IMPORTANT NOTICE

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You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Prospectus to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the managers or any affiliate of the managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the managers or such affiliate on behalf of the Issuer in such jurisdiction.

By accessing the Prospectus, you shall be deemed to have confirmed and represented to us that (a) you have understood and agree to the terms set out herein, (b) you consent to delivery of the Prospectus by electronic transmission, (c) you are not a U.S. person (within the meaning of Regulation S under the Securities Act) or acting for the account or benefit of a U.S. person and the electronic mail address that you have given to us and to which this e-mail has been delivered is not located in the United States, its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands) or the District of Columbia and (d) if you are a person in the United Kingdom, then you are a person who (i) has professional experience in matters relating to investments or (ii) is a high net worth entity falling within Article 49(2)(a) to (d) of the Financial Services and Markets Act (Financial Promotion) Order 2005.

This Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer nor the Transaction Parties or any person who controls any such person or any director, officer, employee or agent of any such person (or affiliate of any such person) accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Issuer or Investec Bank plc.

FHW Dalmore (Salford Pendleton Housing) PLC

(incorporated with limited liability in England and Wales under company number 8623329)

£71,710,000 5.414 per cent Class A Secured Notes due 2042

£10,891,000 8.35 per cent Class B Secured Notes due 2042

(Issue Price: 100%)

This document constitutes a prospectus (the "**Offering Circular**") for the purposes of Directive 2003/71/EC (as amended) (the "**Prospectus Directive**"). References throughout this document to the "Offering Circular" shall be taken to read "Prospectus" for such purpose. The Offering Circular has been approved by the Central Bank of Ireland (the "**Central Bank**") as competent authority under the Prospectus Directive. The Central Bank only approves this Offering Circular as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Application has been made to Irish Stock Exchange Limited (the "**Irish Stock Exchange**") for the Notes to be admitted to the official list and trading on its regulated market. The £71,710,000 5.414 per cent. Class A Secured Notes due 2042 (the "**Class A Notes**") and the £10,891,000 8.35% per cent. Class B Secured Notes due 2042 (the "**Class B Notes**") each a ("**Class**") and together (the "**Notes**") will be issued by FHW Dalmore (Salford Pendleton Housing) plc (the "**Issuer**") on 17 September 2013 or such later date (the "**Closing Date**") as may be agreed by Investec Bank plc (the "**Arranger**"), the Issuer and U.S. Bank Trustees Limited (the "**Note Trustee**", which expression shall include its successors and assignees).

The Issuer is a newly established special purpose vehicle whose principal purpose is to issue the Notes the proceeds of which shall be applied in making a loan to Pendleton Together Operating Limited, a newly established special purpose vehicle ("**ProjectCo**") whose principal purpose is to refurbish certain social housing accommodation and provide housing and facilities management services in respect of certain social housing accommodation located on the Pendleton Estate for Salford City Council (the "**Authority**").

The primary source of funds for the payment of principal and interest on the Notes will be the right of the Issuer to receive interest and principal repayments under the loan made by the Issuer to ProjectCo. The issue price of the Notes will be 100 per cent. ProjectCo's primary source of funds will be its right to receive payments from the Authority under the Project Agreement, subject to the conditions therein.

The Class A Notes and the Class B Notes respectively will be represented on issue by a temporary global note in bearer form (each, a "**Temporary Global Note**") without interest coupons attached, which will be deposited on or about the Closing Date with a common safekeeper for Clearstream Banking, sociėté anonyme ("**Clearstream, Luxembourg**") and Euroclear Bank S.A./N.V. ("**Euroclear**"). Each Temporary Global Note will be exchangeable for interest in a permanent global Note in bearer form (each, a "**Permanent Global Note**") representing the same Class of Notes, without interest coupons attached, not earlier than forty days after the Closing Date (provided that certificates as to non-U.S. beneficial ownership have been received). Ownership interests in each Temporary Global Note and each Permanent Global Note will be shown on, and transfers thereof will only be effected through records maintained with Clearstream, Luxembourg and Euroclear and their respective participants. Interests in each Permanent Global Note will be exchangeable for Definitive Notes in bearer form only in certain limited circumstances as set out forth therein.

Interest on the Notes will be payable semi-annually in arrear on 31 March and 30 September in each year (subject to such dates being business days), except that the first payment will be made on 31 March 2014 in respect of the period from and including the Closing Date to, but excluding, 31 March 2014.

Unless previously redeemed or repurchased and cancelled, the Notes will mature on 17 September 2042 and will be subject to redemption in part from and including 31 March 2018 in accordance with the amortisation schedule set out in "Terms and Conditions of the Notes – Redemption, Purchase and Cancellation - Scheduled Redemption" below. The Notes may, in certain circumstances, also be subject to redemption in whole but not in part, at the Redemption Amount (as defined herein) (see "*Terms and Conditions of the Notes – Mandatory Early Redemption"* below).

The obligations of the Issuer under the Notes will be secured in favour of U.S. Bank Trustees Limited as security trustee (the "**Issuer Security Trustee**") as described in "*Summary of Issuer Transaction Documents – the Issuer Deed of Charge"* below.

If any withholding or deduction for or on account of tax is applicable to the Notes, payments of interest on, and principal and premium (if any) of, the Notes will be made subject to any such withholding or deduction, without the Issuer being obliged to pay any additional or further amounts as a consequence thereof (see "*Terms and Conditions of the Notes - Taxation*").

The Notes will be obligations of the Issuer only and will not be guaranteed by, or be the responsibility of, any other person or entity. It should be noted, in particular, that the Notes will not be obligations of, and will not be guaranteed by, ProjectCo, ProjectCo HoldCo, the Corporate Services Provider, the Note Trustee, the Issuer Security Trustee, the Arranger, the Cash Manager, the Principal Paying Agent, the Managing Agent or the Issuer Account Bank. The proceeds of the issue of the Notes will be, *inter alia*, on-lent to ProjectCo. The resulting indebtedness of ProjectCo will be secured over all of the assets and undertaking of ProjectCo as more particularly described below. The Notes will be secured over all of the assets and undertaking of the Issuer.

Particular attention is drawn to the section herein entitled "*Risk Factors*".

Arranger and Sole Bookrunner
INVESTEC BANK PLC

The date of this Offering Circular is 17 September 2013

IMPORTANT NOTICE

The Issuer accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of the Issuer (having taken all reasonable care to ensure that such is the case), the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the accuracy of such information.

No person is or has been authorised in connection with the issue and sale of the Notes to give any information or to make any representation other than the information or the representations contained in this Offering Circular in connection with the Issuer, ProjectCo or the sale of the Notes and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer, ProjectCo, the Arranger, the Managing Agent, the Note Trustee or the Issuer Security Trustee. Neither the delivery of this Offering Circular nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof. Unless otherwise indicated herein, all information in this Offering Circular is given as of the date of this Offering Circular. This Offering Circular does not constitute an offer of, or an invitation by, or on behalf of, the Issuer or the Arranger to subscribe for, or purchase, any of the Notes.

None of the Arranger, the Managing Agent, the Note Trustee or the Issuer Security Trustee has separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Arranger, the Managing Agent, the Note Trustee or the Issuer Security Trustee as to the accuracy or completeness of the information contained in this Offering Circular or any other information supplied in connection with the Notes or their distribution. The statements made in this paragraph are without prejudice to the responsibilities of the Issuer. Each person receiving this Offering Circular acknowledges that such person has not relied on the Arranger, the Managing Agent, the Note Trustee or the Issuer Security Trustee or on any person affiliated with any of him or her in connection with its investigation of the accuracy of such information or its investment decision.

The Offering Circular is not intended to provide the basis of any credit or other valuation and should not be considered as a recommendation by the Issuer, the Arranger, the Managing Agent, the Note Trustee or the Issuer Security Trustee that any recipient of this Offering Circular should purchase any of the Notes.

Each person contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of the Issuer and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience and any other factors which may be relevant to it in connection with such investment. A prospective investor who is in any doubt whatsoever as to the risks involved in investing in the Notes should consult independent professional advisers.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") or any state securities laws, and are subject to U.S. tax law requirements. The Notes may not be offered, sold or delivered, directly or indirectly, in the United States or to any U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Notes are being offered for sale outside the United States in accordance with Regulation S under the Securities Act. See "*Subscription and Sale*" below.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular or any part hereof and any offering of the Notes in certain jurisdictions may be restricted by law.

Other than the approval of this Offering Circular as a prospectus by the Central Bank, no action has been or will be taken to permit a public offering of the Notes or the distribution of this document in any jurisdiction where action for that purpose is required. The distribution of this Offering Circular and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular (or any part hereof) comes are required by the Issuer and the Arranger to inform themselves about and to observe any such restrictions. For a further description of certain restrictions on offers and sales of the Notes and on distribution of this Offering Circular, see "*Subscription and Sale*" below. Neither this Offering Circular, nor any part hereof, constitutes, and may not be used for or in connection with an offer to or solicitation by, any person in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any part hereof nor any other offering circular, prospectus, form of application, advertisement, other offering material or other information may be issued, distributed or published in any country or jurisdiction (including the United Kingdom), except in circumstances that will result in compliance with all applicable laws, orders, rules and regulations.

All references herein to "**pounds**", "**sterling**" or "**£**" are to the lawful currency of the United Kingdom of Great Britain and Northern Ireland.

Capitalised terms used in this Offering Circular, unless otherwise indicated, have the meanings set out in this document. An index of defined terms used herein appears at the back of this document.

Credit Ratings

Whilst references to ratings of Fitch, Moody's and S&P are contained in this document, there is no intention to obtain ratings from such rating agencies in respect of either Class of Notes. Each of Fitch Ratings Limited ("**Fitch**"), Moody's Investors Service Limited ("**Moody's**") and Standard & Poor's Rating Services, a division of Standard & Poor's Credit Market Services Europe Limited ("**S&P**") is established in the European Union and is registered under Regulation (EC) No. 1060/2009, as amended, of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the "**CRA Regulation**").

Forward-Looking Statements

Certain matters contained herein are forward-looking statements. Such statements appear in a number of places in this Offering Circular, including with respect to assumptions on cashflows of ProjectCo, and reflect significant assumptions that may not prove to be correct. Such statements may be identified by reference to future period or periods and the use of forward-looking terminology such as "may", "will", "could", "believes", "expects", "anticipates", "continues", "intends", "plans" or similar terms. Consequently, future results may differ from the Issuer's expectations due to a variety of factors, including (but not limited to) the actual performance by ProjectCo and the Sub-Contractors in relation to the Project. Moreover, prospective purchasers of the Notes are cautioned that any such statements are not guarantees of performance and involve risks and uncertainties, many of which are beyond the control of the Issuer. The Arranger has not attempted to verify any such statements, nor does it make any representations, express or implied, with respect thereto. Prospective purchasers should therefore not place undue reliance on any of these forward-looking statements. None of the Issuer, Managing Agent, the Note Trustee, the Issuer Security Trustee nor the Arranger assumes any obligation to update these forward-looking statements or to update the reasons for which actual results could differ materially from those anticipated in the forward-looking statements.

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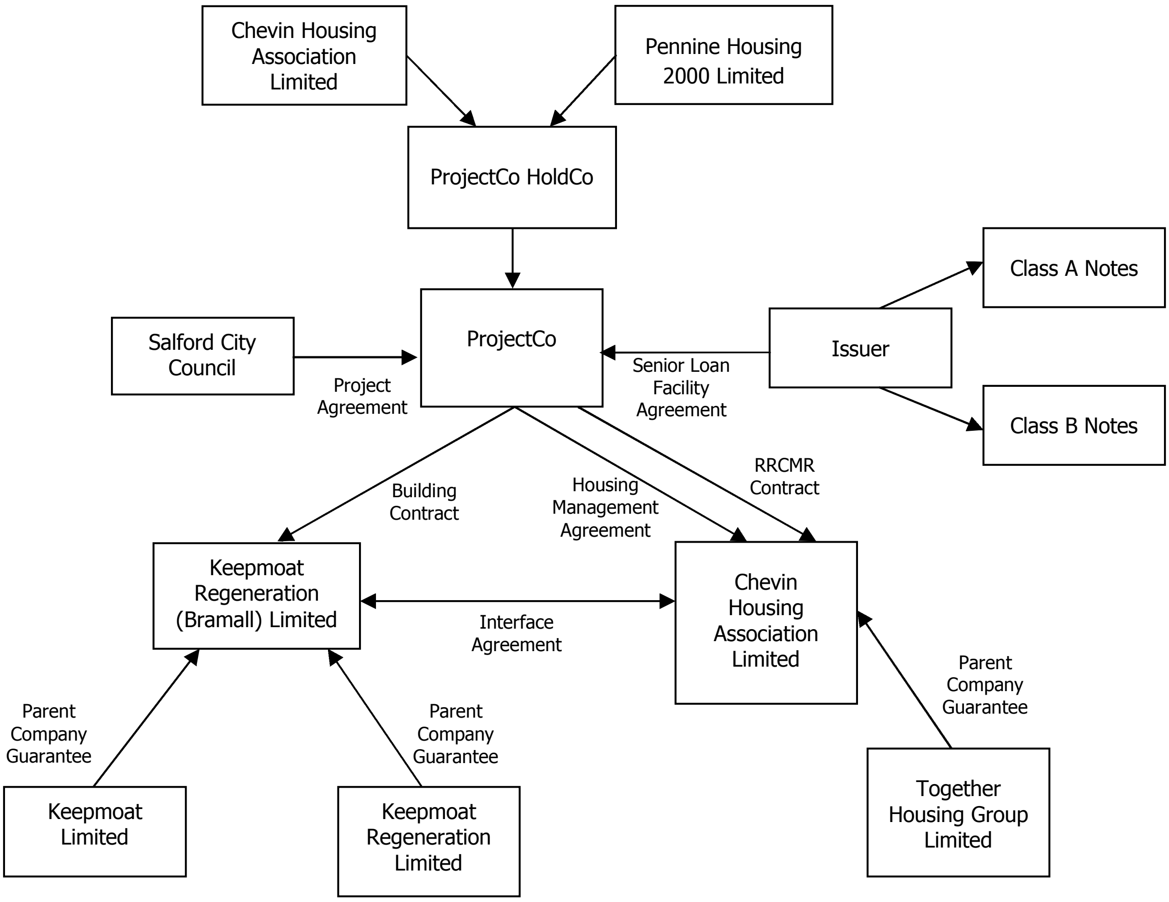
TRANSACTION OVERVIEW

STRUCTURE DIAGRAM



SUMMARY OF PROJECT

The following is a summary of the Project, which does not purport to be complete, and should be read in conjunction with the additional information in the rest of this Offering Circular.

