
Total assets less current liabilities		185,369	184,910	182,712	182,331
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Creditors: amounts falling due after more than one year	15	118,695	118,695	118,632	118,632
		<hr/>	<hr/>	<hr/>	<hr/>
Capital and reserves					
Non-equity share capital	17	1	1	1	1
Revenue reserve	18	66,673	66,214	64,079	63,698
		<hr/>	<hr/>	<hr/>	<hr/>
		185,369	184,910	182,712	182,331
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

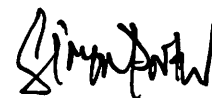
These financial statements were approved by the Board on 16 July 2012 and signed on its behalf by



A Herbert
Chairman



C E Hughes
Secretary



S Porter
Treasurer

Group cash flow statement
for the year ended 31 March 2012

	<i>Note</i>	2012 £000	2012 £000	2011 £000	2011 £000
Net cash inflow from operating activities	22(a)		6,801		11,251
Returns on investments and servicing of finance					
Interest received		93		36	
Interest paid		(4,323)		(4,870)	
Interest rate breakage costs paid		(2,527)		-	
		<hr/>		<hr/>	
Net cash outflow from returns on investments and servicing of finance			(6,757)		(4,834)
			<hr/>		<hr/>
			44		6,417
Capital expenditure					
Acquisition and improvement of housing property		(13,531)		(44,344)	
Social Housing Grant received (net)		4,843		13,262	
Proceeds of sale of fixed assets		6,640		25,017	
Purchase of other fixed assets		(150)		(153)	
		<hr/>		<hr/>	
Net cash outflow from capital expenditure			(2,198)		(6,218)
Management of liquid resources					
Money market transactions			280		(3,348)
Financing					
Loan principal repaid		(10,343)		(319)	
Loan finance costs		(44)		(238)	
Loans advanced		10,000		5,000	
		<hr/>		<hr/>	
Net cash inflow from financing			(387)		4,443
			<hr/>		<hr/>
(Decrease)/increase in cash during period	22(b)		(2,261)		1,294
			<hr/> <hr/>		<hr/> <hr/>

Notes

(forming part of the financial statements)

1 Principal accounting policies

The financial statements have been prepared under historic cost accounting rules and in accordance with applicable accounting standards and the Statement of Recommended Practice, 'Accounting by Registered Social Landlords', updated in 2010. The financial statements also comply with the Accounting Requirements for Registered Social Landlords General Determination 2006. The principal accounting policies have been consistently applied from one year to another and a summary of the principal accounting policies is set out below.

Going concern

The Board have noted that the projected cash flow from operations and sales taken together with undrawn and secured loan facilities significantly exceed the projected cash requirements for operating expenditure and capital investment for at least the next eighteen months. The Board have also noted that business planning forecasts show that Octavia Housing will be operating comfortably within its covenants for the next eighteen months. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Octavia Housing and its subsidiary undertakings, Kensal Enterprises Limited, Octavia Development Services Limited, Octavia Living Limited (formerly Kensal Developments Limited) and Octavia Hill Limited in accordance with FRS 2 'Accounting for Subsidiary Undertakings'. The consolidated financial statements have been prepared under the historic cost convention.

Tangible fixed assets

Housing Properties:

Housing properties are stated at cost less Social Housing Grant (SHG) and other grants, depreciation and impairment.

The cost of housing properties includes the following:-

- (i) Cost of acquiring land and buildings
- (ii) Development expenditure
- (iii) Cost of replacing principal components
- (iv) Interest charges incurred during the development period
- (v) Adjustments, where appropriate, to scheme costs to reflect cross subsidy on mixed tenure development as required by the 2010 SORP (see *Mixed Tenure Development* accounting policy below).
- (vi) Cost of improvements

Improvements are works which result in an increase in the net rental income, a reduction in future maintenance costs, or result in an extension of the useful economic life of the property and are capitalised accordingly. Only the direct overhead costs associated with new developments or improvements are capitalised.

Housing Properties are classified in Note 8 as being "completed properties" or "under construction". Scheme costs are transferred from "under construction" to "completed properties" at handover.

Impairment

Housing properties are subject to impairment reviews annually. Other assets are reviewed for impairment if there is an indication that impairment may have occurred. Where there is evidence of impairment, fixed assets are written down to the higher of value in use and the net recoverable amount. Any such write down is charged to the Income and Expenditure account.

Notes (continued)

1 Principal accounting policies (continued)

Depreciation

(i) Housing land and buildings:

The Group depreciates housing properties held on long leases in the same manner as freehold properties, except where the unexpired lease term is shorter than the longest component life envisaged in which case the unexpired term of the lease is adopted as the useful economic life of the relevant component.

Freehold land is not depreciated. Social Housing Grant (and other capital grants) is spread across the components for the purpose of calculating depreciation where appropriate.

Freehold housing properties are depreciated by component on a straight line basis over the estimated useful economic lives of the components as follows:

Boilers	15 years
Central heating systems	30 years
Kitchens	20 years
Bathrooms	30 years
Service chargeable components – short life	10 years
Service chargeable components – long life	30 years
Externals	30 years
Roofs	50 years
Windows & doors	30 years
Electrics	30 years
Structure	100 years
Freehold land	-

The costs of major repairs to replace or renew components in rental properties are fully capitalised and depreciated as components (see *Major Repairs* accounting policy note).

Octavia Housing's retained investment in shared ownership properties are not depreciated as the terms of the shared ownership leases assign this onus to the shared owner.

