

THE CO-OPERATIVE DEVELOPMENT SOCIETY LIMITED

Financial Statements

**Year ended
31 March 2005**

THE CO-OPERATIVE DEVELOPMENT SOCIETY LIMITED

Annual report and financial statements year ended 31 March 2005

Contents

Page:

1	Advisers and bankers
2 - 7	Report of the Board of Management
8	Report of the independent auditors on the financial statements
9	Income and expenditure account
10	Balance sheet
11	Cash flow statement
12 - 29	Notes on the financial statements

THE CO-OPERATIVE DEVELOPMENT SOCIETY LIMITED

ADVISERS AND BANKERS

REGISTERED OFFICE

3 Marshalsea Road
London
SE1 1EP

AUDITORS

BDO Stoy Hayward LLP
Emerald House
East Street
Epsom
Surrey
KT17 1HS

INTERNAL AUDITORS

TIAA Limited
Business Support Centre
Granham House
5 Spring Garden Lane
Gosport
PO12 1HY

SOLICITORS PANEL

Winckworth Sherwood
35 Great Peter Street
Westminster
London. SW1P 3LR

Lawrence Graham
190 The Strand
London. EC2R 1JN

Glazer Delmar
223/229 Rye Lane
Peckham
London. SE15 4TZ

PRINCIPAL BANKER

Co-operative Bank Plc
78/80 Cornhill
London
EC3V 3NJ

THE CO-OPERATIVE DEVELOPMENT SOCIETY LIMITED

REPORT OF THE BOARD OF MANAGEMENT

BOARD OF MANAGEMENT

Mrs Maureen Stables	
Mr Robert Holman	(resigned January 2005)
Mr Mike Jeanes	
Mr Stephen Mallaburn	
Mr Tim Clark	
Mr Cyril Davenport	
Ms Gladys Bunn JP	(deceased December 2004)
Mr Glyn Thomas	
Ms Patricia Simmons	(appointed September 2004)
Miss Theresa Lyons	
Mr Godfrey Best	
Mr Ajit Mitra	(co-opted member)
Ms Natasha Keeys	(co-opted member, resigned July 2004)
Mr Lawrence Zollner	(co-opted member)
Mrs Paula Farrow	(appointed September 2004)

Members of the Board of Management, or in the case of the representative members, their sponsoring Society, hold one fully paid share of £5 each in the Society. Co-opted members are not required to hold shares in the Society.

SENIOR MANAGEMENT TEAM

David A Rodgers	Executive Director
Les Haswell	Deputy Director
Maria McCarron	Housing Services Manager
Zaeda Kasmani	Finance Manager
Stephen Brown	Administration Manager and Society Secretary
Rahul Munday	Development Manager (resigned July 2004)
Rachael Greenlees	Development Manager (appointed August 2004)

THE CO-OPERATIVE DEVELOPMENT SOCIETY LIMITED

REPORT OF THE BOARD OF MANAGEMENT

The Board of Management presents the financial statements for the year ended 31 March 2005.

PRINCIPAL ACTIVITY

The principal activity of the Society is the provision of accommodation to those in need. This is achieved by initiating housing developments together with tenant involvement in management. Subsequently the developments are transferred into independent co-operatives who manage and maintain the properties.

REVIEW OF BUSINESS

A review of the Society's activities is contained in The Co-operative Development Society Limited's annual report.

RESULTS FOR THE YEAR AND TRANSFER TO RESERVES

The Society made a deficit for the year after tax of £431,476 (2004: surplus £4,982). The deficit for the year has been as a result of the following:

During the year the Society carried out an extensive re-investment programme on its properties. It has also been actively involved in new business development opportunities and has concentrated on improving its business activities particularly on delivery of service to tenants and its client co-operatives. These have all been funded from the operational income for the year.

Additionally, on carrying out an impairment review of its housing properties, a shortfall of £525,295 has been provided for in relation to housing properties under construction. Although only 40% of the costs have been committed at the balance sheet date, the full expected impairment has been provided for.

Following the abolition of the requirements to account for the Rent Surplus Fund in the restricted reserves, the balance on those reserves, as at the 1 April 2004, has been transferred to revenue reserves. The result for the year and the transfer from restricted reserves has resulted in an increase in revenue reserves to £5,622,212 as at the 31 March 2005. Movements in the restricted reserves are shown in note 20 to the financial statements.

FIXED ASSETS

Changes in fixed assets are shown in notes 11 and 12 of the financial statements.

In accordance with the Society's decision to transfer out completed developments into independent co-operatives only when certain conditions are satisfied, developments held as "Properties awaiting transfer"; which were previously included under current assets have been transferred to Fixed Assets. Depreciation on these properties is retrospectively charged in line with the Society's depreciation policy as outlined in the note 1 of the financial statements.

SHARE CAPITAL

Changes in share capital are shown in note 19 of the financial statements.

THE CO-OPERATIVE DEVELOPMENT SOCIETY LIMITED

REPORT OF THE BOARD OF MANAGEMENT (continued) 31 March 2005

FUTURE DEVELOPMENTS

The Society will continue to work towards its objective to provide accommodation to those in need. The Society continues to improve and develop new initiatives in educating and training to enable the tenants to have control in the management and maintenance of their properties so that they can successfully operate their independent co-operatives.

Future development within the Society will have regard to the increasing demand for, and cost of, housing in the areas where the Society operates. The Society will continue to seek opportunities to build on its experience of developing and servicing client co-operatives by working closely with tenants and in partnership with other housing providers, contractors and local authorities to achieve its aims and the tenants' aspirations.