ProjectCo has entered into a project agreement with Salford City Council (the "**Authority**") to be dated 17 September 2013 (the "**Project Agreement**") pursuant to which ProjectCo has agreed to refurbish, manage and maintain certain social housing accommodation consisting of 1,270 existing dwellings located on the Pendleton Estate in Salford (the "**Project**").

The project is a Housing Revenue Account social housing project whereby the Authority as local authority remains landlord to all the dwellings and bears demand and rent payment risk for the duration of the concession. However, ProjectCo will be responsible for rent collection services and its performance in this regard will affect payments to be made under the Project Agreement (see "*Summary of Project Documents – Rent Collection*" below).

The Authority was created in 1974, to administer the newly formed local government district and until 1986, it shared power with the Greater Manchester County Council. The Authority is now a Unitary Authority responsible for all local government functions within the Salford area, which covers 37 square miles (across the five districts of Salford Eccles, Worsley, Irlam and Cadishead, Swinton and Pendlebury) and has a population of approximately 220,000. The Authority is judged by the Audit Commission to be "improving well" in providing services for local people. Overall the Authority has been awarded "three star" status meaning it is "performing well" and "consistently above minimum requirements", similar to 46% of all local authorities.

The Project entails the design, financing and refurbishment of 1,270 existing dwellings and their maintenance over a 30 year concession period. The refurbishment works involve the internal and external repair and refurbishment of the dwellings, consisting of houses, maisonettes and blocks of flats with both tenanted and leaseholder occupants. Of these dwellings, 1,253 are tenanted (and subject to the standard specification for refurbishment works) and 17 are leasehold (where refurbishment works will only be carried out to the external envelope). Approximately 65.5% (833 dwellings) of the properties are flats in high rise blocks, 11.5% (149 dwellings) are flats in mid/low rise blocks, and the remaining 23% (288 dwellings) are terraced houses or maisonettes.

ProjectCo will provide housing management services, which include tenancy and leasehold management, community liaison and rent collection on behalf of the Authority, which will remain the legal landlord. ProjectCo will also be responsible for providing various facilities management services such as reactive maintenance, planned preventative maintenance and lifecycle replacement. The concession length is 30 years from financial close. The initial refurbishment works are programmed to last approximately 45 months and the maintenance and housing management services will be delivered from financial close until the end of the concession (see "*Summary of Project Documents*" below).

ProjectCo has entered into a sub-contract (the "**Building Contract**") with Keepmoat Regeneration (Bramall) Limited ("**Bramall**") to carry out the refurbishment of the dwellings. On completion of the refurbishment, ProjectCo will provide repairs and maintenance of the dwellings pursuant to a services sub-contract (the "**RRCMR Contract**") between ProjectCo and Chevin Housing Association Limited ("**Chevin**"). ProjectCo will provide housing management services, including rent collection, pursuant to a sub-contract between ProjectCo and Chevin (the "**Housing Management Agreement**").

Each of the Building Contract, the RRCMR Contract and the Housing Management Agreement (together the "**Sub-Contracts**") is conditional upon the Project Agreement becoming unconditional.

Chevin will provide corporate support functions to ProjectCo.

Separately, Bramall and Chevin will enter into an interface agreement in relation to the provision of certain shared services during the operational phase of the Project (the "**Interface Agreement**"). The Interface Agreement provides the contractual framework within which each sub-contractor may seek recourse against the other for costs and losses arising from acts or omissions of that other sub-contractor (see "*Summary of Project Documents – Interface Agreement"* below).

In addition to the description of the design, finance and operating services to be provided by ProjectCo, the key provisions, amongst others, contained in the Project Agreement include:

(a) the grounds on which the Project Agreement can be terminated (and the compensation due for such termination);

(b) the payment mechanism which sets the unitary payment due and the level of potential deduction for non-performance or unavailability; and

(c) the events that give relief from construction time and cost over-runs and/or deductions for poor performance (see *"Summary of Project Documents – The Project Agreement"* for further detail).

The Project Agreement will provide for the Authority to step in to take over the works if certain circumstances arise (see *"Summary of Project Documents – The Project Agreement – Authority Step-In"* below). A Funder's Direct Agreement will provide the Issuer and the ProjectCo Security Trustee with rights of step-in and step-out in default situations which might otherwise cause termination of the Project Agreement (see "*Summary of Project Documents – Direct Agreement"* below). Similarly, Bramall and Chevin will, on or before the Closing Date, enter into contractor direct agreements with ProjectCo and the ProjectCo Security Trustee, regulating step-in rights under the Sub-Contracts (see "*Summary of the Project Documents – Direct Agreements"* below).

Bramall and Chevin have agreed to enter into warranty and novation deeds directly with the Authority, under which the Authority may, following termination of the Project Agreement, either take the benefit of warranties from the contractors in respect of the works or services carried out prior to termination, or take a novation of each of the Sub-Contracts (see "*Summary of the Project Documents – Collateral Warranties"* below).

THE SUB-CONTRACTS

The Building Contract

The ProjectCo obligations contained in the Project Agreement relating to the refurbishment of the dwellings will be sub-contracted under the Building Contract to Bramall.

The obligations of Bramall under the Building Contract are guaranteed pursuant to parent company guarantees from Keepmoat Limited and Keepmoat Regneration Limited on a joint and several basis.

There are no demolition works, site levelling, piling or similar civil works included within the scope of the works. Amongst the risks passed down to Bramall are:

(a) ground conditions;

(b) archaeology;

(c) on and off-site contamination;

(d) stock condition; and

(e) latent defects.

It is anticipated that most of the refurbishment works will be carried out with tenants in occupation. The Project Agreement contains an Access Protocol that applies when access to complete the works has been denied by a tenant. A decant protocol is to be followed in the event that tenants are to be decanted either during the refurbishment works or during the services concession period. Any decant is at ProjectCo's risk, passed down to Bramall. The Authority is obliged to make available up to two suitable dwellings for decant as long as they are unoccupied.

The Building Contract contains limits of liability on the part of Bramall. Certain liabilities will be unlimited and certain charges and liabilities are excluded from or outside of the limits of liability.

See "*Summary of Project Documents – Building Contract*" below.

RRCMR Contract

The ProjectCo obligations contained in the Project Agreement relating to the availability and performance of maintenance services will be sub-contracted under the RRCMR Contract to Chevin.

The obligations of Chevin under the RRCMR Contract are guaranteed pursuant to a parent company guarantee from Together Housing Group Limited.

The responsibilities of ProjectCo, passed down to Chevin under the RRCMR Contract include the provision of:

(a) reactive maintenance, comprising of day-to-day repairs or replacements carried out on a responsive basis;

(b) planned preventative maintenance, consisting of programmed servicing and minor replacement works designed to prevent breakdowns; and

(c) lifecycle repairs or replacements, which entail the periodic overhaul, refurbishment and renewal of building components to ensure that the dwellings continue to meet availability standards.

Performance of the reactive maintenance services is measured against key performance indicators, with poor performance triggering performance deductions under the payment mechanism.

To the extent that lifecycle expenditure is higher than originally forecast, any excess will be for the account of Chevin.

The RRCMR Contract contains mechanisms that restrict the amount of lifecycle payments paid to Chevin to ensure that the ongoing and total cumulative lifecycle payment never exceeds the amount agreed at financial close as being allocated for lifecycle activities ("**Lifecycle Fund**").

Chevin bears the risk of the Lifecycle Fund being insufficient and is not given any relief from its obligations as a result of such inadequacies.

The planned preventative maintenance and lifecycle repairs impact upon the continuing availability of the dwellings and common parts/areas against the relevant standard.

Accordingly, poor maintenance can result in unavailability deductions which will be passed down to Chevin from ProjectCo.

At the end of the concession period, the dwellings must meet certain handback conditions. The Authority can withhold payments from 12 months before contract expiry to pay for reinstatement costs. Chevin is responsible for unavailability deductions and for any withholding of unitary charge in relation to the reinstatement works.

The RRCMR Contract contains limits of liability on the part of Chevin, as RRCMR sub-contractor. Certain liabilities will be unlimited and certain charges and liabilities are excluded from or outside of the cap.

See "*Summary of Project Documents – RRCMR Contract*" below.

Housing Management Agreement

The ProjectCo obligations contained in the Project Agreement relating to the housing management services during the concession life will be sub-contracted under the Housing Management Agreement to Chevin.

The obligations of Chevin under the Housing Management Agreement are guaranteed pursuant to a parent company guarantee from Together Housing Group Limited.

The responsibilities for housing management services include:

(a) tenancy and leasehold management;

(b) tenant and community involvement;

(c) lettings and rent collection;

(d) property management of void dwellings;

(e) grounds and estates maintenance; and

(f) caretaking and cleaning.

Housing management is a statutory function of the Authority, which will be transferred to ProjectCo and to Chevin through an approval by the Secretary of State. Any replacement subcontractor would require a similar approval, however the Project Agreement does allow a replacement to operate without an approval for up to six months and ultimately provides for a no default termination of the Project Agreement if approval is not obtained and ProjectCo or the Authority chooses to terminate the Project Agreement. If the Project Agreement is terminated in such circumstances, then the Authority will be liable to pay termination compensation but excluding any Make Whole Payment.

The standard of the housing management services will be measured with reference to key performance indicators with performance points awarded for failure to perform. The points are converted into payment deductions under the payment mechanism.

The Housing Management Agreement contains limits of liability on the part of Chevin, as housing management sub-contractor. Certain liabilities will be unlimited and certain charges and liabilities are excluded from or outside of the cap.

See "*Summary of Project Documents – Housing Management Agreement*" below.

UNITARY CHARGES

The Authority is counterparty to the Project Agreement and will be responsible for paying unitary charge payments to ProjectCo over the life of the concession.

The Authority will make payments to ProjectCo based on the availability of the refurbished dwellings and the provision of maintenance and housing management service to the Authority. Payments of the unitary charge will be subject to deductions for unavailability or poor service performance.

The payment of the unitary charge will commence from financial close in respect of un-refurbished dwellings, at a reduced level. From completion of refurbishment of each dwelling, ProjectCo will receive the full unitary charge for that dwelling.

See paragraphs "*Summary of Project Documents – The Project Agreement – Payment and Payment Mechanics*" below.

FINANCING

The Project will be financed by:

(a) a loan facility granted by the Issuer to ProjectCo under the Credit Agreement and funded out of the net proceeds of the Notes (see "*Summary of Project Finance Documents – Credit Agreement*" below);

(b) the proceeds of the issue of unsecured loan stock to Pendleton Together Holdings Limited by ProjectCo; and

(c) the proceeds of the issue of preference shares and ordinary shares by Pendleton Together Holdings Limited which will be issued by Pendleton Together Housing Limited to subscribe for the unsecured loan stock referred to in (b) and ordinary shares in ProjectCo (see "*Pendleton Together Operating Limited (ProjectCo)*" below).

The Issuer will issue the Class A Notes and the Class B Notes. The proceeds of the Class A Notes and Class B Notes will be on-lent to ProjectCo as a single loan which will comprise of approximately 88% overall financing for the Project, the rest being provided by subordinated debt and equity. The loan from Issuer to ProjectCo will comprise 100% of the ProjectCo senior debt. There will be no co-lenders.