(ii) Other fixed assets:

Depreciation is charged on a straight-line basis from the month of purchase over the expected useful lives of the assets at the following rates:

- (a) Office accommodation is depreciated at 1.33% per annum of the cost.
- (b) Office furniture and fittings are depreciated at 10% per annum of the cost.
- (c) Computer equipment is depreciated at 25% per annum of the cost.
- (d) Computer software costing more than £10,000 is depreciated at 33.3% per annum of the cost.
- (e) Motor vehicles are depreciated at 25% per annum of the cost.
- (f) Commercial properties are depreciated at 2% per annum of the cost.
- (g) Shop refurbishment costs are depreciated at 20% per annum or over the remaining term of the lease if longer than 5 years.

Social housing grant (SHG) and other grants

Where developments have been financed wholly or partly by SHG and other grants, the cost of development is shown gross with the amount of grant as a deduction. This grant may become repayable when housing properties are sold. SHG released on the sale of a property may be repayable but is normally available to be recycled and is credited to a Recycled Capital Grant Fund or Disposals Proceeds Fund and is included in the balance sheet as creditors.

Notes (continued)

1 Principal accounting policies (continued)

Mixed tenure development

Octavia develops some schemes which comprise more than one tenure type (for example, schemes with properties both for rent and for shared ownership).

Where there is a surplus on one tenure type (i.e. the sales proceeds plus value in use exceeds the cost net of grant) and a shortfall on another (the cost net of grant exceeds the value in use), then only the overall net surplus on the scheme is recognised as properties are sold. This reflects the existence of cross-subsidy between scheme elements.

The surplus recognised on first tranche sales of shared ownership units is restricted to the overall surplus on that development scheme.

This restriction is shown by an increase in the cost of sales and a reduction in the remaining fixed asset cost of the development in the balance sheet.

First tranche shared ownership sales

- Shared ownership properties are split proportionally between current and fixed assets based on expected level of first tranche sale;
- First tranche proportions are accounted for as current assets and the related sales proceeds shown in turnover;
- The retained element of the Shared Ownership property is treated as a fixed asset and any subsequent sale is treated as a part disposal of a fixed asset;
- Social Housing Grant for Shared Ownership property is attributed entirely to the fixed asset element; and
- Cost of sales include the proportional incidental costs of executing the sale, including marketing costs, and a proportion of the overall cost of development.

Major repairs

The Association undertakes a major programme of principal component replacements which ensures that the stock meets or exceeds the Decent Homes Standard. The costs are fully capitalised according to the principles of component accounting. Any other major repair expenditure is currently capitalised to the extent that it extends the useful life of the property or reduces future maintenance costs.

Projects managed by agents

Octavia owns properties used for specialist supported housing, which are run by outside agencies. Where the agencies carry the financial risk, the income and expenditure account includes only that income and expenditure which relates solely to the Association. Other income and expenditure of the hostels is excluded from the income and expenditure account.

Capitalisation of development department costs

The costs of the development team salaries (excluding overheads, time spent on abortive schemes and net of the relevant proportion of development fees earned) are capitalised in the costs of schemes developed each year.

Current assets – Stock – housing properties

Stock comprises the proportion of the cost of shared ownership properties that is expected to be sold in first tranche sales. These are split between completed properties and properties under construction.

The cost of stock includes acquisition and development costs together with capitalised interest and administration costs. Stock is stated at the lower of cost and net realisable value.

Notes *(continued)*

1 **Principal accounting policies** *(continued)*

Investments

Investments in subsidiary undertakings are stated at cost less any impairment or write offs.

Current assets – Stock – charity shops

Donated goods are held at nil cost. Traded goods are shown at the lower of cost and net realisable value.

Bad debts

A full provision is made against former tenant arrears. Provision against arrears of current tenancies is calculated based on the age of the outstanding arrears.

Loan arrangement fees

The costs of arranging loan finance are treated as deferred financing costs and netted against the loan liability in the Balance Sheet. They are charged to the Income and Expenditure account over the term of the loan rather than in the year in which the cost is incurred.

Finance and operating leases

Costs in respect of operating leases are charged on a straight-line basis over the lease term. Leasing agreements which transfer to Octavia substantially all the benefits and risks of ownership of an asset are treated as if the asset has been purchased outright with a corresponding obligation under finance leases. The interest element charged to the income and expenditure account is calculated so as to give a constant periodic rate of charge over the shorter of the lease term and the useful life of equivalent owned assets.

Negative Goodwill

Where the Association acquires another undertaking in a non-commercial transaction, the excess of the value of assets acquired over the value of liabilities assumed, known as Negative Goodwill, is recognised immediately in the Income and Expenditure account.

Pensions

Octavia participates in a multi employer defined benefits final salary scheme. Contributions to the scheme are charged to the Income and Expenditure Account so as to spread the costs over the members' working lives. Octavia also operates a defined contribution scheme. Pension costs payable to the scheme are charged to the income and expenditure account on an incurred basis.

Provisions

Provisions have been included in the accounts only to the extent that there is a legal or constructive obligation to transfer economic benefits.

Notes *(continued)*

1 **Principal accounting policies** *(continued)*

Turnover

Turnover represents rental income receivable, service charges receivable, first tranche sales of Shared Ownership properties, fees, income from the Octavia charity shops and revenue grants, from local and central government.

Value added tax

Octavia charges value added tax (VAT) on some of its income and is able to recover a small part of the VAT incurred on expenditure. The financial statements include VAT to the extent that it is incurred by Octavia and not recoverable from HM Revenue and Customs. The balance of VAT payable or recoverable at the year end is included as a current liability or asset.

Taxation

Octavia Housing is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the charity is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part 11 Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

Cyclical repairs and maintenance

Cyclical repair costs are charged to the Income and Expenditure account when incurred.

Interest payable

Interest payable is charged in the accounts on an accruals basis.