EMPLOYEES

At the year-end, the Society had 44 full and part time staff. The Society is committed to equality of opportunity in the employment of staff and its recruitment and employment policies reflect this. Staff receive information about the Society's activities by means of staff meetings, regular departmental meetings and team briefings. This helps to ensure their awareness of the Society's performance and objectives and the business environment in which it operates, and gives them opportunities to comment on and suggest improvements to plans and proposals.

The Society reviews and monitors health and safety. Staff are provided with training and education on health and safety matters.

It is the Society's policy that disabled people should receive full and fair consideration for all job vacancies for which they are suitable applicants. It seeks to assist employees who become disabled whilst employed by the Society to stay in its employment.

GOVERNANCE

The Society embraces the principles set out in 'Competence and Accountability', the code of governance for members of the National Housing Federation published in September 2004. The Board of Management has confirmed its compliance with the code and will ensure future compliance with the code in all areas, except as follows:

- The Board is committed to a democratically elected Board and to encourage the involvement of client co-operative representatives on the Board. In order to achieve this commitment and to ensure that the Board has the proper range of skills required, it has decided not to reduce the size of the Board to the recommended maximum of 12 as recommended by the Code of Governance.
- The Board continues to believe that paid members of staff should not serve as members of the Board of Management and consequently those parts of the code relating to this issue do not apply.
- The Board is committed to ensuring that new people with new ideas and skills become members of the Board. However, it does not believe that this should be achieved through the imposition of an arbitrary maximum term of office for Board members as recommended in the code.

THE CO-OPERATIVE DEVELOPMENT SOCIETY LIMITED

REPORT OF THE BOARD OF MANAGEMENT (continued) 31 March 2005

The Society is governed by a Board, comprising 12 voluntary, non-executive Board members. They are responsible for the overall strategic direction of the Society, including the determination of key policies and the monitoring of compliance with policies and performance targets. The members of the Society's Board of Management are listed on page 2 of this report. Day-to-day operational control of the Society is delegated to the Senior Management Team. The Senior Management Team is appointed on conventional contracts of employment with normal notice periods. The Senior Management Team is listed on page 2 of this report.

The Society's voluntary Board members are unpaid. Information relating the Senior Management Team's remuneration is shown in note 8 to the financial statements.

The Society is committed to attaining the highest standards of corporate governance and will keep its Board structure and procedures under review.

The Co-operative Development Society Limited's Board meets every six weeks or more often if issues arise which require consideration by members.

The Society is supported by the Finance & Administration Sub-committee, the Internal Control Sub-committee and the Housing Services Sub-committee, who consider these specialist areas of the Society's operation and report to the Board of Management.

TREASURY MANAGEMENT

The Co-operative Development Society Limited's Board is responsible for determining the Society's treasury strategy. The Society's Board approves all borrowings and investments.

INTERNAL CONTROL

The Board has overall responsibility for establishing and maintaining the whole system of internal control and reviewing its effectiveness.

The Board recognises that no system of internal control can provide absolute assurance or eliminate all risk and that the system of internal control is designed to manage risk and to provide reasonable assurance that 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 Society's assets and interests.

In meeting its responsibilities, the Board has adopted a risk-based approach to internal controls which are embedded within the normal management and governance process. This approach includes the regular evaluation of the nature and extent of risks to which the Society is exposed and is consistent with the Turnbull principles as incorporated in the Housing Corporation's circular R2-25/01; "Internal Controls Assurance".

The process adopted by the Board in reviewing the effectiveness of the system of internal controls, together with some of the key elements of the control framework includes:

Identification and evaluation of key risks

Management responsibility has been clearly defined for the identification, evaluation and control of significant risks. There is a formal and ongoing process of management review in each area of the Society's activities. This process is co-ordinated through a regular reporting framework by the Senior Management

THE CO-OPERATIVE DEVELOPMENT SOCIETY LIMITED

REPORT OF THE BOARD OF MANAGEMENT (continued) 31 March 2005

Team which regularly considers reports on significant risks facing the Society and the team is responsible for reporting to the Board any significant changes affecting key risks.

Monitoring and corrective action

A process of control self-assessment and regular management reporting on control issues provides hierarchical assurance to management and to the Board. This includes a rigorous procedure for ensuring that corrective action is identified in relation to any significant control issues, particularly those with a material impact on the financial statements.

Control environment and control procedures

The Board retains responsibility for a defined range of issues covering strategic, operational, financial and compliance issues including new investment projects. The Board has adopted and disseminated to all employees a code of conduct for board members and staff based upon the code of governance “Competence and Accountability 2004”. This sets out the Society’s policies with regard to the quality, integrity and ethics of its employees. It is supported by a framework of policies and procedures with which employees must comply. These cover issues such as delegated authority, segregation of duties, accounting, treasury management, health and safety, asset protection and fraud prevention and protection.

Information and financial reporting systems

Financial reporting procedures include detailed budgets for the year ahead and forecasts for the subsequent four years. These are reviewed and approved by the Board. The Board also regularly reviews key performance indicators to assess progress towards the achievement of key business objectives, targets and outcomes.

The internal control framework and risk management process are subject to regular review by the Internal Auditors who are responsible for providing independent assurance to the board via its Internal Control Sub-committee. The Internal Control Sub-committee considers internal control and risk at each of its meetings.

The Board has received the annual report of the Senior Management Team, has conducted its annual review of the effectiveness of the system of internal control and has taken account of any changes needed to maintain the effectiveness of the risk management and control process.

The Board confirms that there is an on-going process for identifying, evaluating and managing significant risks faced by the Society. This process has been in place throughout the year under review and up to the date of the approval of these statements and is regularly reviewed by the Board.

STATEMENT OF THE BOARD’S RESPONSIBILITIES

The Industrial and Provident Societies Acts 1965 to 2002 and housing legislation 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 Society, and of the surplus or deficit for that period. In preparing the financial statements, the Board is required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;

THE CO-OPERATIVE DEVELOPMENT SOCIETY LIMITED

REPORT OF THE BOARD OF MANAGEMENT (continued)
31 March 2005

- state whether applicable accounting standards 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 Society will continue in business.