The payment of interest and repayment by ProjectCo in respect of the loan will provide the primary source of funds for the Issuer to make payments of interest and repayments (or prepayments) of principal under the Notes. ProjectCo will also meet the on-going costs of the Issuer (see "*Summary of Project Finance Documents - Credit Agreement*" below).

Pursuant to the Note Trust Deed, FHW Dalmore Limited, as Managing Agent, will process decisions relating to the exercise of rights and discretions of the Issuer, as lender under the Project Finance Documents, on the Issuer's behalf. These decisions will be made in accordance with the terms of the Note Trust Deed and Managing Agent Agreement. The exercise of the Issuer's rights and discretions are allocated to one of four levels of rights. Decisions will be processed according to the relevant category of rights (see *"Summary of Issuer Transaction Documents – Note Trust Deed"* below).

The proceeds of the Notes and the shareholder loan stock and shares will be used to finance the up-front costs of the transaction at financial close. The remaining funds will be deposited in the Construction Account.

TRANSACTION PARTIES AND OTHER RELATED PARTIES ON THE CLOSING DATE

Party	Name	Address	Document under which appointed/Further Information
Issuer	FHW Dalmore (Salford Pendleton Housing) plc	35 Great St Helen's London EC3A 6AP	See section entitled *"FHW Dalmore (Salford Pendleton Housing) plc (The Issuer)"* below
ProjectCo	Pendleton Together Operating Limited	Bull Green House Bull Green Halifax HX1 2EB	See section entitled "*Pendleton Together Operating Limited (ProjectCo)*" below
ProjectCo HoldCo	Pendleton Together Holdings Limited	Bull Green House Bull Green Halifax HX1 2EB	See section entitled "*Pendleton Together Operating Limited (ProjectCo)*" below
Local Authority	Salford City Council	Salford Civic Centre Chorley Road Manchester M27 5DA	Project Agreement
Sub-Contractors	Keepmoat Regeneration (Bramall) Limited	The Waterfront Lakeside Boulevard Doncaster DN4 5PL	Building Contract
	Chevin Housing Association Limited	Bull Green House Bull Green Halifax HX1 2EB	Housing Management Agreement/RRCMR Contract
Parent Company Guarantors	Keepmoat Limited	The Waterfront Lakeside Boulevard Doncaster DN4 5PL	Parent Company Guarantee
	Keepmoat Regeneration Limited	The Waterfront Lakeside Boulevard Doncaster DN4 5PL	Parent Company Guarantee
	Together Housing Group Limited	Bull Green House Bull Green Halifax HX1 2EB	Parent Company Guarantee
Note Trustee	U.S. Bank Trustees Limited	125 Old Broad Street London EC2N 1AR	Note Trust Deed
Issuer Security Trustee	U.S. Bank Trustees Limited	125 Old Broad Street London EC2N 1AR	Issuer Deed of Charge
Issuer Account Bank	Elavon Financial Services Limited	Block E Cherrywood Business Park Loughlinstown Dublin Ireland acting through its UK branch at 5th Floor 125 Old Broad Street London EC2N 1AR	Issuer Account Bank Agreement

Cash Manager	Elavon Financial Services Limited	Block E Cherrywood Business Park Loughlinstown Dublin Ireland acting through its UK branch at 5th Floor 125 Old Broad Street London EC2N 1AR	Cash Management Agreement
Principal Paying Agent	Elavon Financial Services Limited	Block E Cherrywood Business Park Loughlinstown Dublin Ireland acting through its UK branch at 5th Floor 125 Old Broad Street London EC2N 1AR	Paying Agency Agreement
Arranger	Investec Bank plc	2 Gresham Street London EC2V 7QP	Subscription Agreement
Corporate Services Provider	Structured Finance Management Limited	35 Great St. Helen's London EC3A 6AP	Corporate Services Agreement
Managing Agent	FHW Dalmore Limited	One London Wall London EC2Y 5AB	Note Trust Deed and Managing Agent Agreement
Sub-Managing Agent	FHW Capital LLP	200 Aldersgate Street London EC1A 4DD	Delegation agreement between Managing Agent and FHW Capital LLP
Competent Authority for the purposes of the Prospectus Directive	Central Bank of Ireland	Iveagh Court Block D Harcourt Road Dublin 2 Ireland	N/A
Listing Authority and Stock Exchange	Irish Stock Exchange Limited	28 Anglesea Street Dublin 2 Ireland	N/A
Clearing Systems	Euroclear Bank SA/NV	1 Boulevard du Roi Albert II B-1210 Brussels Belgium	N/A
	Clearstream Banking, Société anonyme	42 Avenue JF Kennedy L-1855 Luxembourg	N/A

KEY CHARACTERISTICS OF THE NOTES

The following information is a description of the principal features of the issue of the Notes. This description should be read in conjunction with, and is qualified in its entirety by reference to, the detailed information presented elsewhere in this document.

	Class A Notes	Class B Notes
Initial principal amount	£71,710,000	£10,891,000
Issue price	100%	100%
Credit enhancement	Subordination of the Class B Notes	None
Interest rate	5.414%	8.35%
Note Payment Dates	31 March and 30 September[1]	31 March and 30 September[2]
Scheduled Amortisation	As provided in Condition 5(b)	As provided in Condition 5(b)
First Note Payment Date	31 March 2014	31 March 2014
Final Maturity Date	17 September 2042	17 September 2042
Form of the Notes	Bearer	Bearer
Application for listing	Irish Stock Exchange	Irish Stock Exchange
ISIN	XS0956252075	XS0956252406
Common Code	095625207	095625240
Clearance/Settlement	Euroclear/Clearstream, Luxembourg	Euroclear/Clearstream, Luxembourg
Minimum Denomination	£100,000 and integral multiples of £1,000 in excess thereafter	£100,000 and integral multiples of £1,000 in excess thereafter

Ranking

The Notes of each class rank *pari passu* and without preference or priority among the Notes of the same class.

The Class B Notes rank junior to the Class A Notes. Payment of principal and interest on the Class A Notes will at all times rank in priority to payments of principal on the Class B Notes.

Mandatory redemption

Unless the Notes have previously been redeemed in full, the Issuer will redeem the Notes in amounts and on the dates specified in Conditions 5(b) (*Scheduled Redemption*) and 5(c) (*Mandatory Early Redemption*).

Optional redemption for

The Issuer may, at its option, redeem all of the Notes on any

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1 Subject to business days.

2 Subject to business days.

taxation reasons	Note Payment Date at their Principal Amount Outstanding if certain circumstances arise on or after the Closing Date relating to certain changes of tax law (or the application or official interpretation thereof) or the operation of FATCA, as more particularly set out in Condition 5(f) (*Optional redemption due to change of tax law and illegality*).
General optional redemption	The Issuer shall be entitled to redeem the Notes in whole in accordance with Condition 5(d) (*Early redemption at the option of the Issuer*) at the Bond Make-Whole Amount together with accrued interest.
Security	The Notes will be secured pursuant to the Issuer Deed of Charge (see "*Summary of Issuer Transaction Documents – Issuer Deed of Charge*" for a further description of the Issuer Security).
Interest and principal deferral on Class B Notes	To the extent that, on any Note Payment Date, the Issuer does not have sufficient funds to pay in full interest or principal on the Class B Notes this payment shall be deferred and such non-payment shall not constitute a Note Event of Default. Any amounts of deferred interest or principal will accrue interest described in Condition 15 (*Subordination and Deferral*) and payment of any such additional interest will also be deferrable. Payment of the shortfall representing deferred interest or principal will be deferred until the first Note Payment Date on which the Issuer has sufficient funds, provided that the payment of such shortfall shall not be deferred beyond the Class B Final Maturity Date, as described in Condition 15 (*Subordination and Deferral*). On such date, any amount which has not by then been paid in full shall become due and payable.
Gross-up	None of the Issuer or any Paying Agent will be obliged to gross-up if there is any withholding or deduction in respect of the Notes on account of taxes.
Note Events of Default	As fully set out in Condition 8 (*Note Events of Default*) which includes (and where relevant will be subject to the applicable grace period): • Insolvency Events • non-payment of interest and/or principal; and • breach of contractual obligations by the Issuer under the Issuer Transaction Documents or of the Notes.
Limited recourse	The Notes are obligations of the Issuer and, if not repaid in full, amounts outstanding are subject to a final write-off, which is described in more detail in Condition 17 (*Limited Recourse*).

The Noteholders are only entitled to funds which are available to the Issuer in accordance with the Issuer Priorities of Payment.

Non petition

The Noteholders shall not be entitled to take any steps (otherwise than in accordance with the Note Trust Deed and Condition 18 (*Non Petition*)):

- to direct the Issuer Security Trustee to enforce the Issuer Security or take any proceedings against the Issuer to enforce the Issuer Security; or
- to take or join any person in any steps against the Issuer to obtain payment of any amount due from the Issuer to it; or
- until the date falling two years after the Final Maturity Date, to initiate or join in initiating any proceedings in relation to an Insolvency Event in relation to the Issuer; or
- to take or join in taking any steps or proceedings which would result in any of the Issuer Priorities of Payment not being observed.

Governing law

English law as to the Notes and the Note Trust Deed.

RISK FACTORS

The purchase of Notes may involve substantial risks and be suitable only for investors who have the knowledge and experience in financial and business matters necessary to enable them to evaluate the risks and the merits of an investment in the Notes. Prior to making an investment decision, prospective investors should carefully consider in light of their own financial circumstances and investment objectives all the information set forth in this Offering Circular and, in particular, the considerations set forth below. Prospective investors should make such inquiries as they deem necessary without relying on the Issuer, Managing Agent, the Note Trustee, the Issuer Security Trustee or the Arranger. The following is a summary of certain investment considerations relating to the Notes of which prospective investors should be aware. This summary is not intended to be exhaustive and prospective investors should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision. The following factors may affect the Issuer's ability to fulfil its obligations under the Notes issued. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any contingency occurring.

PROJECT LEVEL RISK FACTORS

Introduction

The contractual arrangements for the Project will be structured to minimise the risks inherent to the Project which are retained by ProjectCo. Risks will generally be assumed by ProjectCo under the Project Agreement unless borne by the Authority. Generally risks borne by ProjectCo under the Project Agreement will be passed to the Building Contractor, RRCMR Contractor or the Housing Management Contractor, under their relevant sub-contracts and/or, in some instances, will be mitigated by insurance. However, certain residual risks will be retained by ProjectCo. For example, to the extent that the Sub-Contractors, their respective guarantors or insurers fail to meet their respective obligations in respect of risks under the Project Documents that have been passed down to them by ProjectCo, ProjectCo will continue to bear such risks in accordance with and to the extent that they are not limited by the Project Documents.

Limited Resources

ProjectCo's ability to provide the necessary funds to the Issuer will be affected by the sufficiency of amounts paid by the Authority in respect of the unitary charge payments due under the Project Agreement and in relation thereto, the discharge of the obligations by the Sub-Contractors under the relevant Project Documents.

Performance Of The Project

Cost Over-run and Construction Delay, including treatment of Milestones

The works required by the Project Agreement (the "**Works**") are to be delivered over a period of approximately 45 months in areas of Salford. There are no new build works. Instead the Works consist only of refurbishment works to the dwellings, certain environmental works such as fencing, security gates and car parking, works to certain communal open spaces or areas (the "**Common Areas**") and works to certain parts used in common by residents of one or more dwellings including drains, staircases, lifts and pipes (the "**Common Parts**"). The refurbishment works covers 1,270 dwellings.

The principal risks which arise out of the performance of the Works are:

(a) that the carrying out of the Works are not completed in accordance with the timetables prescribed by the Project Agreement or contemplated by the construction programme in the Building Contract, which triggers the delay indemnity under the Project Agreement and delays increases in the Net Monthly Unitary Payments due upon completion of each Dwelling;

(b) there is a failure to achieve one or more of the milestones which are set out in the Milestone Completion Dates defined below.

(c) a certificate of availability for all of the dwellings, Common Parts, retail units and Common Areas in the Project has not been issued by the date falling twelve (12) months following the scheduled completion date for the Works in respect of each such area (the "**Planned Full Services Commencement Date**") or such later date allowed in accordance with the Project Agreement (the "**Long Stop Date**"); and

(d) that the carrying out of the Works are not completed within the agreed price in the Building Contract.

In addition, there are two Milestone Completion Dates, which are as follows:

(a) Milestone Completion Date One – There is a requirement to complete 244 Dwellings by the last day of the 24th month in the construction programme.

(b) Milestone Completion Date Two - There is a requirement to complete 856 Dwellings by the last day of the 36th month in the construction programme.

It is a default of the Project Agreement by ProjectCo if either of the milestones listed above are not achieved and such default will entitle the Authority to terminate the Project Agreement.

In relation to the Works, ProjectCo will enter into the Building Contract with Bramall Construction Limited (the "**Building Contractor**") under which, generally, the risks relating to cost of the Works and the time allowed for performance thereof will be borne by the Building Contractor.