Interest is capitalised on borrowings to finance developments during the period of construction prior to completion.

Other interest payable is charged to the income and expenditure account in the year.

Financial Instruments

The impact of financial instruments such as interest rate swaps is recorded in the Income and Expenditure account only in respect of current passing payments and on an accruals basis. Neither the market values of such instruments nor movements in them during the year are recorded in the Balance Sheet or the Income & Expenditure account, but disclosed by way of a note.

Sales of tangible fixed assets

All sales of tangible fixed assets are dealt with in the Income and Expenditure account and separately disclosed after the operating surplus for the year.

Cash and liquid resources

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying value or traded in an active market. Liquid resources comprise term deposits of less than one year.

Notes *(continued)*

2 Turnover and operating surplus

2(a) Group

	Group 2012 Turnover £000	Group 2012 Operating costs £000	Group 2012 Operating surplus/ (deficit) £000	Group 2011 Turnover £000	Group 2011 Operating costs £000	Group 2011 Operating surplus/ (deficit) £000
Income and expenditure from social housing lettings						
General needs housing (note 3)	19,448	(15,529)	3,919	18,308	(16,083)	2,225
Temporary social housing (note 3)	-	-	-	5,261	(3,804)	1,457
Leasehold and shared ownership (note 3)	1,458	(579)	879	1,130	(529)	601
Supported housing (note 3)	2,854	(2,227)	627	2,777	(2,504)	273
	<u>23,760</u>	<u>(18,335)</u>	<u>5,425</u>	<u>27,476</u>	<u>(22,920)</u>	<u>4,556</u>
Income and expenditure from non social housing lettings						
Market renting activities	160	(19)	141	234	(119)	115
Other income and expenditure						
Social housing activities						
Shared ownership sales	5,186	(3,773)	1,413	3,734	(3,391)	343
Property development	280	(944)	(664)	566	(1,015)	(449)
Supporting People	236	(211)	25	238	(270)	(32)
Negative goodwill on acquisition (note 21)	-	-	-	1,081	-	1,081
Non social housing activities						
Commercial property	480	(284)	196	646	(299)	347
Community development	-	(70)	(70)	-	(76)	(76)
Lunch club and day centres	446	(461)	(15)	316	(406)	(90)
Octavia charity shops	2,399	(2,316)	83	2,483	(2,394)	89
Donation to Octavia Foundation	-	(200)	(200)	79	(480)	(401)
	<u>32,947</u>	<u>(26,613)</u>	<u>6,334</u>	<u>36,853</u>	<u>(31,370)</u>	<u>5,483</u>

Notes *(continued)*

2 Turnover and operating surplus *(continued)*

2(b) Octavia Housing

	Octavia 2012 Turnover £000	Octavia 2012 Operating costs £000	Octavia 2012 Operating surplus £000	Octavia 2011 Turnover £000	Octavia 2011 Operating costs £000	Octavia 2011 Operating surplus £000
Income and expenditure from social housing lettings						
General needs housing (note 3)	19,448	(15,529)	3,919	18,308	(16,083)	2,225
Temporary social housing (note 3)	-	-	-	5,261	(3,804)	1,457
Leasehold and shared ownership (note 3)	1,458	(579)	879	1,130	(529)	601
Supported housing (note 3)	2,854	(2,227)	627	2,777	(2,504)	273
	<u>23,760</u>	<u>(18,335)</u>	<u>5,425</u>	<u>27,476</u>	<u>(22,920)</u>	<u>4,556</u>
Income and expenditure from non social housing lettings						
Market renting activities	160	(19)	141	234	(119)	115
Other income and expenditure						
Social housing activities						
Shared ownership sales	5,186	(3,773)	1,413	3,734	(3,391)	343
Property development	280	(944)	(664)	566	(1,012)	(446)
Supporting People	236	(211)	25	238	(270)	(32)
Negative goodwill on acquisition (note 21)	-	-	-	1,081	-	1,081
Gift aid - Octavia Development Services Ltd	75	-	75	285	-	285
Non social housing activities						
Commercial property	480	(284)	196	646	(299)	347
Community development	-	(70)	(70)	-	(76)	(76)
Lunch club and day centres	446	(461)	(15)	316	(406)	(90)
Octavia charity shops	2,239	(2,193)	46	2,260	(2,264)	(4)
Gift aid - Kensal Enterprises Ltd	40	-	40	93	-	93
Donation to Octavia Foundation	-	(200)	(200)	79	(480)	(401)
	<u>32,902</u>	<u>(26,490)</u>	<u>6,412</u>	<u>37,008</u>	<u>(31,237)</u>	<u>5,771</u>

Notes *(continued)*

3 Income and expenditure from social housing lettings

Octavia and Group	2012 General needs housing	2012 Home ownership (inc shared ownership)	2012 Supported and extra care housing	2012 Total	2011 Total
	£000	£000	£000	£000	£000
Income					
Rent receivable	18,108	1,175	1,028	20,311	24,335
Service charges receivable	1,503	283	187	1,973	1,637
Gross rents receivable	<u>19,611</u>	<u>1,458</u>	<u>1,215</u>	<u>22,284</u>	<u>25,972</u>
Less: rent and services charge losses on voids	(163)	-	(13)	(176)	(137)
Net rents receivable	<u>19,448</u>	<u>1,458</u>	<u>1,202</u>	<u>22,108</u>	<u>25,835</u>
Supporting people fees receivable	-	-	197	197	197
Care fees receivable	-	-	1,455	1,455	1,444
Total income from lettings	<u><u>19,448</u></u>	<u><u>1,458</u></u>	<u><u>2,854</u></u>	<u><u>23,760</u></u>	<u><u>27,476</u></u>
Expenditure on letting activities					
Services	1,884	247	162	2,293	2,412
Extra care sheltered costs	63	-	1,393	1,456	1,847
Management	3,421	273	479	4,173	4,081
Lease payments for Temporary Accommodation	-	-	-	-	3,122
Routine maintenance	5,143	39	126	5,308	5,743
Cyclical maintenance	1,919	-	-	1,919	1,801
Rent losses from bad debts	31	20	-	51	103
Depreciation on housing properties	3,068	-	67	3,135	3,811
Total expenditure on letting activities	<u>15,529</u>	<u>579</u>	<u>2,227</u>	<u>18,335</u>	<u>22,920</u>
Operating surplus on letting activities	<u><u>3,919</u></u>	<u><u>879</u></u>	<u><u>627</u></u>	<u><u>5,425</u></u>	<u><u>4,556</u></u>