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

AUDITORS

BDO Stoy Hayward LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

By order of the Board of Management

S. BROWN

Secretary

Date: 26 September 2005

THE CO-OPERATIVE DEVELOPMENT SOCIETY LIMITED

REPORT OF THE INDEPENDENT AUDITORS ON THE FINANCIAL STATEMENTS

To the members of The Co-operative Development Society Limited

We have audited the financial statements of The Co-operative Development Society Limited for the year ended 31 March 2005 on pages 9 to 29. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of the board and auditors

The Board's responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the statement of Board's Responsibilities on pages 6 and 7.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002, the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2000. We also report to you if, in our opinion, a satisfactory system of control over transactions has not been maintained, if the Society has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read other information contained in the Report of the Board and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of Schedule 1 paragraph 16 to the Housing Act 1996 and section 9 of the Industrial and Provident Societies Act 1968 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Statutory Framework or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the society's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Society at 31 March 2005 and of the results of the Society for the year then ended and have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002, the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2000.

BDO STOY HAYWARD LLP

Chartered Accountants and Registered Auditors

EPSOM, SURREY

Date: 26 September 2005

THE CO-OPERATIVE DEVELOPMENT SOCIETY LIMITED

INCOME AND EXPENDITURE ACCOUNT

Year ended 31 March 2005

	Note	2005 £	2004 £
TURNOVER	2	4,233,859	3,843,228
Operating costs	2	(4,397,672)	(3,609,361)
OPERATING (DEFICIT)/SURPLUS	2	(163,813)	233,867
Surplus on sale of housing properties	4	81,575	112,126
Interest receivable	5	49,400	77,065
Interest payable and similar charges	6	(398,638)	(418,076)
(DEFICIT)/SURPLUS ON ORDINARY ACTIVITIES BEFORE TAX	7	(431,476)	4,982
Tax on (deficit)/surplus on ordinary activities	10	-	-
(DEFICIT)/SURPLUS ON ORDINARY ACTIVITIES AFTER TAX		(431,476)	4,982
Transfer from restricted reserves	20	1,616,504	174,521
Revenue reserves brought forward		4,437,184	4,257,681
REVENUE RESERVES CARRIED FORWARD		5,622,212	4,437,184

All amounts relate to continuing activities.

All recognised surpluses and deficits are included in the income and expenditure account.

The notes on pages 12 to 29 form part of these financial statements.

THE CO-OPERATIVE DEVELOPMENT SOCIETY LIMITED

BALANCE SHEET
31 March 2005

	Note	2005		2004	
		£	£	£	£
TANGIBLE FIXED ASSETS					
Housing properties at cost	11		36,706,158		24,727,710
Less: Housing Association Grant and Social Housing Grant	11		(24,096,032)		(18,300,960)
Other grants	11		(150,954)		(150,954)
Depreciation	11		(1,042,244)		(233,754)
			11,416,928		6,042,042
Other fixed assets	12		205,316		254,791
			11,622,244		6,296,833
CURRENT ASSETS					
Housing properties awaiting transfer	13	-		4,552,290	
Debtors	14	747,017		866,183	
Investments	15	-		581,669	
Cash at bank and in hand		1,828,786		1,505,930	
			2,575,803	7,506,072	
CREDITORS: amounts falling due within one year	16	(2,968,983)		(1,580,540)	
NET CURRENT (LIABILITIES) /ASSETS	17		(393,180)		5,925,532
TOTAL ASSETS LESS CURRENT LIABILITIES			11,229,064		12,222,365
CREDITORS: amounts falling due after more than one year	18		5,606,547		6,168,377
CAPITAL AND RESERVES					
Share capital	19		305		300
Revenue reserves			5,622,212		4,437,184
Restricted reserves	20		-		1,616,504
			11,229,064		12,222,365

In view of the constitution of the Society all shareholdings relate to non-equity interests, as disclosed in note 19.

These financial statements were approved by the Board of Management and signed on its behalf by:

M. STABLES
Chair

S. MALLABURN
Board Member

S. BROWN
Secretary

D.A. RODGERS
Executive Director

Date of approval: 26 September 2005

The notes on pages 12 to 29 form part of these financial statements.

THE CO-OPERATIVE DEVELOPMENT SOCIETY LIMITED

CASH FLOW STATEMENT

Year ended 31 March 2005

	Note	2005		2004	
		£	£	£	£
NET CASH INFLOW FROM OPERATING ACTIVITIES	21(a)		68,028		183,600
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE					
Interest received		49,400		77,065	
Interest paid		(382,674)		(398,285)	
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			(333,274)		(321,220)
TAXATION					
Corporation tax paid			-		(89,696)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT					
Cash paid for construction and purchase of fixed assets housing properties		(3,679,016)		(992,062)	
Social Housing Grant received		3,808,064		408,398	
Proceeds of sales of fixed assets		156,217		199,038	
Purchase of other tangible fixed assets		(53,349)		(102,261)	
NET CASH INFLOW/(OUTFLOW) FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			231,916		(486,887)
CASH OUTFLOW BEFORE FINANCING			(33,330)		(714,203)
FINANCING					
Shares issued			5		5
Loans repaid	21(b)	(225,488)		(211,654)	
			(225,483)		(211,649)
DECREASE IN CASH IN YEAR	21(c)		(258,813)		(925,852)

The notes on pages 12 to 29 form part of these financial statements.

THE CO-OPERATIVE DEVELOPMENT SOCIETY LIMITED

NOTES ON THE FINANCIAL STATEMENTS

31 March 2005

1 PRINCIPAL ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Society's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, the Statement of Recommended Practice "Accounting by Registered Social Landlords" Update 2002 and under the historical cost accounting rules.