The obligations of the Building Contractor under the Building Contract will be supported by:

- a parent company guarantee provided by Keepmoat Limited and Keepmoat Regeneration Limited on a joint and several basis and as primary obligors;
- a performance bond, in an amount equal to 15% of the contract sum (subject to step-downs as the refurbishment of dwellings is certified as completed) from one or more insurance companies or banks acceptable to ProjectCo and the Issuer. The bond will be released shortly following the Final Full Services Commencement Date (Actual).;
- a letter of credit provided by Lloyds Bank PLC or a financial institution with a minimum credit rating of A-(Standard and Poors) or A3 (Moodys) acceptable to the Issuer in favour of ProjectCo for the sum of £4 million. The required amount steps down to £2m when £2m has been paid into the Retention Account. The letter of credit will be released shortly following the Full Services Commencement Date;
- a retention equivalent to 5% of payments made to the Building Contractor for Works completed (up to a maximum of £2m); and

- fully funded cash reserves totalling £6m (comprising a £3m Construction Reserve Account and a £3m Equity Reserve Account) held by ProjectCo from the Closing Date to provide additional construction phase liquidity. If there is a default by Chevin as subcontractor under the Housing Management Agreement or RRCMR Contract prior to completion of the Works, it is possible that the funds in these accounts will be drawn to meet liabilities under the subcontracts and would therefore not be available to cover a subsequent default of the Building Contractor. Unspent funds in these accounts will be released for distribution to equity holders on completion of the Works.

Any retention monies (less any amounts that have been utilised by ProjectCo) will be paid and released to the Building Contractor once the independent certifier appointed on the Project has certified that the Building Contractor has complied with its obligations regarding the rectification of defects during the defects liability period.

If the Building Contractor fails to complete the Works by the dates prescribed in the Building Contract (and subject to certain extensions of time granted under the Building Contract), the Building Contractor shall be liable for the corresponding amount for which ProjectCo is required to indemnify the Authority under the equivalent provision of the Project Agreement (which is capped at £50,000). Late completion of the Common Parts and Common Areas also gives rise to liabilities of ProjectCo to pay the Authority compensation, which liability is being passed down by ProjectCo to the Building Contractor.

In addition, the Building Contractor also has a liability to pay liquidated damages to ProjectCo where Works on a certain number of Dwellings have not been completed by specified dates set out in the Building Contract. The level of the liquidated damages has been calculated by reference to the loss expected to be suffered by ProjectCo as a consequence of delay and the liquidated damages payable by the Building Contractor are expected to be sufficient to enable ProjectCo to cover, inter alia, its debt service obligations to the Issuer for an agreed period and the Issuer to cover its obligations under the Notes. ProjectCo will also benefit in specified circumstances from advance loss of revenue insurance and, following completion of the Works, business interruption cover (each of which will respond in certain specified circumstances).

Compensation Events occurring during the period for the performance of the Works will not extend the term of the Project Agreement although the occurrence of a Compensation Event will trigger ProjectCo's right to apply to the Authority for compensation and an extension to the relevant dates (for example, the Long Stop Date and each Milestone Completion Date) affected by the Compensation Event.

Relief Events occurring during the period for the performance of the Works will trigger ProjectCo's right to apply to the Authority for relief from its obligations (including termination) and an extension to the relevant dates (for example, the Long Stop Date and each Milestone Completion Date) but will not entitle ProjectCo to any compensation. ProjectCo's obligations to make payments to the Issuer in these circumstances may be discharged by liquidated damages from the Building Contractor or insurance proceeds.

Termination, including termination and replacement of the Sub-Contractors

Termination generally

The Project Agreement will provide rights of termination in favour of the Authority and ProjectCo. Compensation will be payable by the Authority upon termination of the Project Agreement. The amount of the termination compensation payable will depend on the reason for termination and other circumstances.

Where termination occurs as a result of default by ProjectCo (a "**Contractor Default**"), the amount of compensation payable by the Authority will be calculated by reference to the market value of the Project and may not be sufficient to enable ProjectCo to meet its obligations to the Issuer and the Issuer to meet its obligations under the Notes. There will be a grace period for all those Contractor Defaults which are deemed remediable under the Project Agreement. In addition, the ProjectCo Security Trustee (or, as the case may be, any receiver of ProjectCo appointed under the Project Security Documents) will have step-in and cure rights under the Authority Direct Agreement.

Where termination is due to an Authority Default, voluntary termination by the Authority, or failure by the Authority to issue a certificate under the Local Government Contracts Act, the amount of such compensation is intended to enable ProjectCo to meet its obligations to the Issuer and to enable the Issuer to meet its obligations under the Notes (including a Make Whole Payment). The Make Whole Payment is in the case of a termination for Authority Default is the Bond Make-Whole Amount and in the case of all other termination events referred to above, the Modified Bond Make-Whole Amount.

The amount of compensation payable by the Authority in all other termination scenarios (other than Contractor Default), namely an uninsurable risk, a Force Majeure Event, failure to secure approval from the Secretary of State of a replacement contractor exercising the Authority's housing management functions, wilful breach by ProjectCo of the provisions of the Project Agreement concerning refinancing, or breach of the corrupt gifts provisions, has been structured so as to enable ProjectCo to meet its obligations to the Issuer and to enable the Issuer to meet its obligations under the Notes (but excluding any Make Whole Payment).

The Authority is entitled for terminations other than for Authority Default, to make the compensation payments in instalments of principal and interest as scheduled under the Notes. Where the compensation is not sufficient to cover the principal and interest payments, the instalments shall be pro-rated.

However, in any termination scenario, payment by the Authority of the relevant compensation may not be sufficiently timely to enable the Issuer to meet its obligations under the Notes or (as mentioned above) in a sufficient amount to repay all amounts outstanding under the Notes.

Termination and Replacement of Building Contractor

The Building Contract can be terminated on any of the grounds set out in the section entitled "*Summary of the Project Documents – Key Sub-Contracts – Building Contract – Termination*". The termination provisions of the Building Contract will be structured so as to allow ProjectCo to terminate the Building Contract before the Authority becomes entitled to terminate the Project Agreement in the event of poor or late performance of the Works by the Building Contractor. Any such termination would be subject to the written consent of the Authority and the Issuer (subject to the Security Trust and Intercreditor Deed (as defined below)). The Building Contract will provide (subject to agreed caps on the Building Contractor's liability) that where the Building Contract is terminated for the Building Contractor's default the Building Contractor will indemnify ProjectCo in respect of all losses arising out of and in connection with the termination.

The Building Contractor's obligations under the Building Contract will also be supported by a performance bond to be provided by one or more insurance companies or banks. The performance bond will be for an amount equal to 15% of the contract sum. The step down will be as follows:

(a) 12% when the dwelling completion is greater than 50%;

(b) 9% when the dwelling completion is greater than 75%;

(c) 6% when the dwelling completion is greater than 90%; and

(d) 0% on certified completion of all dwellings, Common Parts, retail units and Common Areas.

Termination of the RRCMR Contractor

Should the RRCMR Contractor consistently or seriously fail in the performance of its obligations under the RRCMR Contract, or become insolvent, ProjectCo may terminate the RRCMR Contract.

Similar restrictions on termination, apply to the RRCMR Contract, as referred to above in relation to the Building Contract.

Replacement of Sub-Contractors

The Project Agreement provides that on two occasions on replacement of a defaulting Sub-Contractor (but not the Building Contractor), ProjectCo may elect (for the purposes of the termination provision only) for any accrued deductions and/or any warning notices or Final Warning Notices in respect of Persistent Breach, to be cancelled.

In addition, on one occasion where the Building Contractor is replaced, the Milestone Completion Dates that have yet to be satisfied will be postponed by such time as is agreed by the Authority and ProjectCo acting reasonably.

Furthermore, no deductions, warning notices nor Final Warning Notices shall accrue for the purposes of certain limbs of the definition of ProjectCo default in respect of the Works or Service during a period of two (2) months from the date on which the Works or Services are first provided by the replacement Sub-Contractor. This is to avoid termination of the replacement sub-contractor and ProjectCo shortly after replacement occurring. Deductions will still be made against the unitary charge in respect of deductions incurred during that period, hence this is a ProjectCo risk, which will be passed down to the replacement Subcontractor.

Each Sub-Contract will provide (subject to agreed caps on the Sub-Contractors' liability, and assuming that the Sub-Contractor is solvent) that, where the relevant Sub-Contract is terminated for the Sub-Contractor's default, the Sub-Contractor will be liable for ProjectCo's losses, including increased costs of replacement Sub-Contractors.

Availability

As the Works in relation to dwellings are completed and result in certificates of availability being issued the unitary payment will increase on a monthly basis to mirror the number of dwellings in respect of which the Works have been completed in the previous month. However, the ramp up in net monthly unitary payments is subject to a Maximum Monthly Certification Cap. Therefore if the number of dwellings that are awarded a Certificate of Availability in any given contract month exceeds the relevant allocation for that month in the Maximum Monthly Certificate Cap, then the net monthly unitary payments will not take into account such certifications above the Maximum Monthly Certification Cap.

The net monthly unitary payments comprise the primary source of revenue enabling ProjectCo to make debt service payments to the Issuer and enabling the Issuer to pay the principal and interest in respect of the Notes. Failure to achieve the stipulated levels of Availability and/or to meet the relevant performance standards will result in lower than forecast revenues. Subject to contractual caps on liability, recourse may be available against the Building Contractor, the RRCMR Contractor, or the Housing Management Contractor, if the Deductions result from that Sub-Contractor's Default or from a risk allocated to that Sub-Contractor.

The net monthly unitary payments will be subject to Deductions (i) for poor performance or non-performance, in failure to meet the relevant performance standards (including a failure to collect the target level of rent from Tenants) and (ii) for unavailability due to a Dwelling failing to meet the appropriate standard set out in the Output Specification (see the section entitled "*Summary of the Project Documents – The Project Agreement – Payment Mechanism*").

There are however caps on deductions that can be levied on ProjectCo as detailed in "*Summary of the Project Documents - The Project Agreement - Payment Mechanism - paragraph 2.5.17*".

Where unavailability or poor performance is caused by the occurrence of risks which are insured, ProjectCo may have recourse to advance loss of profits or business interruption insurances (although for such insurances to respond, the risk must also be covered by the material damage policy).

ProjectCo may suffer deductions against the unitary charge payments for which it will not have recourse against a Sub-Contractor or insurer. Examples include a breach by ProjectCo of its sub-contract obligations or those outside the scope of any relevant insurance, having been caused by events such as Force Majeure. In such circumstances, the ability of ProjectCo to make debt service payments to the Issuer and the ability of the Issuer to make payments in respect of the Notes may be adversely affected.

Authority Step-In

The Authority has step-in rights to take over the Services.

If the Authority steps in without a ProjectCo breach, ProjectCo will be relieved of its obligations in carrying out the Works and/or relevant Services and the Authority will pay ProjectCo the unitary charge that Project Co would have received if it were satisfying all of its obligations in carrying out the Works and/or relevant Services.

If however, the Authority steps in on a ProjectCo breach, then the Authority will pay ProjectCo the unitary charge that it would have received if it had been carrying out all of the Works and Services less an amount equal to all the Authority's costs of operating and taking action during the step-in period. This reduction may be passed down to the sub-contractors to the extent it has been caused by breach of the relevant sub-contract, but the reduction in the unitary charge could lead to there being insufficient funds for the Issuer to pay the Noteholders.

Cyclical Maintenance, Responsive Repairs and Lifecycle

ProjectCo will bear the risk of fair wear and tear, renewal and damage to the dwellings. The timing and cost of such expenditure has been estimated by ProjectCo's professional advisers and reviewed by the Issuer's technical advisers as being appropriate for the Project. There are a variety of factors which could lead to higher than projected major maintenance costs, such as shorter than anticipated asset life spans or higher inflation than predicted affecting labour costs and/or the cost of specific items of plant and equipment. First, the cost of maintenance is passed down to the RRCMR Contractor. Secondly, lifecycle risk (both timing and cost of lifecycle works) is also passed down to the RRCMR Contractor.

The RRCMR Contract will contain mechanisms that will restrict the amount of lifecycle payments to be paid to the RRCMR Contractor to ensure that:

(a) the ongoing and total cumulative Lifecycle Payment never exceeds the amount that has been agreed at financial close as being allocated for lifecycle activities for the relevant period (except to the extent that this lifecycle budget is varied with the agreement of the Issuer and the ProjectCo); and

(b) payments of the lifecycle payment are only in respect of lifecycle activities actually undertaken by the RRCMR Contractor.

Lifecycle activities to be undertaken will be as per the approved schedule of such activities and will be subject to any constraints contained in the Credit Agreement.

The RRCMR Contractor will bear the risk of the lifecycle budget being insufficient and will not be given any relief from its obligations as a result of such inadequacies. In consideration for this risk, the RRCMR Contractor will be entitled to any remaining unspent balance in the lifecycle fund as at the expiry or earlier termination of the Project Agreement and to the release of a proportion of any surpluses at certain specified intervals with Issuer consent.