Housing stock

At 31 March

	Octavia and Group 2012 Number	Octavia and Group 2011 Number
Managed general needs and supported housing	3,582	3,546
Shared ownership and Rent to Homebuy	261	249
Supported housing bed spaces managed by other agencies	86	91
Total social housing accommodation	<u>3,929</u>	<u>3,886</u>
Other leaseholder	138	134
Other properties	14	25
	<u><u>4,081</u></u>	<u><u>4,045</u></u>

Notes *(continued)*

4 Board and Executive officers' emoluments

	Octavia and Group 2012 £000	Octavia and Group 2011 £000
Aggregate emoluments including pension contributions paid to 5 (2011: 5) executives officers.	559	598
Aggregate emoluments paid to 8 (2011: 9) Board members	37	42
	<hr/>	<hr/>
Emoluments of highest paid officer excluding pension contributions	124	124
Contributions to pension fund	12	12
	<hr/>	<hr/>

The Chief Executive is a member of the Social Housing Pension Scheme. He is an ordinary member of this scheme and no enhanced or special terms apply. Octavia does not make any further contribution to an individual pension arrangement for the Chief Executive.

5 Employee information

The average weekly number of persons (including the officers and senior executives) employed during the year were as follows:

	2012 Number	2011 Number
Full time employment	235	240
Part time employment - full time equivalents	30	23
	<hr/>	<hr/>
	265	263
	<hr/>	<hr/>

The total staff costs during the year do not differ between Octavia and the Group and these were:

	Octavia and Group 2012 £000	Octavia and Group 2011 £000
Wages and salaries	7,039	7,181
Social security costs	658	692
Other pensions costs	306	301
	<hr/>	<hr/>
	8,003	8,174
	<hr/>	<hr/>

Notes (continued)

6 Interest payable and similar charges, interest receivable

	Octavia 2012 £000	Group 2012 £000	Octavia 2011 £000	Group 2011 £000
Interest payable on bank and other loans	5,444	5,444	5,381	5,381
<i>Less:</i> Interest capitalised at an average rate of 4.62% on housing properties under construction	(900)	(1,070)	(807)	(807)
	<u>4,544</u>	<u>4,374</u>	<u>4,574</u>	<u>4,574</u>
<i>Less:</i> Interest receivable on bank and building society deposits	(93)	(93)	(36)	(36)
Interest receivable from subsidiary	(170)	-	(50)	-
	<u>4,281</u>	<u>4,281</u>	<u>4,488</u>	<u>4,538</u>
Add: Amounts paid to break fixed interest rate arrangements	2,527	2,527	-	-
	<u><u>6,808</u></u>	<u><u>6,808</u></u>	<u><u>4,488</u></u>	<u><u>4,538</u></u>

In March 2012 Octavia Housing broke the embedded swaps on £36m of its borrowing portfolio and re-fixed these borrowings for 2 years at lower rates by entering into a swap with a third party. Breakage costs were £2.5m which were recognised as an expense in the year to 31 March 2012. After two years the loans will revert to the original embedded swap rates.

7 Surplus for the year

	Octavia and Group 2012 £000	Octavia and Group 2011 £000
The surplus for the year is stated after charging/(crediting) :		
Depreciation on housing properties	3,135	3,811
Depreciation on other fixed assets	380	325
Surplus on disposal of housing properties	(2,990)	(2,491)
	<u><u>3,525</u></u>	<u><u>3,645</u></u>
	Octavia 2012 £000	Group 2012 £000
Auditors remuneration	48	58
Audit of these financial statements	6	6
Other services relating to taxation	-	-
	<u><u>54</u></u>	<u><u>64</u></u>

Notes (continued)

8 Fixed assets – housing properties

Group	Group Completed housing properties	Group Completed shared ownership properties	Group Housing properties under construction	Group Shared ownership properties under construction	Group Total
	£000	£000	£000	£000	£000
Cost					
At 1 April 2011	292,029	22,179	33,038	8,039	355,285
Reclassification	7,858	8,875	(15,290)	(920)	523
Reclassification to stock	-	(523)	-	-	(523)
Additions during year	2,814	(23)	8,558	4,244	15,593
Completions during year	12,039	6,004	(12,039)	(6,004)	-
Transfer to Other Fixed Assets	(1,700)	-	-	-	(1,700)
Transfer to properties for sale	(107)	-	-	-	(107)
Transfer (to)/from stock	(118)	97	-	-	(21)
Disposals during the year	(2,605)	(317)	-	-	(2,922)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2012	310,210	36,292	14,267	5,359	366,128
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Social Housing Grant					
At 1 April 2011	167,033	7,325	16,277	1,521	192,156
Reclassification	(112)	4,192	(5,434)	1,354	-
Additions during year	441	-	4,163	1,151	5,755
Completions during year	7,909	1,700	(7,909)	(1,700)	-
Recycled on disposals	(949)	(93)	-	-	(1,042)
Transfer to properties for sale	(71)	-	-	-	(71)
Disposals during the year	(815)	-	-	-	(815)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2012	173,436	13,124	7,097	2,326	195,983
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation and Impairment					
At 1 April 2011	12,669	42	821	242	13,774
Reclassification	(593)	26	809	(242)	-
Charged during year	3,135	-	-	-	3,135
Transfer to Other Fixed Assets	(87)	-	-	-	(87)
Transfer to properties for sale	(5)	-	-	-	(5)
Transfer (to)/from stock	-	-	(1,190)	179	(1,011)
Released on disposals	(530)	-	-	-	(530)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2012	14,589	68	440	179	15,276
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value					
At 31 March 2012	122,185	23,100	6,730	2,854	154,869
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2011	112,327	14,812	15,940	6,276	149,355
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
				Group	Group
				2012	2011
				£000	£000
<i>Housing properties costs comprise</i>					
Freehold land and buildings				305,881	297,678
Leasehold properties				60,247	57,607
				<hr/>	<hr/>
				366,128	355,285
				<hr/>	<hr/>