Turnover

Turnover represents rental income receivable net of rent losses from voids, management fees receivable, fees/grants from local authorities and the Housing Corporation and proceeds from sale of housing properties developed for sale.

Value Added Tax

The Society is VAT registered but a large proportion of its income, comprising rents, is exempt for VAT purposes. Accordingly expenditure relating to rental income is shown inclusive of VAT in these accounts. VAT on expenditure relating to taxable supplies is reclaimable in full and, accordingly, this expenditure is shown net of VAT in these accounts. For expenditure of a general nature (i.e. certain overheads) which cannot be directly attributed to exempt or taxable supplies the partial exemption provisions apply. This expenditure is accounted for net and irrecoverable VAT is charged to other expenditure.

Fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is charged on a straight-line basis over the expected economic useful lives of the assets at the following annual rates:

Improvements to leasehold offices	-	over the term of the lease
Office furniture and equipment	-	20%
Computer equipment and software	-	20%
Tenant service equipment	-	25%
Housing properties	-	over a period ranging from 76 to 97 years

Freehold land is not depreciated unless a permanent diminution in value occurs.

The Society undertakes an annual impairment review of all housing properties. Where there is evidence of impairment, a provision is made to reflect the impairment in the carrying value of the relevant properties.

THE CO-OPERATIVE DEVELOPMENT SOCIETY LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued) 31 March 2005

1 PRINCIPAL ACCOUNTING POLICIES (continued)

Fixed assets - Housing land and buildings

Housing properties both completed and in the course of construction are stated at cost. The cost of such housing properties includes the following:

- i) cost of acquiring land and buildings
- ii) construction expenditure
- iii) directly attributable development administration costs
- iv) interest charged on the attributable development loans raised to finance the scheme
- v) major repairs which represent improvements which enhance housing properties and add significantly to the life of properties and which add value (major repairs failing this requirement are charged to the income and expenditure account).

Housing Association Grant and Social Housing Grant

Housing Association Grant (HAG) is a capital grant made to the Society prior to the 1996 Housing Act towards the cost of acquiring and/or building additional housing for rent or sale. Under shared ownership arrangements, HAG was paid by the Housing Corporation on a basis related to cost, but varying according to area and type of scheme. Following the 1996 Housing Act, the Society is eligible for Social Housing Grant (SHG) towards expenditure on housing activities.

Where general needs and shared ownership developments have been financed wholly or partly by HAG or SHG and other capital subsidies, the cost of these developments has been reduced by the amount of the grant receivable.

HAG and SHG are repayable indefinitely unless formally abated or waived. On the occurrence of certain relevant events, primarily following the sale of property, the HAG or SHG repayable or to be recycled will be restricted to the net proceeds of sale where appropriate. In recognition of this, external lenders seek the subordination of the Housing Corporation's right to recover HAG and SHG to their own loans.

SHG which is received in advance of total development costs is shown as a current liability.

SHG received in respect of revenue expenditure is credited to the income and expenditure account in the same period as the expenditure to which it relates.

Recycled Capital Grant Fund

Following certain relevant events, primarily the sale of dwellings, the Housing Corporation can direct the Society to recycle capital grant or to repay the recoverable capital grant back to the Corporation. Where the grant is recycled the recoverable capital grant is credited to a Recycled Capital Grant Fund which is included as a creditor due within one year or due after more than one year as appropriate to the circumstances.

Properties awaiting transfer

Stock and work in progress represents housing properties which are being developed for sale to independent primary co-operative housing societies. The amount carried in the balance sheet at the year-end is stated at the lower of cost and net realisable value less attributable Social Housing Grant.

Cost includes attributable overheads and directly attributable interest and financing costs.

THE CO-OPERATIVE DEVELOPMENT SOCIETY LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

31 March 2005

1 PRINCIPAL ACCOUNTING POLICIES (continued)

Pension costs

The cost of providing retirement pensions and related benefits is charged to management expenses over the periods benefiting from the employee's services. The difference between the charge to the income and expenditure account and the contributions paid to the scheme is included in creditors in the balance sheet.

Provisions

The Society only makes provision for any contractual liabilities existing at the balance sheet date.

Restricted reserves

In compliance with legislation, the Society had been appropriating revenue reserves annually to meet future major and cyclical repairs to its stock of properties. The amount set aside had been based on the calculation directed by the Housing Corporation, under the Rent Surplus Fund regulations for major repairs. This reserve had been referred to as the RSF Reinvestment Fund. The works qualifying for contributions from the Reinvestment Fund had been restricted by the Housing Corporation in accordance with their Capital Funding System Procedure Guide.

Following the provisions under Schedule 11 of the Housing Act 2004, the RSF Reinvestment Fund has ceased to be a statutory requirement from the 18 January 2005. The balance on the restricted reserves has therefore been transferred to revenue reserves as per the guidance provided in the Housing Corporation circular number 01/05.

Leased assets

Rentals payable under operating leases are charged to the income and expenditure account on a straight-line basis over the respective lease terms.