Market Testing Services

Market testing will be carried out every five years. Under the Project Agreement, there are only two elements of the Services that are subject to Market Testing. These are grounds maintenance and cleaning and caretaking. After an open competition the most economically efficient tender will be selected and if that has been tendered by a new service provider then that service provider will be appointed to deliver the relevant elements of the Services.

The Project Agreement provides that, with effect from the relevant market testing review date the unitary charge is to be adjusted to reflect the cost difference between the successful tenderer's tender price and the element within the base case (as set out in the financial model) (as such element may have been adjusted as a result of being indexed or as a result of previous adjustments on a "no better no worse basis"). Accordingly, assuming that ProjectCo appoints the successful tenderer to carry out those market tested services, this should not affect the Issuer's ability to make the required payments to the Noteholders.

Service Performance

In summary, the performance of ProjectCo in carrying out the Services is subject to deductions for a failure to carry out the Services in accordance with the output specification, and achieving the key performance indicators. The Services to be provided are detailed in "*Summary of Project Documents - The Project Agreement - The Services - paragraph 2.3*" and the circumstances in which deductions may be levied are set out in "*Summary of Project Documents - The Project Agreement - Availability Deductions, Performance Deductions - paragraphs 2.5.7 to 2.5.17* ".

The following limitations on deductions apply under the Project Agreement:

(a) An overall cap – There is an overall cap that applies in relation to the application of deductions in any given contract year, equal to the gross unitary charge payable by the Authority to ProjectCo in that contract year.

(b) No deduction in respect of Services performance may be made to a dwelling in respect of which an unavailability deduction is already applied, although these are certain exceptions to this.

(c) A monthly cap – There is a cap on deductions that applies on a monthly basis, so that the total deductions cannot exceed the gross unitary charge payment for that contract month, except that those deductions in excess of the cap can be applied in a following contract month.

(d) Deductions during the mobilisation period – During the first three months after the commencement date for the Services there is an abatement of 100% of the deductions.

No deductions will apply if the Services performance failure arises out of an Excusing Event, as a result of breach by a party other than ProjectCo or a ProjectCo related party and ProjectCo is taking reasonable steps to mitigate the effect of the Excusing Event.

Planning and Consents

Detailed planning consents for the Works were issued at 16 August 2012 subject to conditions and an obligation under section 106 of the Town and Country Planning Act 1990.

The period for any judicial review application expired on 13 November 2012.

Ground risk/ building risk/ conducting media risk

There are no new build works being carried out as part of the Works.

ProjectCo is solely responsible for Contractor Contamination and site conditions at the sites included in the Project.

ProjectCo is required to indemnify the Authority in respect of all direct losses and hold the Authority harmless from cleaning up and otherwise dealing with Contractor Contamination.

The Authority is solely responsible for Authority Contamination. The Authority is required to indemnify ProjectCo in respect of all direct losses and hold ProjectCo harmless from cleaning up and otherwise dealing with Authority Contamination.

However there is a third category of contamination that relates to contamination of neighbouring development sites while these are being maintained by the RRCMR Contractor ("**Qualifying Contamination**"). ProjectCo is required to bear all costs in connection with Qualifying Contamination in each and every contract year up to a cap of £500,000 ("**Qualifying Contamination Cap**") but the contamination will qualify as a Relief Event and an Excusing Event. Project Co is also required to indemnify the Authority in respect of all direct losses and hold the Authority harmless from cleaning up and otherwise dealing with Qualifying Contamination up to and including the Qualifying Contamination Cap.

Above the cap, the matter shall be deemed to be a Compensation Event, and any work required shall be deemed to be an Authority Change.

The risk of Contractor Contamination will be passed down to the Subcontractor level. The risk of Qualifying Contamination will be passed to the RRCMR Contractor.

The Project Agreement provides that ProjectCo accepts entire responsibility (including any financial and other consequences which result either directly or indirectly) for any Defect or asbestos. This is being fully passed down to the Sub-Contractor level.

Environmental Matters

ProjectCo will be subject to European Union and English laws, regulations and ordinances that relate to activities or operations that may have adverse environmental effects (such as discharges to air and water, as well as handling and disposal practices for solid and hazardous wastes) and that impose liability for environmental contamination, including the costs of cleaning up sites which have been the subject of spills, disposals or other releases of hazardous materials. Fines, damages and penalties may also be imposed under certain of such laws, regulations and ordinances.

The technical adviser has confirmed that the following surveys and reports have been provided, which are intended to ascertain the environmental conditions at the sites comprising the Project:

- GMEU Bat Survey (undated)

- Coal Authority Coal Surveys 1, 2 & 3 dated 1 April 2009

- Desk studies and Preliminary Risk Assessment by Contaminated Land Section, Environmental Services, Salford City Council dated April 2007 (Amersham St, Aylesbury Close, Windsor High School)

- WSP Ecological Constraints Survey dated June 2008

- Environmental Assessments by Contaminated Land Section, Environmental Services, Salford City Council dated March 2006 (Clarendon Park)

- Sinclair Knight Merz Geo-Environmental Investigation dated March 2008 (High Street and Amersham Street)

- Wardell Armstrong Ground Investigation reports dated April 2005 (Windsor High School and Aylesbury Close)

- Confirmation that there no Tree Preservation orders dated 5 September 2007.

Defects

ProjectCo is fully responsible for defects including any latent and patent defects in the existing structures, and defects in design, workmanship and installation (inter alia) in any dwelling, property, Common Part or retail unit. Where a defect results in a dwelling, Common Area or Common Part being unavailable, then ProjectCo may suffer a deduction and will in any event be obliged to rectify the defect. Any deductions suffered will be passed down to the relevant Sub-Contractor.

There is a full pass down of defects risk which is shared between the Building Contractor and the RRCMR Contractor. The majority of defects risk has been passed down to the Building Contractor and the Building Contractor has responsibility for these risks for its 12 year statutory period of contractual liability. The Building Contract also specifies a defects liability period of 12 months from the last certificate of availability issued in respect of all dwellings, retail units, Common Areas and Common Parts during which period, ProjectCo will continue to hold a £2m retention and will be entitled to require the Building Contractor to rectify any defect and failing that to remedy itself and recover the cost. After the Building Contractor's statutory period of contractual liability, the risk of latent defects in the structures will pass to the RRCMR Contractor for the remainder of the concession. The RRCMR Contractor will bear the risk associated with defective design, workmanship and installation in respect of the work it carries out.

Access risk/Interface with tenants

Access Refusal

In order to be able to carry out the Works and Services, and ensure that the requirements in the output specification continue to be met, ProjectCo needs to be able to access the dwellings. The access protocol within the Project Agreement sets out the steps that ProjectCo must undertake in order to gain access. If ProjectCo has taken such steps, and is not able to gain access to the dwellings, then it will be an access refusal event. An access refusal event is also an Excusing Event and a Relief Event.

An access refusal event will occur in the following instances (subject to the terms of the Access Protocol) where the tenant:

(a) refuses access to a dwelling to undertake Works or Services (whether or not they have been started);

(b) refuses access to a dwelling to allow an inspection by the Independent Certifier; or

(c) fails to respond to contacts made by ProjectCo at the point indicated in the procedure contained in the access protocol and provided that ProjectCo is complying with the material provisions of the access protocol.

Tenant and Third Party Damage

As ProjectCo is responsible for the dwellings continuing to meet the relevant availability standard contained within the output specification, ProjectCo will be responsible for Tenant and Third Party Damage that occurs to the dwellings. However, such Tenant and Third Party damage is subject to the terms and conditions set out in the Tenant and Third Party Damage Protocol.

Certain of the costs incurred by ProjectCo in respect of Tenant and Third Party Damage, are Qualifying Costs. ProjectCo is entitled to claim 50% of Qualifying Costs back from the Authority. Costs which are not Qualifying Costs are borne solely by ProjectCo. Key items that are not Qualifying Costs are:

(a) any damage to Dwellings and/or Retail Units that is not Tenant Damage or Third Party Damage provided that any Third Party Damage to Common Areas and/or Common Parts shall not be a Qualifying Cost; and

(b) all costs caused by Tenant Damage or Third Party Damage up to an annual cap of twenty thousand pounds (£20,000) (indexed).

These costs are passed down to the RRCMR Contractor up to its cap on liability. Any such costs in excess of such cap will be a risk to the Issuer’s ability to make timely payments under the Notes.

Rent Collection

ProjectCo does not take volume (ie dwelling occupancy) or credit (rental arrears) risk, which remain for the Authority's account. However, rent collection is one of the housing management functions that forms part of the Services that ProjectCo is obliged to deliver. As with other service elements, poor performance will result in performance points being awarded and thus the Authority making deductions from the Unitary Charge. The full failure of the relevant KPI will result in a deduction from the unitary charge of less than 1% per annum. ProjectCo will pass down the risk of payment deductions relating to the rent collection KPI to the Housing Management Contractor, subject to the relevant caps on liability.

Dwellings subject to Decant

It may be necessary to decant a tenant from their dwelling during the carrying out of the Works.

The triggers to a decant are:

(a) tenant request;

(b) fact and degree; or

(c) health and safety.

In respect of fact and degree, the two considerations are tenant vulnerability, and the level of disruptiveness of the Works.

If it is determined by ProjectCo that a decant is required, ProjectCo is required to notify the Authority, and the Authority will use its reasonable endeavours to provide a maximum of two (2) dwellings of suitable alternative accommodation at any particular time during the Works if they are needed by ProjectCo for such decant.

Note that there is a further proviso that making such suitable alternative accommodation available must not cause any loss of rent to the Authority. Accordingly, the Authority has a limited obligation and the risk of provision of suitable alternative accommodation may well fall back on to ProjectCo. This risk is being passed down to the Building Contractor, who will have to manage the programme and cost implications accordingly.

Handback

ProjectCo is required to handback the dwellings on the expiry or earlier termination of the Project Agreement so that they comply with the handback standard set out in the output specification.

There is a risk that maintenance and lifecycle works that were scheduled to take place shortly after expiry (due to adjustments to the programme of planned maintenance) need to be brought forward to meet the handback standard, which would be an unexpected cost and risk for ProjectCo, although this risk is passed down to the RRCMR Contractor. The handback standard will not be tested before the Final Maturity Date of the Notes.

Risk of Disputes

Due to the contractual structure, which is usual for PFI projects, the nature of the Works and Services, and the nature of interfaces with tenants and other interested parties, there is a risk of disputes arising. For example, it may be difficult to determine whether a Deduction has been caused by a failure to perform the Works correctly in the first instance, a subsequent failure to perform the Services or a combination of both factors. However each Sub-Contractor waives certain rights against ProjectCo, and agrees to pursue any such claims directly against each other under the Interface Agreement.

In some instances such as disrepair actions, the correct defendant will be the Authority. However, ProjectCo will be responsible for the costs associated with disrepair actions after the agreed date in the Project Agreement.

Force Majeure and Relief Events

Certain events preventing the performance of the obligations of the parties to the Project Agreement will be characterised in the Project Agreement as Force Majeure Events, principally war, terrorism, nuclear, chemical/biological contamination and pressure waves from aircraft.

If a Force Majeure Event occurs, the parties are required to commence a consultation process, and if the parties cannot agree a way forward within 80 business days, and the Force Majeure Event continues for a period of 120 business days after the start of the Force Majeure Event, then either party may issue a notice of termination. If the Authority issues a termination notice, the Authority is required to pay the Force Majeure termination sum to ProjectCo. The Project Agreement will also terminate if ProjectCo gives the Authority a notice of termination, and that notice is accepted by the Authority. This will result in payment of par plus accrued interest. No Make Whole Payment will be payable.

There are various factors that constitute a "**Relief Event**" under the Project Agreement (see the section entitled "*Summary of the Project Documents – The Project Agreement – Delay, Relief and Compensation*" below). The Sub-Contractors will bear the risk of non-general strikes or blockade/embargo in their respective industries.

Although ProjectCo is relieved from performance of its obligations under the Project Agreement when such events occur, there is a risk that it will suffer financial loss as it may not receive the full unitary charge payments and the revenue protection insurances may not respond in time or at all. However, Force Majeure and Relief Events are also passed down to the Sub-Contractors so to that extent, any financial loss will ultimately be borne by the relevant Sub-Contractor.

Right to Buy Scheme

If a tenant exercises the right conferred on it by Part V of the Housing Act 1985 to buy a dwelling, then a change in the nature of dwellings by tenure ("**CNDT**") will be deemed to have occurred. If a CNDT occurs, then it will be dealt with by the relevant CNDT provisions in the Project Agreement, rather than the Change Protocol.

In summary, if a CNDT occurs, there will be:

(a) Capital cost savings – if the CNDT occurs before the Works are carried out;

(b) Savings in semi variable costs –costs which depend on the number of dwellings, but a threshold must be reached before there is a cost consequence; and

(c) Savings in variable costs – costs which dependent on the number of dwellings, and no threshold needs to be reached.

In general terms, ProjectCo's ability to make payments to the Issuer is not materially affected because the capital cost savings are paid back to the Authority with no adjustment to the overall unitary charge payments.