Notes *(continued)*

8 Fixed assets – housing properties *(continued)*

Octavia	Octavia Completed housing properties	Octavia Completed shared ownership properties	Octavia Housing properties under construction	Octavia Shared ownership properties under construction	Octavia Total
	£000	£000	£000	£000	£000
Cost					
At 1 April 2011	292,409	22,179	33,038	8,039	355,665
Reclassification	7,858	8,875	(15,290)	(920)	523
Reclassification to stock	-	(523)	-	-	(523)
Additions during year	2,891	(23)	8,558	4,244	15,670
Completions during year	12,039	6,004	(12,039)	(6,004)	-
Transfer to Other Fixed Assets	(1,700)	-	-	-	(1,700)
Transfer to properties for sale	(107)	-	-	-	(107)
Transfer (to)/from stock	(118)	97	-	-	(21)
Disposals during the year	(2,605)	(317)	-	-	(2,922)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2012	310,667	36,292	14,267	5,359	366,585
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Social Housing Grant					
At 1 April 2011	167,033	7,325	16,277	1,521	192,156
Reclassification	(112)	4,192	(5,434)	1,354	-
Additions during year	441	-	4,163	1,151	5,755
Completions during year	7,909	1,700	(7,909)	(1,700)	-
Recycled on disposals	(949)	(93)	-	-	(1,042)
Transfer to properties for sale	(71)	-	-	-	(71)
Disposals during the year	(815)	-	-	-	(815)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2012	173,436	13,124	7,097	2,326	195,983
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation and Impairment					
At 1 April 2011	12,669	42	821	242	13,774
Reclassification	(593)	26	809	(242)	-
Charged during year	3,135	-	-	-	3,135
Transfer to Other Fixed Assets	(87)	-	-	-	(87)
Transfer to properties for sale	(5)	-	-	-	(5)
Transfer (to)/from stock	-	-	(1,190)	179	(1,011)
Released on disposals	(530)	-	-	-	(530)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2012	14,589	68	440	179	15,276
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value					
At 31 March 2012	122,642	23,100	6,730	2,854	155,326
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 March 2011	112,707	14,812	15,940	6,276	149,735
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
				Octavia 2012 £000	Octavia 2011 £000
<i>Housing properties costs comprise</i>					
Freehold land and buildings				306,338	298,058
Leasehold properties				60,247	57,607
				<hr/>	<hr/>
				366,585	355,665
				<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

8 Fixed assets – housing properties (continued)

During the year a number of reclassifications of property components were implemented to better reflect the underlying position.

The cost of additions to completed properties during the year amounting to £2.9m is comprised of the cost of renewing property components in social rented properties.

Octavia Housing's completed housing and equity in shared ownership properties were valued on a desktop basis as at 31st March 2012 by Jones Lang LaSalle LLP on the various different bases as follows:

	2012	2011
	£m	£m
Open Market Value with Vacant Possession (OMV-VP)	1,354	1,308
Market Value subject to existing Tenancies (MV-T)	668	640
Existing Use Value for Social Housing (EUV-SH)	324	301

9 Other tangible fixed assets

Octavia and Group

	Office accommodation £000	Commercial properties £000	Motor vehicles £000	Office equipment £000	Octavia shops £000	Total £000
<i>Cost</i>						
At 1 April 2011	7,660	2,925	97	1,378	373	12,433
Additions for year	-	-	7	143	-	150
Transfer from housing properties	-	1,700	-	-	-	1,700
Disposals for year	-	-	(10)	-	-	(10)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2012	7,660	4,625	94	1,521	373	14,273
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>						
At 1 April 2011	416	551	72	957	112	2,108
Charged for year	83	118	7	123	49	380
Transfer from housing properties	-	87	-	-	-	87
Disposals for year	-	-	(10)	-	-	(10)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2012	499	756	69	1,080	161	2,565
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>						
At 31 March 2012	7,161	3,869	25	441	212	11,708
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2011	7,244	2,374	25	421	261	10,325
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

The office accommodation and commercial properties were valued by Strettons in July 2006 at £17.2m.