Deferred tax

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the Society anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

THE CO-OPERATIVE DEVELOPMENT SOCIETY LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)
31 March 2005

2 TURNOVER, OPERATING COSTS AND OPERATING SURPLUS BEFORE TAX

	2005			2004		
	Turnover £	Operating Costs £	Operating surplus/ (deficit) £	Turnover £	Operating costs £	Operating surplus/ (deficit) £
Income and expenditure from social housing lettings (note 3)						
Housing accommodation	2,695,336	(2,129,233)	566,103	2,517,573	(1,653,673)	863,900
Shared ownership accommodation	200,022	(77,361)	122,661	194,729	(80,870)	113,859
	<u>2,895,358</u>	<u>(2,206,594)</u>	<u>688,764</u>	<u>2,712,302</u>	<u>(1,734,543)</u>	<u>977,759</u>
Other income and expenditure from social housing activities						
Fees from managed associations	1,070,766	(1,317,919)	(247,153)	905,694	(1,285,539)	(379,845)
Tenant participation/training	21,077	(69,654)	(48,577)	7,887	(73,121)	(65,234)
Development cost	-	(185,242)	(185,242)	-	(92,648)	(92,648)
Co-op development/education	-	(100,894)	(100,894)	-	(58,056)	(58,056)
Leasehold services	150,055	(163,134)	(13,079)	69,598	(75,203)	(5,605)
Key worker research project	-	(1,509)	(1,509)	7,488	(25,350)	(17,862)
Other	64,746	(324,838)	(260,092)	107,341	(239,610)	(132,269)
Non social housing activities						
Commercial letting	31,857	(27,888)	3,969	32,918	(25,291)	7,627
	<u>4,233,859</u>	<u>(4,397,672)</u>	<u>(163,813)</u>	<u>3,843,228</u>	<u>(3,609,361)</u>	<u>233,867</u>

THE CO-OPERATIVE DEVELOPMENT SOCIETY LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)
31 March 2005

3 INCOME AND EXPENDITURE FROM LETTINGS

	Housing Accommodation £	Shared Ownership £	Total 2005 £	Total 2004 £
Income from lettings				
Rents receivable net of identifiable service charges	2,347,400	166,619	2,514,019	2,448,519
Service charges receivable	90,808	33,403	124,211	110,581
	-----	-----	-----	-----
Gross rents receivable	2,438,208	200,022	2,638,230	2,559,100
Less: rent losses from voids	(19,223)	-	(19,223)	(24,196)
	-----	-----	-----	-----
Total income from lettings	2,418,985	200,022	2,619,007	2,534,904
Revenue Grant (Recycled Capital Grant)	276,351	-	276,351	177,398
	-----	-----	-----	-----
Total income from social housing lettings	2,695,336	200,022	2,895,358	2,712,302
	-----	-----	-----	-----
Expenditure on lettings				
Services	105,612	37,574	143,186	114,561
Management	422,310	33,261	455,571	464,690
Routine maintenance	362,136	-	362,136	342,431
Cyclical repairs and maintenance	211,325	-	211,325	102,964
Rent losses from bad debts	14,119	-	14,119	16,381
Major repairs expenditure	963,076	-	963,076	638,052
Depreciation	50,655	6,526	57,181	55,464
	-----	-----	-----	-----
Total expenditure on lettings	2,129,233	77,361	2,206,594	1,734,543
	-----	-----	-----	-----
Operating surplus on lettings activities	566,103	122,661	688,764	977,759
	-----	-----	-----	-----

THE CO-OPERATIVE DEVELOPMENT SOCIETY LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

31 March 2005

4 SURPLUS ON SALE OF FIXED ASSET		
HOUSING PROPERTIES – SHARED OWNERSHIP STAIRCASING		
	2005	2004
	£	£
Sale proceeds	156,750	201,500
Less cost of sales representing:		
Net book value of assets sold (see note 11)	(72,133)	(86,913)
Other costs	(3,042)	(2,461)
Surplus for year	81,575	112,126
5 INTEREST RECEIVABLE		
	2005	2004
	£	£
Interest receivable on building society deposits	2,019	12,654
Other interest receivable	47,381	64,411
	49,400	77,065
6 INTEREST PAYABLE AND SIMILAR CHARGES		
	2005	2004
	£	£
On bank loans, overdrafts and other loans repayable wholly or partly after more than 5 years	382,674	398,285
Notional interest on recycled capital grant fund	15,964	19,791
	398,638	418,076
7 (DEFICIT)/SURPLUS ON ORDINARY ACTIVITIES BEFORE TAX		
	2005	2004
	£	£
Is stated after charging:		
Depreciation	157,494	146,440
Impairment	525,295	-
Operating lease rentals: land and buildings	116,710	116,710
Auditors' remuneration		
- in their capacity as auditors	24,000	23,500
- in respect of other services	3,500	16,422

THE CO-OPERATIVE DEVELOPMENT SOCIETY LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued) 31 March 2005

8 DIRECTORS' REMUNERATION

The directors are defined as the members of the Board of Management, the Executive Director and the Senior Management Team.

None of the Board of Management received any emoluments.

	2005	2004
	£	£
Aggregate emoluments payable to directors (including pension contributions and benefits in kind)	319,539	288,871
Emoluments payable to the highest paid director (excluding pension contributions but including benefits in kind)	62,904	61,154
Total expenses reimbursed to the directors not chargeable to United Kingdom income tax	9,477	7,967

9 EMPLOYEE INFORMATION

	2005	2004
	Number	Number
The average monthly number of employees (including the Chief Executive) expressed in full time equivalents during the year was:	39	40
Staff costs were as follows:	£	£
Wages and salaries	1,155,259	1,101,068
Social security costs	104,834	98,300
Other pension costs (note 22)	88,428	81,765
	1,348,521	1,281,133

THE CO-OPERATIVE DEVELOPMENT SOCIETY LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)
31 March 2005

10 TAXATION

<i>Current tax</i>	2005 £	2004 £
UK corporation tax on surplus for the period	-	-
Adjustment in respect of the previous year	-	-
	<u>-</u>	<u>-</u>
	<u><u>-</u></u>	<u><u>-</u></u>

The tax assessed for the period differs from the standard rate of corporation tax in the UK. The differences are explained below:

	2005 £	2004 £
(Deficit)/Surplus on ordinary activities before tax	(431,476)	4,982
(Deficit)/Surplus on ordinary activities at the standard rate of corporation tax in the UK of 30% (2004: 30%)	(129,443)	1,495
Effects of:		
Expenses not deductible for tax purposes	1,033	571
Non-qualifying depreciation on properties	24,275	16,640
Capital allowances in excess of qualifying depreciation	105	(679)
Difference between accounting and taxation gains on disposals	(10,058)	(24,570)
Movement in general provisions	41,647	-
Trading losses carried forward	72,441	6,543
Current tax charge for period	<u>-</u>	<u>-</u>
	<u><u>-</u></u>	<u><u>-</u></u>

THE CO-OPERATIVE DEVELOPMENT SOCIETY LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)
31 March 2005

11 TANGIBLE FIXED ASSETS – Housing properties

	Completed housing properties held for letting £	Completed shared ownership housing properties £	Housing properties under construction £	Total £
Cost				
At 1 April 2004	21,834,180	2,708,160	185,370	24,727,710
Additions	125,493	17,063	3,536,460	3,679,016
Transfers	8,372,816	-	-	8,372,816
Disposals – Right to buy and staircasing	-	(73,384)	-	(73,384)
At 31 March 2005	30,332,489	2,651,839	3,721,830	36,706,158
Social Housing Grant and Housing Association Grant				
At 1 April 2004	16,586,358	1,714,602	-	18,300,960
Receivable during year	95,394	-	2,478,936	2,574,330
Transfers	3,268,882	-	-	3,268,882
Disposals – Right to buy and staircasing	-	(48,140)	-	(48,140)
At 31 March 2005	19,950,634	1,666,462	2,478,936	24,096,032
Other grants				
At 1 April 2004 and 31 March 2005	150,954	-	-	150,954
Depreciation				
At 1 April 2004	193,805	39,949	-	233,754
Charge for the year	50,655	6,526	-	57,181
Transfers	227,265	-	-	227,265
Impairment	-	-	525,295	525,295
Disposals – Right to buy and staircasing	-	(1,251)	-	(1,251)
At 31 March 2005	471,725	45,224	525,295	1,042,244
Net book value:				
At 31 March 2005	9,759,176	940,153	717,599	11,416,928
At 31 March 2004	4,903,063	953,609	185,370	6,042,042

The completed housing properties are freehold and some have specific charge to secure loans over them.

The transfers during the year relate to developments previously held as “Properties awaiting transfer”; which were included in current assets.

THE CO-OPERATIVE DEVELOPMENT SOCIETY LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)
31 March 2005

12 OTHER FIXED ASSETS

	Leasehold offices £	Office furniture, equipment & computer equipment £	Tenant services equipment £	Total £
Cost				
At 1 April 2004	241,154	449,594	54,966	745,714
Additions	-	40,635	12,714	53,349
Disposals	-	(114,391)	(32,984)	(147,375)
At 31 March 2005	241,154	375,838	34,696	651,688
Depreciation				
At 1 April 2004	143,445	292,512	54,966	490,923
Charge for the year	24,116	73,654	2,543	100,313
Disposal	-	(111,880)	(32,984)	(144,864)
At 31 March 2005	167,561	254,286	24,525	446,372
Net book value:				
At 31 March 2005	73,593	121,552	10,171	205,316
At 31 March 2004	97,709	157,082	-	254,791

13 HOUSING PROPERTIES AWAITING TRANSFER

	2005 £	2004 £
Housing properties developed for sale to independent primary co-operative housing societies		
Cost plus directly attributable overheads net of provision (2004: £613,735)	-	7,821,172
Less: Social Housing Grant	-	(3,268,882)
	-	4,552,290

THE CO-OPERATIVE DEVELOPMENT SOCIETY LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

31 March 2005

14 DEBTORS

Amounts receivable within one year:	2005	2004
	£	£
Rent and service charge arrears	208,956	227,090
Less: provision for bad debts	(115,519)	(115,428)
	<u>93,437</u>	<u>111,662</u>
Amounts due from independent primaries	290,194	441,305
Car purchase loans to staff	19,248	15,807
Other debtors and prepayments	344,138	297,409
	<u>747,017</u>	<u>866,183</u>

15 INVESTMENTS

Building Society Investment account	-	581,669
	<u>-</u>	<u>581,669</u>

16 CREDITORS

Amounts falling due within one year:	2005	2004
	£	£
Housing loans (instalment debt)	220,809	191,512
SHG repayable	141,334	141,334
SHG received in advance	1,328,532	-
Capital expenditure on housing properties	44,830	44,830
Other taxation and social security payable	42,282	-
Rent and service charges received in advance	58,118	50,967
Amounts due to independent primaries	325,252	317,609
Cyclical funds held on behalf of others	127,018	128,021
Other creditors and accruals	680,808	706,267
	<u>2,968,983</u>	<u>1,580,540</u>

The average number of days between receipt and payment of purchase invoices was 25 (2004: 21)

17 NET CURRENT (LIABILITIES)/ASSETS

During the course of the year, the Society utilised its own cash resources in the construction of a new development shown under note 11 of the financial statements. A facility from The Co-operative Bank is in place to cover the projected negative cash flow until the scheme is completed. A long term loan facility will be put in place restoring positive net current assets in the Society's balance sheet.

THE CO-OPERATIVE DEVELOPMENT SOCIETY LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued) 31 March 2005

18 CREDITORS

Amounts falling due after more than one year:	2005 £	2004 £
Recycled capital grant fund	367,159	674,204
Housing loans (see below)	5,239,388	5,494,173
	<u>5,606,547</u>	<u>6,168,377</u>

Housing loans are secured by specific charges on the Society's housing properties and are repayable at varying rates of interest in instalments due as follows:

	2005 £	2004 £
Between one and two years	480,939	427,177
Between two and five years	831,444	766,340
Due after more than five years	3,927,005	4,300,656
	<u>5,239,388</u>	<u>5,494,173</u>

During the year, £48,736 of SHG was recycled following disposal of properties under Right To Buy and Staircasing. In addition, the Society used part of the fund to acquire some properties of £95,394 and to carry out major repairs of £276,351. The notional interest charged to the fund was £15,964.