The unitary charge payments are adjusted for the semi variable costs and variable costs, however, this adjustment should mirror the cost savings to ProjectCo.

Change of Law

The Authority will compensate ProjectCo in respect of certain changes in law enacted after the execution of the Project Agreement which were not reasonably foreseeable prior to the execution of the Project Agreement and which:

(a) apply expressly to the Project and not to similar projects procured under the PFI, ProjectCo and not to other persons and/or PFI contractors and not to other persons, the Authority and not to other local authorities;

(b) affect the provision of housing or tenant management services to housing owned by a local housing authority or a registered provider; the provision of construction and maintenance of housing services to residential tenanted accommodation; a tenant or leaseholder or other lawful occupiers of housing owned by a local housing authority or a registered provider; and/or the holding of shares in companies or industrial and provident societies whose main business is providing services referred to in the first two aforementioned points;

(c) is a general change in law that comes into effect during the period of the Services which involves capital expenditure.

The above are "**Qualifying Changes in Law**". Changes in law which are not a Qualifying Change in Law are a ProjectCo risk.

Accordingly, the effect of a change in law which is not of the type described in (a) to (c) above will be borne by ProjectCo and passed down to the Building Contractor (including in relation to carrying out of capital works during the construction phase as described below (other than in relation to (c) above)) or RRCMR Contractor or Housing Management Contractor as is appropriate. Capital costs under limb (c) above will be borne wholly by the Authority.

The Authority undertakes to compensate ProjectCo for irrecoverable VAT that arises out of a change in law.

In all cases in which the risk of changes in law falls on the Authority, compensation will be calculated as if it amounted to a Change ordered by the Authority (so as to leave ProjectCo in no better and no worse position).

Inflation Risk

ProjectCo's revenue comprises of the unitary charge payments which will be partially indexed by reference to RPIx. The payment mechanism provides that only 35% of the initial unitary charge will be subject to indexation. Furthermore the following factors are relevant:

(a) inflation has been included as an overall percentage allowance against the construction cost, (including contingencies and preliminaries), plus fees and overheads and profit. Furthermore the Building Contract is a lump sum contract and accordingly the Building Contractor takes inflation risk;

(b) the percentage of the Unitary Charge subject to indexation has been set with reference to the level of ProjectCo costs that vary with inflation (eg RRCMR Contract payments and Housing Management Contract payments) rather than being fixed in nominal terms (such as debt service) in order to provide an appropriate 'hedge'. Current information indicates that proportion of the unitary charge payments represented by operational costs is approximately 35%;

(c) the RRCMR Contractor and the Housing Management Contractor bear the risk cost escalation exceeds the indexation of their service payments but this has been mitigated to some extent by indexing the Housing Management Contract at RPIx+0.5% and the RRCMR Contract at RPIx=1% with the cost of this real terms inflation reflected in ProjectCo's financial projections. There is also some mitigation provided through the five yearly market testing of some elements of the services.

Housing Management Functions

The housing management functions required to be carried out by ProjectCo will include:

(a) enforcing tenancy conditions, executing tenancy terminations, and handling changes of tenancy;

(b) supporting execution of evictions;

(c) preventing squatting and removing squatters;

(d) dealing with complaints of nuisance;

(e) processing Right to Buy applications;

(f) handling complaints; and

(g) undertaking tenancy audits.

The key risk is the management of tenancies and enforcement of rights against tenants to recover rent in order to meet the rent collection KPI. The cost of carrying out these obligations to a large extent will depend on the nature of the tenants. ProjectCo has no right to challenge the Authority's choice of tenants. These risks are passed down under the Housing Management sub-contract.

Persistent Breach

If a particular breach (other than one for which deductions could be made by the Authority under the payment mechanism) continue or reoccur a specified number of times the Project Agreement sets out a process that could culminate in termination for persistent breach. However, the two mitigating factors are:

(a) headroom is provided for such a persistent breach in each of the Sub-Contracts, with the intention of the Sub-Contractor committing such breach being replaced before the analogous persistent breach occurs under the Project Agreement;

(b) the cancellation of warning notices on replacement of the relevant Subcontractor (subject to certain limitations) prevents termination of the Project Agreement for persistent breach.

TUPE

Certain Authority employees engaged in providing specified Services to the Authority, before the Commencement Date, are expected to transfer to the RRCMR Contractor. In relation to the transfer, the Transfer of Undertakings (Protection of Employment) Regulations 2006 ("**TUPE**") will apply. Employment costs of the Transferring Employees will be paid directly by the RRCMR Contractor. There are 26 employees that will be transferring under this arrangement. The Authority will provide to ProjectCo details of these transferring employees on the Closing Date and shall have 5 business days after the Closing Date in which to finalise the list of transferring employees.

Pensions

ProjectCo intends for the transferring employees to transfer their existing entitlements into the Local Government Pension Scheme and Chevin has been advised by the Greater Manchester Pension Fund that it will be accorded admission body status in respect of that scheme from the date the employees transfer. ProjectCo, in its financial model, has assumed an employer pension contribution rate of 17.8%. There is a 'cap and collar' arrangement so that the unitary charge is adjusted if the employer contributions exceed or fall below the assumed employer pensions contributions rate by more than 3% so that ProjectCo is liable for not more than 17.8% plus or minus 3%.

Change of Control

No change in ownership is permitted with respect to either ProjectCo or Project HoldCo during period ending one year after the certificate of availability has been issued in relations to all dwellings (the "**Lock in Period**") unless a change is approved by the Authority and Project HoldCo is required to own all the share capital in ProjectCo. Therefore there is a risk that Chevin's incentivisation to perform may decrease if its shareholding in ProjectCo HoldCo decreases. However, Chevin will remain bound to perform in accordance with the terms of the RRCMR Contract and the Housing Management Agreement (which have been negotiated on an arm's length basis).

Authority Status, Performance (Including Ultra Vires) and Successor Bodies

The Authority will issue a certificate pursuant to the Local Government (Contracts) Act 1997 in respect of both the Project Agreement and the Authority Direct Agreement, so that each of these is a certified contract.

Section 2(1) of the Local Government (Contracts) Act 1997 provides "*Where a local authority has entered into a contract, the contract shall, if it is a certified contract, have effect (and be deemed always to have had effect) as if the local authority had had power to enter into it (and had exercised that power properly in entering into it)*".

Furthermore, there is a restriction on the transfer of the Project Agreement by the Authority, except "to any person other than to any public body (being a single entity) acquiring the whole of the Agreement and having the legal capacity, power and authority to become a party to and to perform the obligations of the Authority under this Agreement" being:

(a) a Minister of the Crown pursuant to an Order under the Ministers of the Crown Act 1975;

(b) any Local Authority which has sufficient financial standing or financial resources to perform the obligations of the Authority under the Project Agreement and the Authority Direct Agreement; or

(c) any other public body whose obligations under the Project Agreement and the Authority Direct Agreement are unconditionally and irrevocably guaranteed (in a form reasonably acceptable to Project Co) by a Local Authority or a Minister of the Crown having the legal capacity, power and authority to perform the obligations under the guarantee and the obligations of the Authority under the Project Agreement and the Authority Direct Agreement.

The Authority's obligations under the Project Agreement mainly consist of payment of the unitary charge. Other obligations, which are non-critical, include carrying out demolition works to the future development sites and using reasonable endeavours to supply suitable alternative accommodation.

If the Authority breaches its obligations or warranties under the Project Agreement, then ProjectCo is entitled to a Compensation Event.

Section 27 of the Housing Act 1985 requires the Authority to obtain consents from the Homes and Communities Agency confirming their approval in respect of proposed management agreements whereby a local housing authority agrees another person shall exercise some or all of its management function in respect some of its housing stock. There is no detailed statutory definition of the Authority's management functions.

The Housing Act 1985 states references to the management functions of a local housing authority in relation to houses or land do not include such functions as may be prescribed by regulations made. However no such regulations have been made. The Housing Act 1985 goes on to state the management functions include functions conferred by any statutory provision and the powers and duties of the Council as holder of an estate or interest in the houses or land in question.

A "**management agreement**" is defined in the Housing Act 1985 so as to include a "**sub-agreement**" i.e. an agreement under the provision of a management agreement which authorises or allows a manager with the consent of the local authority to agree another person shall exercise any management function exercisable by the manager under the management agreement.

The Authority has obtained a s27 consent in respect of both the Project Agreement and the Housing Management Agreement and within that consent the Homes and Communities Agency has specified that the remaining sub-agreements under the Project Agreement do not require further s27 consents, provided, in the Authority 's opinion, tenant consultation is not required.

The RRCMR Contract and/or the Building Contract could potentially be the subject of a judicial review challenge on the grounds that either, the Authority's decision that tenant consultation is not required for these agreements is considered unlawful or that separate s27 consent(s) which have not been obtained is/are required for one or more of those agreements.

The potential risk of such judicial review challenge is subject to the normal judicial review limitations, that any claim should be made promptly and within 3 months from the date of entry into the relevant agreement (unless special dispensation is obtained from the Court and this is very rare).

If there were a successful judicial review, Section 28.2 of the Project Agreement entitles ProjectCo to enter into a new sub-agreement without an existing Section 27 consent, for a moratorium period of up to six months (which may be extended by the secretary of state) during which time the Authority shall undertake any necessary consultation and seek such consent. The moratorium period is expected to provide sufficient time for the Authority to successfully undertake this, whether in respect of the existing RRCMR Contractor or any replacement contractor. There are a variety of such contractors in the market, who are likely to consider the existing RRCMR Contract to have been let on market standard terms in the round and the staff should transfer under TUPE. ProjectCo is entitled to terminate the RRCMR Contract if a judicial review challenge is commenced and it considers that it is necessary to seek a Section 27 consent for a sub-agreement to replace the RRCMR Contract. On such termination, ProjectCo is only obliged to pay the RRCMR Contractor any amounts due but unpaid for Services performed prior to termination.

If at the expiry of any moratorium period, such consent has not been obtained, the Project Agreement may be terminated by the Authority or ProjectCo. The compensation on termination payable by the Authority will also include the sum of all amounts outstanding under the Project Finance Documents (See paragraph 2.7.6 (o) of Summary of Project Documents - The Project Agreement).

Insurance

Sufficiency of Insurance

ProjectCo will take out the following insurance policies:

(a) During the period of the Works:

(i) contractors' all risks insurance

(ii) delay in start-up insurance

(iii) construction third party liability insurance

(b) During the period of the Services:

(i) property damage insurance

(ii) business interruption insurance

(iii) third party public and products liability insurance

Under the Project Agreement, ProjectCo will bear the risk of physical loss and damage to the Works, including the dwellings. Should such loss or damage occur, the financial consequences for ProjectCo will include both the cost of reinstatement and, potentially deductions (depending on what damage has occurred).

ProjectCo will bear the risk of any physical loss or damage negligently caused by a ProjectCo Party to the dwellings, by the carrying out of the Works and/or by subsequent provision of the Services. This risk will be mitigated by passing it down to the Sub-Contractors under the terms of the relevant Sub-Contracts, subject always to their liability caps and the extent to which the risk arises due to such Sub-Contractor's breach.

Insurer credit risk

If an insurer with which ProjectCo places an insurance policy listed above becomes insolvent, ProjectCo may suffer a loss as a result. However, ProjectCo is required under the Credit Agreement to only place such insurance policies with insurers meeting an agreed minimum credit rating.

Uninsurable risks and Premium Risk Sharing

ProjectCo's strategies for the management and mitigation of a number of risks depend on its ability to procure insurance. As noted in the following paragraphs, ProjectCo will bear the risk that the cost of its insurance programme may increase over time, or that insurances may become unavailable (at all or at an economically viable cost).

Risk of increases in insurance costs primarily sits with ProjectCo. However, if there is a movement of more than 30% in the projected operational insurance costs on account of market wide factors, any excess will be shared 85% to the Authority and 15% to ProjectCo. This insurance cost sharing arrangement is limited to market wide movements.

It should be noted that ProjectCo's liability will nonetheless be limited given the following uninsurability protection available should insurance no longer be available on a commercially viable basis. Where a relevant risk becomes Uninsurable then the relevant provision of the Project Agreement will apply (see the section entitled "*Summary of Project Documents – Project Agreement – Uninsurable Risks*").

Terrorism

Whilst terrorism is listed as a Force Majeure Event, it is a cover feature in each of the insurance policies required to be taken out by ProjectCo.

Monitoring of Warranties, Covenants and Events of Default

Under the Credit Agreement, ProjectCo is required to inform the Issuer if it becomes aware of any matter which constitutes an event of default or trigger event under the Credit Agreement and of any matter which with the passing of time, the giving of any notice or the making of any determination would constitute an event of default, immediately upon becoming aware of its occurrence. Subject to applicable grace periods, a breach of ProjectCo's obligations or of any representation or warranty made by it under the Credit Agreement and the related finance documents will constitute an event of default. Accordingly, ProjectCo is obliged to inform the Issuer of any such breach immediately upon ProjectCo becoming aware of it. However, there can be no assurance that ProjectCo will become aware of any such breach and, even if it does, the Issuer will be dependent upon ProjectCo complying with its notification obligation in order for it to learn of the breach.