Notes *(continued)*

10 Intangible fixed assets

Goodwill	Octavia and Group 2012 £000	Octavia and Group 2011 £000
Cost		
As at 1 April and at 31 March	579	579
	<u>579</u>	<u>579</u>
Amortisation		
As at 1 April and at 31 March	579	579
	<u>579</u>	<u>579</u>
Net book value	-	-
	<u>-</u>	<u>-</u>

Investment in subsidiaries

	Octavia 2012 £000	Octavia 2011 £000
Cost and net book value at 1 April	-	-
Invested during the year – Octavia Living Limited	10	-
	<u>10</u>	<u>-</u>
Cost and net book value at 31 March	10	-
	<u>10</u>	<u>-</u>

Details of subsidiary undertakings are set out in Note 24

11 Stock

	Octavia 2012 £000	Group 2012 £000	Octavia 2011 £000	Group 2011 £000
Housing properties				
Land	2,658	7,756	7,205	10,184
Properties under construction	5,989	5,989	3,545	3,545
Completed properties	1,998	1,998	4,899	4,899
	<u>10,645</u>	<u>15,743</u>	<u>15,649</u>	<u>18,628</u>

Stock includes the proportion of the cost of shared ownership properties both completed and under construction that is expected to relate to first tranche sales, outright sale properties under construction and existing rented properties identified for sale in the year to 31 March 2013, as follows:

	Octavia 2012 £000	Group 2012 £000	Octavia 2011 £000	Group 2011 £000
Shared ownership properties:				
Completed properties	1,773	1,773	1,221	1,221
Work in progress	2,556	2,556	4,192	4,192
	<u>4,329</u>	<u>4,329</u>	<u>5,413</u>	<u>5,413</u>
Properties developed for outright sale	6,091	11,189	6,206	6,206
Other properties for sale	225	225	4,030	7,009
	<u>10,645</u>	<u>15,743</u>	<u>15,649</u>	<u>18,628</u>

Notes (continued)

11 Stock (continued)

Charity Shops	Group 2012	Group 2011
Charity shops traded goods	46	58
	<u>46</u>	<u>58</u>

12 Debtors

	Octavia 2012 £000	Group 2012 £000	Octavia 2011 £000	Group 2011 £000
Amounts receivable within one year:				
General needs rental and service charges	1,260	1,260	1,104	1,104
Provision for doubtful debts	(442)	(442)	(465)	(465)
	<u>818</u>	<u>818</u>	<u>639</u>	<u>639</u>
License debtors	16	16	15	15
Leasehold debtors	23	23	179	179
Other debtors	4,444	2,911	3,271	3,670
Prepayments and accrued income	540	540	601	601
Amounts due from subsidiaries	34	-	114	-
Amounts due from related party – The Octavia Foundation	1	1	126	126
	<u>5,876</u>	<u>4,309</u>	<u>4,945</u>	<u>5,230</u>
Amounts receivable after one year				
Amounts due from subsidiary – Octavia Living Limited	3,555	-	3,023	-
	<u>9,431</u>	<u>4,309</u>	<u>7,968</u>	<u>5,230</u>

The amount due from Octavia Living Limited arises from a loan agreement to fund the construction of housing for sale at a site where Octavia is constructing social housing. Interest is payable at normal commercial rates and the loan is due to be fully repaid by December 2013.

13 Short term deposits

Included within short term deposits is £107k (2011: £81k) which relates to funds held on trust for leaseholders.

14 Creditors: amounts falling due within one year

	Octavia 2012 £000	Group 2012 £000	Octavia 2011 £000	Group 2011 £000
Housing loan (see note 15)	367	367	367	367
Trade creditors	5,984	6,068	7,241	7,628
Rent received in advance	741	741	753	753
Accrued interest	1,021	1,021	995	995
Other creditors and accruals	379	377	764	913
Grant received in advance	2,979	2,979	2,958	2,958
Social security and other taxation	193	193	173	173
	<u>11,664</u>	<u>11,746</u>	<u>13,251</u>	<u>13,787</u>

Notes *(continued)*

15 Creditors: amounts falling due after more than one year

	Octavia and Group 2012 £000	Octavia and Group 2011 £000
Housing loans :		
Due to banks	118,594	118,937
Less: Cost of raising loan finance	(588)	(571)
	118,006	118,366
Recycled Capital Grant Fund	433	10
Disposal Proceeds Fund	231	231
Non housing loans :		
Due to loan stock holders with no redemption date	25	25
	118,695	118,632
	118,695	118,632

Housing loans are secured by specific charges on 40% of Octavia's housing properties and are repayable at rates of interest varying between 0.93% and 11.50% (2011: 1.11% and 11.50%) due as follows:

	Octavia and Group 2012 £000	Octavia and Group 2011 £000
Housing loans by instalments:		
Due within 1 year	367	367
Between one and two years	5,997	5,583
Between two and five years	14,059	10,004
In five years or more	93,004	97,816
	113,427	113,770
Advances under pre-1988 arrangements	34	34
Not by instalments :		
In five years or more	5,500	5,500
	118,961	119,304
Total housing loans	118,961	119,304
Non housing loans by instalments:		
In five years or more	25	25
	118,986	119,329
	118,986	119,329

Notes *(continued)*

15 Creditors: amounts falling due after more than one year *(continued)*

Recycled grant and disposals proceeds funds

Octavia and Group	Recycled grant fund £000	Disposals proceeds fund £000
At 1 April 2011	10	231
Social housing grant on disposals in the year:		
Staircasing of shared ownership properties	130	-
From sales of other properties	293	-
	<hr/>	<hr/>
At 31 March 2012	433	231
	<hr/> <hr/>	<hr/> <hr/>

16 Interest Rate Derivative Transactions

Octavia Housing has entered into long term embedded interest rate swap contracts to fix the rates of £101m of its borrowing portfolio until various dates up to 2033. The negative fair value of these contracts at 31st March 2012 was £16.3m *(2011: £6.3m negative on £101m of rate fixing)*.

Additionally, during the year Octavia Housing entered into stand alone interest rate swap contracts to fix the rates on £36m of borrowings for two years from August 2012. The negative fair value of these contracts at 31 March 2012 was £0.1m.