19 SHARE CAPITAL

Ordinary shares of £5 each issued and fully paid	2005 £	2004 £
At 1 April 2004	300	295
Issued during year	10	5
Cancelled during year	(5)	-
At 31 March 2005	<u>305</u>	<u>300</u>

Members of the Board of Management, or in the case of the representative members, their sponsoring Society, hold one fully paid share of £5 each in the Society. Co-opted members are not required to hold shares in the Society.

The shares carry no rights to dividends or other income. Shares in issue are not capable of being repaid or transferred. When a shareholder ceases to be a member, that person's share is cancelled and the amount paid up thereon becomes the property of the Society. Therefore all shareholdings relate to non-equity interests; there are no equity interests in the Society.

THE CO-OPERATIVE DEVELOPMENT SOCIETY LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)
31 March 2005

20 RESTRICTED RESERVES

RSF Re-investment fund	2005	2004
	£	£
At 1 April 2004	1,616,504	1,791,025
Transfer to the income and expenditure account	(1,616,504)	(174,521)
	<hr/>	<hr/>
At 31 March 2005	-	1,616,504
	<hr/>	<hr/>

The Rent Surplus Fund ceases to be a statutory requirement from the 18 January 2005. In accordance with guidance contained in Housing Corporation Circular 01/05, the balance of the Fund as at the 1 April 2004 has been transferred to the Revenue Reserve.

21 NOTES TO THE CASH FLOW STATEMENT

a) **Reconciliation of operating deficit/surplus to net cash inflow from operating activities**

	2005	2004
	£	£
Operating (deficit)/surplus	(163,813)	233,867
Depreciation charges	157,494	146,440
Impairment provision	525,295	-
Recycled capital grant	(276,351)	(177,398)
Work in progress adjustment	(324,375)	(17,613)
Change in debtors	119,166	31,026
Change in creditors due within one year	30,614	(32,722)
	<hr/>	<hr/>
	68,030	183,600
	<hr/>	<hr/>

b) **Reconciliation of net cash inflow to movement in net debt**

	2005	2004
	£	£
Decrease in cash in the year	(258,813)	(925,852)
Cash outflow from decrease in debt	225,488	211,654
	<hr/>	<hr/>
Movement in net debt in the period	(33,325)	(714,198)
Net debt at 1 April 2004	(3,598,086)	(2,883,888)
	<hr/>	<hr/>
Net debt at 31 March 2005	(3,631,411)	(3,598,086)
	<hr/>	<hr/>

THE CO-OPERATIVE DEVELOPMENT SOCIETY LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued) 31 March 2005

21 NOTES TO THE CASH FLOW STATEMENT (continued)

c) Analysis of changes in net debt

	At 1 April 2004 £	Cashflow £	Other Changes £	At 31 March 2005 £
Cash at bank and in hand	2,087,599	(258,813)	-	1,828,786
Debt due within one year	(191,512)	225,488	(254,785)	(220,809)
Debt due after one year	(5,494,173)	-	254,785	(5,239,388)
Total	(3,598,086)	(33,325)	-	(3,631,411)

22 PENSION COSTS

Defined benefit scheme

The Society participates as a contributing member of an industry wide scheme known as the Social Housing Pension Scheme (SHPS) which is administered by the Pension Trust. SHPS is a multi-employer defined benefit scheme. The Scheme is funded and is contracted out of the state scheme.

The last full formal valuation of that Scheme was at 30 September 2002 by a professionally qualified actuary using the "projected unit credit" method. The market value of the Scheme's assets at the latest valuation date was £650m.

During the accounting period the Society paid contributions at the rate of 11.7%. Member contributions varied between 3.1% and 6.1% depending on their age.

It is not possible to identify the share of underlying assets and liabilities belonging to individual participating employers.

Due to the nature of the scheme, the profit and loss account charge for the period under both SSAP24 and FRS17 represents the employer contribution payable.

The financial assumptions underlying the valuation were as follows:

- Rate of return on future contributions	6.6% per annum
- Rate of return on accumulated assets	7.2% per annum
- Rate of salary increases	4.5% per annum
- Rate of pension increases	2.5% per annum
- Rate of price inflation	2.5% per annum

The accumulated assets of the Scheme were assumed to earn the same return as if they had been invested in a portfolio comprising 100% UK equities for non-pensioner liabilities and 25% UK equities /75% gilts for pensioner liabilities.

THE CO-OPERATIVE DEVELOPMENT SOCIETY LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

31 March 2005

The valuation revealed a shortfall of assets compared with the value of liabilities of some £117 million (equivalent to a past service funding level of 85%). The long-term joint contribution rate required from employers and members to meet the cost of future benefit accrual was assessed as 15% of pensionable salaries. Following consideration of the results of the actuarial valuation it was agreed that, with effect from 1 April 2005:

The standard employer contribution rate would be increased from 10.6% to 11.7% of pensionable salaries.

Member contributions would also be increased by 1.1% from 2.0-5.0% to 3.1-6.1% of pensionable salaries depending on age.

Employers that participate in the Scheme on a non-contributory basis pay a joint contribution rate (i.e. a combined employer and employee rate). This rate was increased from 15.0% to 17.3% of pensionable salaries with effect from 1 April 2004. A small number of employers are required to contribute at a different rate to reflect the amortisation of a surplus or deficit on the transfer of assets and past service liabilities from another pension scheme into the SHPS Scheme.