Authorised Investments

On the Issue Date the entire amount available under the Credit Agreement will be drawn by ProjectCo. That part of the advance which is intended to cover Capital Costs incurred in the ProjectCo will be deposited in the Construction Account. In addition, ProjectCo will maintain reserves in various other accounts as referred to in "*Summary of Project Finance Documents – Credit Agreement*" and will hold monies received by it in respect of the Unitary Charge pending such monies being utilised in accordance with the terms of the Credit Agreement and the related finance documents. Monies to which ProjectCo is beneficially entitled will be held by it in accounts maintained in accordance with the Accounts Agreement and in Authorised Investments (See Summary of Project Finance Documents – The Credit Agreement – Section 1.15) In the event that any bank holding ProjectCo's monies or any obligor in respect of any investment made by ProjectCo becomes insolvent or ceases to pay its creditors ProjectCo may suffer a loss as a result.

Legal Considerations

Tax/ VAT

Amounts in the Project Agreement are exclusive of VAT. Hence if VAT is payable, then the amount paid is "grossed up", which will take into account any changes in the rate of VAT.

Furthermore, if any amount is calculated by reference to any sum which has or may be incurred by any person, the amount shall include any VAT in respect of that amount only to the extent that such VAT is not recoverable as input tax by that person.

The corporation tax rate in the base case for the financial model for the Project has been assumed to be 21% for the 2014-2015 financial year and 20% from the 2015-2016 financial year onwards. There can be no assurance that corporation tax rates in the UK won't be higher in the future.

Recharacterisation of fixed security interests

Fixed charges may take effect under English law as floating charges. Pursuant to the terms of the ProjectCo deed of charge, ProjectCo will purport to grant fixed charges over, amongst other things, its rights and benefits in its bank accounts and all authorised investments purchased from time to time. Pursuant to the ProjectCo Holdco deed of charge, ProjectCo

Holdco will purport to grant fixed charges over, amongst other things, certain interests relating to the issued shares in ProjectCo.

The law in England and Wales relating to the characterisation of fixed charges is unsettled. The fixed charges purported to be granted by ProjectCo or ProjectCo Holdco may take effect under English law as floating charges only, if, for example, it is determined that the security trustee does not exert sufficient control over the charged property for the security to be said to constitute fixed charges. If the charges take effect as floating charges instead of fixed charges, then, ordinarily as a matter of law, certain claims would have priority over the claims of the security trustee in respect of the floating charge assets.

Penalty payments

Under English law, a provision requiring a party to pay additional moneys (whether expressed to be by way of additional interest, liquidated damages, make-whole or yield protection, penalty or otherwise) consequent upon a breach of contract by such party is not enforceable if such provision is held by a court to be a penalty or in the nature of a penalty. Depending upon the circumstances, this may affect the recoverability of amounts under the Credit Agreement in excess of outstanding principal and interest calculated at the pre-default rate.

Pensions liabilities - Exposure of ProjectCo to liabilities in relation to defined benefit schemes of the Together Housing Group

Chevin participates in the Social Housing Pension Scheme ("**SHPS**") administered by the Pensions Trust. The SHPS is an industry wide multi-employer, multi-benefit structure, defined benefit pension scheme. A valuation of the SHPS as at 30 September 2011 revealed a shortfall of assets compared with the value of liabilities of £1,035 million and the SHPS now has recovery plans in place to pay for past service deficit, including the payment by Chevin of annual deficit contributions.

ProjectCo could, in certain circumstances, be subject to liabilities in respect of defined benefit schemes (which could include SHPS) which have a deficit. Pursuant to the Pensions Act 2004, the Pensions Regulator can, in certain circumstances, require funding or funding guarantees pursuant to a contribution notice or financial support direction for deficits in defined benefit schemes from companies participating in the pensions schemes and persons who are "connected" with or an "associate" of a participating employer (within the meaning of the Insolvency Act 1986). In light of ProjectCo's shareholding structure, ProjectCo is connected with or an associate of Chevin (an employer that participates in a defined benefit scheme).

A contribution notice may be issued if the Pensions Regulator is of the opinion that the person to whom it is issued was (subject to certain time limitations) a party to an act or a deliberate failure to act the main purpose of which or one of the main purposes of which was either (i) to prevent the recovery of the whole or any part of a debt which was, or might become, due from the employer under Section 75 of the Pensions Act 1995; (ii) to prevent such a debt becoming due, to compromise or otherwise settle such a debt, or to reduce the amount of such a debt which would otherwise become due; or (iii) where the effect (regardless of intention) of the act was to materially weaken the pension scheme by detrimentally affecting in a material way the likelihood of accrued scheme benefits being received by or in respect of members unless the Pensions Regulator is satisfied that the party has a statutory defence. The Pensions Regulator may only issue a contribution notice where he considers it reasonable to do so. On the assumption that all transactions undertaken by ProjectCo are bona fide and on commercial arm's length terms, it is difficult to envisage how ProjectCo could be exposed to a contribution notice.

A financial support direction may be issued if an employer participating in the pension scheme is a "service company" or "insufficiently resourced" and the Pensions Regulator is of the opinion that it is reasonable to impose the requirements of the financial support direction on the relevant person. An employer is insufficiently resourced if the value of its resources is less than 50 per cent of the pension scheme's deficit calculated on an annuity buy-out basis and the aggregate value of the resources of the persons who are connected with or associates of the employer and each other, when added to the value of the employer's resources would be 50 per cent or more of the pension scheme deficit on an annuity buy-out basis. Whilst it is therefore possible for the Pensions Regulator to serve a financial support direction on ProjectCo if the employer becomes insufficiently resourced, this is subject to the reasonableness test. In determining reasonableness, a key factor will be the value of any benefits received by ProjectCo from the employer (directly or indirectly). Whilst the fact that ProjectCo will receive equity funding and subordinated debt funding from other group companies could in isolation be perceived as a benefit, it is assumed that the Together Housing Group is in fact receiving material benefits through the transaction given that ProjectCo is designed to distribute surplus cash to the Together Housing Group (via dividends to the ProjectCo Holdco and interest payments on the subordinated debt).

RISKS RELATED TO THE NOTES

Issuer as a Special Purpose Company

Sources of funds to meet Issuer's obligations under the Notes

The Issuer is a special purpose company with no business operations other than the issue of the Notes, the lending of the proceeds to ProjectCo under the Credit Agreement and the transactions ancillary thereto. The ability of the Issuer to meet its obligations under the Notes will be principally dependent on the receipt by it of funds from ProjectCo under the Credit Agreement. Other than the foregoing and the related security therefor, the Issuer will not have any other significant funds available to it to meet its obligations under the Notes and in respect of any payment ranking in priority to, or *pari passu* with, the Notes. Also, it should be noted that ProjectCo's ability to make payments under the Credit Agreement to the Issuer will be affected by the sufficiency of payments received under the Project Agreement. If such funds are insufficient, any such insufficiency will be borne by the Noteholders and the other Issuer Secured Creditors, subject to the applicable Issuer Priorities of Payment.

Notes obligations of Issuer only

The Notes will be obligations solely of the Issuer and will not be obligations or responsibilities of, or guaranteed by, any other person or entity. In particular, the Notes will not be obligations or responsibilities of, and will not be guaranteed by, ProjectCo, the Authority, the ProjectCo Security Trustee, the Corporate Services Provider, the Note Trustee, the Issuer Security Trustee, the Paying Agents, the Arranger, the Cash Manager, the Account Bank or the Managing Agent. Furthermore, no person other than the Issuer will accept any liability whatsoever to Noteholders in respect of any failure by the Issuer to pay any amount due under the Notes.

Limited recourse

The Notes will be limited recourse obligations of the Issuer. If, and to the extent that, after the Issuer Charged Assets has been realised and the proceeds thereof have been applied in accordance with the Issuer Post-Enforcement Priority of Payments, the amounts recovered on realisation of the Issuer Charged Assets are insufficient to pay or discharge amounts due from the Issuer to the Noteholders in full for any reason, the amounts will cease to be due and payable by the Issuer.

Deferral of interest and principal payments on Class B Notes

If, on any Note Payment Date, the Issuer has insufficient funds to make payment in full of all amounts of interest (including any accrued interest thereon) or principal payable in respect of the Class B Notes, after having paid or provided for items of higher priority in the Issuer Pre-Enforcement Priority of Payments, then that amount shall not be due and payable and the Issuer will be entitled under Condition 15 *(Subordination and Deferral)* to defer payment of that amount (to the extent of the insufficiency) until the earlier of (a) the first Note Payment Date thereafter on which funds are available to the Issuer to make such payments in accordance with the Conditions, (b) the Final Maturity Date, (c) the date on which the Class A Notes are redeemed in full. Such deferral shall not constitute a Note Event of Default.

Suitability of Notes and Market Risks

The Notes may not be suitable investments for all investors

The Notes are complex financial instruments. Each potential investor in the Notes must determine the suitability of that investment in the light of its own circumstances and financial condition and that of any accounts for which they are acting. In particular, each potential investor should:

(i) have sufficient knowledge, experience and access to professional advisers to make a meaningful legal, tax, accounting and financial evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in the Offering Circular;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;

(iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Absence of secondary market and limited liquidity

There is not, at present, an active and liquid secondary market for the Notes. There can be no assurance that a secondary market in the Notes will develop or, if one does develop, that it will provide Noteholders with liquidity of investment or that it will continue for the life of the Notes. In addition, the market value of the Notes and thus the price at which Notes can be bought or sold in the market may fluctuate with changes in prevailing rates of interest, market perceptions of the risks associated with the Notes, supply and demand and other market conditions. Any investor in the Notes must be prepared to hold their Notes for an indefinite period of time or until their Final Maturity Date or alternatively such investor may only be able to sell the Notes at a discount to the original purchase price of those Notes.

Global Notes where denominations involve integral multiples; Definitive Notes

As the Notes will be tradable in nominal amounts (a) equal to, or integral multiples of, the minimum denomination of £100,000, and (b) equal to the minimum denomination of £100,000 plus integral multiples of £1,000 it is possible that the Notes may be traded in amounts in excess of £100,000 that are not integral multiples of £100,000. In such a case, a holder of such bonds who, as a result of trading such amounts, holds an amount which is less than £100,000 in its account with the relevant clearing system at the relevant time may not receive a Definitive Note in respect of such holding (should Definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to £100,000 to receive a Definitive Note.

If Definitive Notes are issued, Noteholders should be aware that Definitive Notes which have a denomination that is not an integral multiple of £100,000 may be illiquid and difficult to trade.

Noteholders should be aware that Temporary Global Notes will not be exchangeable for Definitive Notes.

Book-entry registration

The Notes will be represented by Global Notes delivered to a common safekeeper for Clearstream, Luxembourg and Euroclear, and will not be held by the beneficial owners or their nominees. The Global Notes will not be registered in the names of the beneficial owners or their nominees. As a result, unless and until Notes in definitive form are issued, beneficial owners will not be recognised by the Issuer or the Note Trustee as Noteholders, as that term is used in the Note Trust Deed. Until such time, beneficial owners will only be able to exercise their rights in relation to the Notes indirectly, through Clearstream, Luxembourg or Euroclear (as the case may be) and their respective participating organisations, and will, subject to Condition 13 (*Notices*), receive notices (which, so long as the Notes are admitted to trading and listed on the Official List, are always published in accordance with the relevant guidelines of the Irish Stock Exchange by a notification in writing to the Irish Stock Exchange who will in turn release this notice via the Regulatory News Service) and other information provided for under the Conditions only if and to the extent provided by Clearstream, Luxembourg or Euroclear (as the case may be) and their respective participating organisations.

Restrictions on transfer

The Notes have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States. The offering of the Notes will be made pursuant to exemptions from the registration provisions of the Securities Act and from state securities laws. No person is obliged or intends to register the Notes under the Securities Act or any state securities laws. Accordingly, offers and sales of the Notes are subject to the restrictions described under the section of this document entitled "*Subscription and Sale*".

Interest rate risk

Since the Notes bear interest at a fixed rate, investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Notes are legal investments for it, (ii) the Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase of the Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

Unsolicited ratings

The Issuer has not sought a rating of either class of Notes as at the Closing Date and does not anticipate seeking a rating of the Notes in the future. However, rating agencies could seek to rate the Notes. Any such "unsolicited ratings" assigned to the Notes by the rating agencies could have an adverse effect on the market value of the Notes if it differs to any credit assessments by any investors or potential investors in the Notes.