The fair values of these contracts have not been recognised in either the Income and Expenditure or the Balance Sheet

One embedded interest rate swap contract with a notional principal of £5m is cancellable at the option of the bank counterparty in 2015.

Hedging position

At 31st March 2012, Octavia Housing's borrowings were hedged as follows:

	Principal		Principal	
	2012		2011	
	£m	%	£m	%
Interest rates fixed for more than 12 months	91.5	77	93.1	78
Fixed interest rates with lender's option to cancel	5.0	4	5.0	4
	<hr/>	<hr/>	<hr/>	<hr/>
	96.5	81	98.1	82
Floating rate (interest rates fixed for less than 12 months)	22.5	19	21.3	18
	<hr/>	<hr/>	<hr/>	<hr/>
	119.0	100	119.4	100
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

A long term embedded interest rate swap hedging a further £10m of borrowings commences in 2013.

Notes (continued)

17 Called up share capital

Each member of Octavia Housing holds a non-equity share from one of the following classes of allotted, issued and fully paid shares:

	£1 ord	Number of shares			2012	2011
		Class "A"	Class "B"	Class "C"	£	£
As at 1 April 2011						
£1 ordinary	104	-	-	-	104	104
Class "A" £1	-	77	-	-	77	77
Class "B" £0.05	-	-	1	-	-	-
Class "C" £5	-	-	-	18	90	90
	<u>104</u>	<u>77</u>	<u>1</u>	<u>18</u>	<u>271</u>	<u>271</u>
As at 31 March 2012						
	<u>104</u>	<u>77</u>	<u>1</u>	<u>18</u>	<u>271</u>	<u>271</u>

All shares carry equal voting rights but have no entitlement to interest, dividend or bonus and are cancellable on death, expulsion or withdrawal of a member from Octavia Housing.

18 Reserves

	Octavia Revenue £000	Group Revenue £000
At 1 April 2011	64,079	63,698
Surplus for the year	2,594	2,516
	<u>66,673</u>	<u>66,214</u>
At 31 March 2012		
	<u>66,673</u>	<u>66,214</u>

19 Capital commitments

	Octavia 2012 £000	Group 2012 £000	Octavia and Group 2011 £000
Expenditure contracted for	32,062	36,173	46,595
Expenditure authorised by the Board but not contracted for	10,262	10,262	6,484
	<u>42,234</u>	<u>46,435</u>	<u>53,079</u>

20 Surplus on disposal of fixed assets

	Octavia and Group 2012 £000	Octavia and Group 2011 £000
Net proceeds of property sales	6,691	24,931
Disposal costs	(51)	(159)
Net book value of assets disposed	<u>(3,650)</u>	<u>(22,281)</u>
Net surplus on sales	<u>2,990</u>	<u>2,491</u>

Notes (continued)

20 Surplus on disposal of fixed assets (continued)

In the year to 31 March 2012 there were 9 properties (2011: 12) sold as being unsuitable for social housing. There were 20 (2011: 31) properties developed on behalf of and sold to other Housing Associations. There were staircasing receipts on 3 shared ownership properties (2011: 2). In the year to 31 March 2011 there were 38 properties used for temporary accommodation that were sold to another Housing Association together with a further 6 units sold to another Housing Association and 2 plots of land were sold. There were none in the year to 31 March 2012.

21 Business Combinations

There were no business combinations in the year to 31 March 2012. In the previous year, under a transfer of engagements the assets and liabilities of Holy Trinity (Paddington) Housing Association were transferred to Octavia Housing on 8 November 2010 for nil consideration. The principal assets of Holy Trinity (Paddington) Housing Association were 20 flats let to social housing tenants. The assets and liabilities transferred on 8 November 2010 were:

	2012 £000	2011 £000
Housing property at book value	-	124
Surplus on valuation (fair value adjustment)	-	932
	-----	-----
Debtors – rent balances	-	1,056
Cash at bank	-	7
	-----	-----
Total assets	-	1,106
Less: Long term loans	-	(25)
	-----	-----
	-	1,081
	=====	=====
Consideration paid	Nil	Nil
	=====	=====
Negative Goodwill arising	-	1,081
	=====	=====

The book value of all other assets except the housing property is considered to equate to the fair value. In line with the accounting policy for Business Combinations, adopted in line with SORP 2010, this negative goodwill has been recognised in the Income and Expenditure for the year to 31 March 2012.

Notes (continued)

22 Group cash flow statement

(a) Reconciliation of operating surplus to net cash inflow from operating activities

	Group 2012 £000	Group 2011 £000
Operating surplus for the year	6,334	5,483
Depreciation on housing properties	3,135	3,811
Depreciation of other fixed assets	380	325
Amortisation of loan finance costs	26	22
Amortisation of negative goodwill	-	(1,038)
Loss on disposal of tangible fixed assets	-	8
(Increase)/decrease in stock	(1,904)	1,986
Decrease/(increase) in debtors	921	(1,096)
(Decrease)/increase in creditors	(2,091)	1,750
	<hr/>	<hr/>
Net cash inflow from operating activities	6,801	11,251
	<hr/> <hr/>	<hr/> <hr/>

(b) Reconciliation of net cash flow to movement in net debt

	2012 £000	2011 £000
Increase/(decrease) in cash at bank during the year	(2,261)	1,294
Movements in short term deposits	(280)	3,348
Loans advanced	(10,000)	(5,000)
Loans repaid	10,343	319
	<hr/>	<hr/>
Change in net debt	(2,198)	(39)
Net debt at start of period	(106,807)	(106,768)
	<hr/>	<hr/>
Net debt at end of period	(109,005)	(106,807)
	<hr/> <hr/>	<hr/> <hr/>

(c) Change in net debt

	2011 £000	Cashflow £000	2012 £000
Bank balances and cash	3,824	(2,261)	1,563
Short term deposits	8,698	(280)	8,418
Debt due within 1 year	(367)	-	(367)
Debt due after 1 year	(118,962)	343	(118,619)
	<hr/>	<hr/>	<hr/>
	(106,807)	(2,198)	(109,005)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

23 Pensions

Octavia operates two group personal pension plans, one of which is closed to new members of Octavia Housing, which are defined contribution schemes. Pension costs payable to the schemes are charged to the income and expenditure account on an incurred basis. Pension costs for the period in respect of the defined contribution schemes are £253 k (2011: £211k).