New employers that joined the Scheme after 30 September 2002 without any past service liability pay an employer contribution rate of 9.4% of pensionable salaries. This rate will apply until 1 April 2007, after which it will change to the standard employer contribution rate per the actuarial valuation due to take place. If the valuation assumptions are borne out in practice this pattern of contributions should be sufficient to eliminate the past service deficit by 31 March 2017. The next valuation will be as at 30 September 2005.

The charge to the Society for the year was £77,308 (2004: £69,718), covering 26 (2004: 28) employees. The contribution rate of the Society for the year ended 31 March 2005 was 11.7% and for the employees at rates varying between 3.1% and 6.1%.

Defined contribution scheme

In addition to participation in the defined benefit scheme, staff employed prior to February 1990 could elect to receive contributions to personal pension plans.

The charge to the Society for the year was £11,120 (2004: £12,047) covering 4 (2004: 4) employees.

Executive Director

The Executive Director is a member of the defined contribution scheme which has contributions from the Society in line with those prevailing for employees generally.

THE CO-OPERATIVE DEVELOPMENT SOCIETY LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued) 31 March 2005

23 CAPITAL COMMITMENTS

	2005 £	2004 £
Capital commitments:		
Expenditure that has been contracted for but has not been provided for in the financial statements	-	-
Expenditure that has been authorised by the Board of Management but has not yet been contracted for	<u>6,675,039</u>	<u>-</u>

23 CAPITAL COMMITMENTS (continued)

	2005 £	2004 £
Revenue commitments:		
Expenditure that has been contracted for but has not been provided for in the financial statements	134,277	-
Expenditure that has been authorised by the Board of Management but has not yet been contracted for	<u>240,525</u>	<u>-</u>

The housing properties under construction detailed in note 11 above, are to be financed during the development period by a variable loan arrangement up to £5 million from the Co-operative Bank. A long term loan facility will be undertaken when the properties are completed.

24 OPERATING LEASE COMMITMENTS

	2005 £	2004 £
The payments which the Society is committed to make in the next year under operating leases are as follows:		
Land and buildings, leases expiring:		
After five years	<u>130,960</u>	<u>116,710</u>

25 CONTINGENT LIABILITIES

- i) There were no contingent liabilities (2004: nil) arising from contractual disputes.
- ii) The Society is a party to arrangements where Building Societies have advanced mortgages to enable tenants to purchase a part of their home under shared ownership arrangements. Under these arrangements the Building Society has recourse to the Society's share of the property in the event of default by the shared owner. Housing Association Grant retained covers most of these losses but uncovered losses, for which no provision has been made, are considered not to exceed £100,000.

THE CO-OPERATIVE DEVELOPMENT SOCIETY LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)
31 March 2005

26 UNITS AND BEDSPACES

	2005	2004
	Number	Number
Units in management at end of year		
Units for rent	657	656
Shared ownership units	112	114
	<u>769</u>	<u>770</u>

27 ACCUMULATED SOCIAL HOUSING GRANT

	Treated as	Treated as	Total	Total
	a capital grant	revenue	2005	2004
	(see note 11)	income	2005	2004
	£	£	£	£
At beginning of year	18,300,960	1,323,197	19,624,157	19,131,651
Receivable during year	2,574,330	-	2,574,330	415,072
Transfers	3,268,882	-	3,268,882	-
Recycled in year	(48,140)	276,351	228,211	105,446
Eliminated in year – expired leases	-	-	-	(28,012)
At end of year	<u>24,096,032</u>	<u>1,599,548</u>	<u>25,695,580</u>	<u>19,624,157</u>

28 RELATED PARTY TRANSACTIONS

- (a) Certain members of the Society's Board of Management are also committee members of some independent primary and founder member co-operatives with whom the Society has had dealings during the year. All transactions between the Society, the primary and the founder member co-operatives were conducted on an arm's length basis on normal trading terms.

The total value of fees receivable from founder member co-operatives was £119,544 (2004: £115,039) and the net balance due from founder member co-operatives at 31 March 2005 was £2,226 (2004: £3,796).

- (b) The Executive Director, David A Rodgers is connected as a partner in life, to a partner in Lewis Silkin, one of the firms on the Society's panel of solicitors. Lewis Silkin ceased to be on the Society's panel of solicitors during the year. Up to this point the Society paid fees of £4,932 (2004: £19,448) to Lewis Silkin in respect of general advisory work, property developments and other legal services. Total legal fee expenditure in the year amounted to £108,825 (2004: £119,921). All transactions were conducted on an arm's length basis on normal trading terms. Additionally, David A Rodgers was not an authorised signatory for cheques issued to Lewis Silkin. The balance due to Lewis Silkin at 31 March 2005 was £3,025 (2004: £4,229).

THE CO-OPERATIVE DEVELOPMENT SOCIETY LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued) 31 March 2005

28 RELATED PARTY TRANSACTIONS (continued)

- (c) Board members Maureen Stables, Glyn Thomas and the Executive Director, David A Rodgers are directors of the Co-operative Housing Finance Society Limited and David A Rodgers is involved in other organisations with whom the Society has dealings as follows:

	Involvement in the organisation	Nature of transaction	Amount of transaction	Balances outstanding at 31 March 2005
			£	£
Co-operative Housing Finance Society	Director	Management Services	11,579	5,819
International Co-operative Alliance	Housing Board Member	Subscription	359	-

The transactions with the above were conducted on an arm's length basis under normal trading terms.

29 LEGISLATIVE PROVISIONS

The Society is incorporated under the Industrial and Provident Societies Act 1965 with registration number 17107R and is a Registered Social Landlord registered with the Housing Corporation with number LH0170 under the Housing Act 1996.