Octavia also participates in the Social Housing Pension Scheme (SHPS), a multi-employer defined benefit scheme. The scheme is funded and is contracted out of the state scheme and is currently closed to new members of Octavia Housing.

It is not possible in the normal course of events to identify the share of underlying assets and liabilities belonging to individual participating employers. It is not possible to analyse the on-going funding deficit by individual employer due to the nature of the SHPS Scheme. SHPS is a multi-employer scheme where:

- The assets of the entire SHPS are pooled for investment purposes.
- Benefits are paid from the total scheme assets and
- The contribution rate for all employers is set by reference to the overall financial position of the scheme rather than by reference to individual employer experience.

As a result of this it is not possible to breakdown scheme assets by participating employer and accordingly it is not possible to analyse the on-going funding deficit by individual employer

Accordingly due to the nature of the Plan, the accounting charge for the period under FRS 17 represents the employer contribution payable. The employer contributions over the period were £ 133k (2011: £132k).

The last formal valuation of the scheme was performed as at 30 September 2008 by a professionally qualified actuary using the projected unit method. The market value of the scheme's assets at the latest valuation date was £1,527 million. The valuation revealed a shortfall of assets compared to liabilities of £663 million, equivalent to a past service funding level of 70%.

The financial assumptions underlying the valuation as at 30 September 2008 were as follows:

	% per annum
Valuation discount rates - pre retirement	7.8
- non Pensioner Post retirement	6.2
- pensioner Post retirement	5.6
Pensionable earnings growth	4.7
Price inflation	3.2
Rate of pension increases - Pre 88 GMP	0.0
- Post 88 GMP	2.8
Excess over GMP	3.0
Mortality pre retirement - PA92 Year of Birth, long cohort projection, minimum improvement	1.0
Mortality post retirement - 90% S1PA Year of Birth, long cohort projection, minimum improvement	1.0

The Scheme Actuary has prepared an Actuarial Report that provides an approximate update on the funding position of the scheme as at 30 September 2010. 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 £1,985 million and indicated a reduction in the shortfall of assets compared to liabilities to approximately £497 million, equivalent to a past service funding of 80.0%.

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

During the year ended 31 March 2012 Octavia made contributions at the rate of 19.4%. Member contributions varied between 5.0% and 7.5% (2011: 5.1% to 6.1%).

As a result of pension scheme legislation 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.

Notes (continued)

23 Pensions (continued)

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.

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.

In May 2011, Octavia Housing was approached by the London Pension Fund Authority (LPFA) in connection with the pension arrangements for four employees of St Marylebone Housing Association who had left its employment prior to the merger in 2001 that created Octavia Housing. The LPFA has indicated that it believes Octavia Housing has a liability for any deficit in the Local Government Pension Fund attaching to these ex-employees. An estimated liability of £200k was recognised in this respect at 31 March 2011. The claim was reviewed by Octavia's legal advisors and a final agreed settlement of £184k was paid during the year to 31 March 2012

24 Subsidiary undertakings

During the year ended 31 March 2012 Octavia wholly owned the following undertakings incorporated under the Companies Act :

Name	Country of incorporation	Nature
Kensal Enterprises Limited	England	Trading company
Octavia Development Services Limited	England	Trading company
Octavia Living Limited (<i>formerly Kensal Developments Limited</i>)	England	Trading company
Octavia Hill Limited	England	Dormant

25 Related undertakings

During the year ended 31 March 2012 the Board of Octavia Housing controlled a third of the board of The Octavia Foundation.

Name	Country of incorporation	Nature
The Octavia Foundation	England	Charity

During the year ended 31 March 2012, Octavia Housing had incurred costs and received revenues from and on behalf of its related undertakings as follows:

	2012 £000	2011 £000
The Octavia Foundation		
Debtor balance due at start of year	126	209
Donation payable by Octavia Housing	(200)	(480)
Monies received from The Octavia Foundation	(331)	(110)
The Octavia Foundation funding of Day Centre activities	60	60
Payments made on behalf of The Octavia Foundation	346	447
	<hr/>	<hr/>
Debtor balance due at end of year	1	126
	<hr/>	<hr/>

Notes *(continued)*

26 Related party transactions

At 31 March 2012 there were 3 (2011:3) members of the Board who have tenancy agreements with Octavia. The tenancy agreements have been granted on the same terms as for all other tenants and the housing management procedures including those relating to the management of arrears, have been applied consistently to those tenants.

Octavia Housing, the Company, has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the Group.

27 Contingent liabilities

Octavia and the Group had no contingent liabilities at 31 March 2012 (2011: £nil). Social Housing Grant of £4.1m attributed to housing property components replaced is potentially repayable on the sale of the relevant property.

28 Incorporation

Octavia Housing is incorporated under the Industrial and Provident Societies Acts 1965 to 2003 and is registered as a housing association with charitable status - Registration Number 13991R. It is registered with the Tenant Services Authority, the Regulator of Social Housing, number L0717.