Yield considerations

The yield to maturity of the Notes will depend on, among other things, the amount and timing of payment of principal and interest on the Notes and the purchase price paid by the holders of the Notes. In particular, such yield may be adversely affected by any prepayment or acceleration of the senior facility under the Credit Agreement which would result in a mandatory prepayment of the Notes. Mandatory redemption of the Notes may occur under Condition 5(c) (*Mandatory early redemption*) in circumstances including (i) termination of the Project Agreement which, in the case of termination by ProjectCo following an Authority Default Termination, will require redemption at the Bond Make-Whole Amount (together with accrued interest) or, in the case of termination by the Authority following a Council Voluntary Termination Notice (following exercise of its general voluntary right, will require redemption at the Modified Bond Make-Whole Amount (together with accrued interest) or, in the case of termination by the Authority for reasons of *force majeure* or for reason of corrupt gifts, bribery or fraud or failure to obtain the Authority's consent under Clause 37.6 (*Termination for Breach of Refinancing Provisions*) of the Project Agreement or by ProjectCo or the Authority following failure to secure approval from the Secretary of State of a replacement contractor exercising the Authority's housing management functions, will require redemption of the Notes at their Principal Amount Outstanding (together with accrued interest) or (ii) in the case of the occurrence of an event of default under the Credit Agreement that has not been remedied within the relevant grace period, require redemption at the Principal Amount Outstanding of the Notes (or, if higher, the Redemption Amount) (together with accrued interest), payable on the following Note Payment Dates subject to and to the extent of sufficient funds being held by the Issuer following acceleration of the Credit Agreement.

If, in conjunction with the termination of the Project Agreement, the Authority is entitled to and elects to serve a Payment over Time Notice, the Redemption Amount will not be payable in respect of each Class of Notes (subject to the below) and principal will be payable in respect of each Class as follows: (i) principal will be payable in respect of each Class of Notes on each Note Payment Date in amounts in accordance with Condition 5(b) (*Scheduled Redemption*) (where applicable, to the extent of sufficient proceeds received by the Issuer following a Contractor Default and the Adjusted Estimated Fair Value of the Contract (as such term is defined in the Project Agreement) is payable) and (ii) where applicable, following a Contractor Default and the Adjusted Estimated Fair Value of the Contract (as such term is defined in the Project Agreement) is payable, the amount of principal payable in respect of each Class will be the higher of (a) the Principal Amount Outstanding of such Class and (b) the Available Default Redemption Funds available to be paid in respect of such Class in accordance with the Issuer Priorities of Payments (and, in the case of (b), the amount of the Adjusted Estimated Fair Value of the Contract in excess of the Principal Amount Outstanding of the Class A Notes and the Class B Notes (if any) will be payable in equal instalments (together with any interest paid by the Authority on such excess under Clause 49.3 (*Interest*) of the Project Agreement) on each Note Payment Date (until the Final Maturity Date) following the date on which the Authority commences payment in instalments under the Project Agreement. If, however, the Authority subsequently elects to prepay or (as the case may be) defaults in payment of instalments following service of a Payment over Time Notice, the Issuer shall, as soon as practicable, notify the Noteholders (in accordance with Condition 13), the Note Trustee, the Principal Paying Agent and the Issuer Security Trustee that the Notes are to be redeemed on a date (which shall be a business day following the date on which the Note Trustee is advised in writing by the Issuer that the Issuer has received from ProjectCo or (as applicable) the Authority sufficient monies for redemption of the Notes in accordance with this Condition 5(c)) at a price equal to their Principal Amount Outstanding (or, if greater (x) where the Authority had previously served a Council Voluntary Termination Notice or if ProjectCo had previously served a notice to terminate the Project Agreement under Clause 78.3 (*Failure to Issue Certificate*), the Modified Bond Make-Whole Amount or (y) where termination of the Project Agreement followed a Contractor Default, the lower of (a) the Bond Make-Whole Amount and (b) the Available Default Redemption Funds) together with accrued but unpaid interest on their Principal Amount Outstanding up to and including the date on which such redemption occurs.

Considerations relating to the Issuer Transaction Documents

Modification, waivers and consents and powers of Managing Agent

The Managing Agent shall exercise all decisions on the Issuer's behalf relating to the exercise of rights and discretions by the Issuer (including in respect of modifications, waivers and consents) under the ProjectCo Transaction Documents in accordance with the terms of the Note Trust Deed and Managing Agent Agreement. There are four categories of such rights.

In relation to the exercise of Level 1 Rights (including variations to certain material terms in the Credit Agreement and/or the Project Finance Documents and the release of any security by the ProjectCo Security Trustee), the consent of the Noteholders is required, exercisable by way of a resolution passed at a meeting of the Noteholders by a voting majority consisting of not less than 95% of the persons voting thereat (where the quorum for the meeting is 75% of the aggregate principal amount then outstanding of the Notes or 25% of the aggregate principal amount then outstanding of the Notes in the case of an adjourned meeting).

In relation to the exercise of Level 2 Rights (including acceleration of outstanding amounts following an event of default under the Credit Agreement and the exercise of certain step-in rights under the Project Agreement), the consent of the Noteholders is required, exercised by way of a resolution passed at a meeting of the Noteholders by a voting majority consisting of at least the majority of the votes cast thereat (where the quorum for the meeting will be one or more persons holding or representing at least 75% of the aggregate principal amount then outstanding of the Notes or at an adjourned meeting one or more Noteholders holding at least 25% of the aggregate principal amount then outstanding of the Notes).

In relation to the exercise of Level 3 Rights (including replacement of the main operating and construction contractors), the Managing Agent may exercise such rights without Noteholder consent subject to the proviso that the Managing Agent shall notify the Noteholders of its intended decision in exercising such right and the Noteholders may, at a meeting of Noteholders passed within 30 days of receipt of such notice, instruct the Managing Agent to refrain from exercising such right, provided that Noteholders holding or representing at least a majority of the votes cast thereat pass such resolution (and the quorum for the meeting of one or more persons holding or representing at least $33^{1}/_{3}$% of the aggregate principal amount then outstanding of the Notes is met).

In relation to the exercise of Level 4 Rights (including the exercise of day to day waivers and consents), the Managing Agent may (in its sole discretion), without the consent of the Noteholders, give its consent.

For further details concerning intercreditor rights of the Noteholders and the Managing Agent, see the sections of this document entitled "*Summary of Issuer Transaction Documents – The Note Trust Deed*" and Condition 12(b) (*Role of the Managing Agent*).

Monitoring compliance with representations, warranties and covenants and occurrence of event of default

The Credit Agreement provides that the ProjectCo Security Trustee is entitled to assume, unless the ProjectCo Security Trustee is expressly informed otherwise by ProjectCo, that no Event of Default or Potential Event of Default has occurred which is continuing. The Issuer, Managing Agent and ProjectCo Security Trustee will not themselves monitor whether any such event has occurred but will (unless expressly informed to the contrary by ProjectCo) rely on any certificates and information delivered under the Credit Agreement to determine whether an Event of Default or Potential Event of Default has occurred. For further details concerning Events of Default or Potential Events of Default, see the section of this document entitled "*Summary of Project Finance Documents – The Credit Agreement*".

None of the Note Trustee, the Issuer Security Trustee, the Managing Agent or the ProjectCo Security Trustee is obliged to monitor whether an Event of Default or Potential Event of Default has occurred. Moreover, as the Issuer is a special purpose company, it will not, nor does it possess the resources to, actively monitor whether an Event of Default or a Potential Event of Default has occurred, including, for this purpose, monitoring the continued accuracy of the representations and warranties made by ProjectCo and compliance by ProjectCo with its covenants and undertakings under the Credit Agreement.

The Credit Agreement will require ProjectCo to inform the Issuer and the ProjectCo Security Trustee of the occurrence of any Event of Default and Potential Event of Default promptly upon becoming aware of the same.

The occurrence of an Event of Default under the Credit Agreement will entitle the Issuer to pursue any of the courses of action available to it, as set out under the section of this document entitled "*Summary of Project Finance Documents – The Credit Agreement*". Such decisions will be subject to the Noteholders and the Managing Agent exercising the Managing Agent Rights.

Subordinated Bond Lock-Up Event, Permitted Investments

Upon the occurrence of a Subordinated Bond Lock-Up Event, interest and principal otherwise payable to the Class B Noteholders shall not be paid to such Noteholders and shall instead be deposited by the Issuer in the Subordinated Bond Lock-Up Account held with the Issuer Account Bank for the period described in Condition 4(e) *(Subordinated bond lock-up)*. Amounts deposited by the Issuer in the Subordinated Bond Lock-Up Account may either be retained in the account or invested by the Cash Manager (on behalf of the Issuer) in Permitted Investments subject to and in accordance with the Cash Management Agreement.

An amount of the Principal Amount Outstanding of the Class B Notes equal to the principal amount deposited into the Subordinated Bond Lock-Up Account shall cease to accrue interest at the Class B Rate of Interest and instead the rate of interest on such amount will be the rate of interest earned by the Issuer (i) from amounts standing to the credit of the Subordinated Bond Lock-Up Account (at the rate agreed between the Issuer and the Issuer Account Bank) or (ii) from amounts therefrom invested in Permitted Investments.

Permitted Investments must be issued by issuers which have (or whose guarantors have) appropriate ratings. However, it may be that, irrespective of any such rating, such investments will be irrecoverable due to bankruptcy or insolvency of the debtor under the investment or of a financial institution involved, or due to the loss of an investment amount during the transfer thereof. In this case, the Issuer may not be able to meet all of its payment obligations in respect of the Class B Notes. None of the Cash Manager, the Note Trustee or the Issuer Account Bank will be responsible for any such loss or shortfall or the financial performance (by any measure) of any Permitted Investments.

Conflicts of interest between Noteholders

In respect of the interests of Noteholders, the Note Trust Deed contains provisions requiring the Note Trustee to have regard to the interests of the holders of all the Classes of Notes as regards all powers, trusts, authorities, duties and discretions of the Note Trustee (except where expressly provided otherwise) and, to the extent of any conflict between the interests of any classes of Noteholders, requiring the Note Trustee to have regard only to the interests of the Class A Notes (as the Most Senior Class Outstanding). There may be circumstances, however, where the interests of one Class of Noteholders conflict with the interests of another Class or Classes of Noteholders.

Further, the Conditions of the Noteholders contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. Also, the Managing Agent's duty of care, as agent of the Issuer, under the Managing Agent Agreement is by reference to the interests of the Issuer under the ProjectCo Transaction Documents to which the Issuer is a party and not by reference to any Class of Noteholders. The Managing Agent owes no duty of care, in such capacity, to the Noteholders.

Note Trustee is not obliged to act in certain circumstances

The Note Trustee may, at any time, at its discretion and without notice, take such proceedings, actions or steps against the Issuer or any other party to any of the Issuer Transaction Documents as it may think fit to enforce the provisions of the Notes or the Note Trust Deed (including the Conditions) or of the other Issuer Transaction Documents to which it is a party and at any time after the service of a Note Enforcement Notice, the Note Trustee may, at its discretion and without notice instruct the Issuer Security Trustee to take such proceedings, actions or steps as it may think fit to enforce the Issuer Security (including, but not limited to, the giving of a direction to the Issuer Security Trustee to enforce or realise the Issuer Security). However, the Note Trustee shall not be bound to take any such proceedings, actions or steps (including, but not limited to, the giving of a Note Enforcement Notice in accordance with Condition 8 (*Note Events of Default*) unless it shall have been directed to do so by the holders of not less than 25 per cent. of the Principal Amount Outstanding of the Class A Notes while they remain outstanding and thereafter the Class B Notes while they remain outstanding (the "**Most Senior Class Outstanding**") or if so directed by an Extraordinary Resolution of the Most Senior Class Outstanding (subject, in each case, to being indemnified and/or secured and/or pre-funded to its satisfaction against all liabilities to which it may become liable or which it may incur by so doing).

Legal and Regulatory Considerations

Change of Law

The transactions described in this Offering Circular (including the issue of the Notes) are based on the relevant law and administrative practice in effect as at the date of this document and having regard to the expected tax treatment of all relevant entities under such law and practice. No assurance can be given as to the impact of any possible change to the law (including any change in regulation which may occur without a change in primary legislation), administrative practice or tax treatment after the date of this document nor can any assurance be given as to whether any such change would adversely affect the ability of the Issuer to make payments under the Notes.

Small company moratorium

The Issuer will enter into the Issuer Deed of Charge pursuant to which it will grant security in respect of certain of its obligations, including its obligations under the Notes. If certain insolvency proceedings are commenced in respect of the Issuer, the ability to realise the Issuer Security may be delayed and/or the value of the Issuer Security impaired. In particular, the ability to realise the security granted by the Issuer may be delayed if an administrator is appointed or in the context of a company voluntary arrangement in respect of the Issuer.

In this regard, it should be noted that, under the Insolvency Act 1986 (as amended by the Insolvency Act 2000) (the "**Insolvency Act**"), certain "small" companies (which are defined by reference to certain financial and other tests) are entitled to seek protection from their creditors for a limited period for the purposes of putting together a company voluntary arrangement.

The position as to whether or not a company is a small company may change from time to time and consequently no assurance can be given that the Issuer will not, at any given time, be determined to be a small company. However, certain companies are excluded from the optional moratorium provisions, including a company which is party to certain transactions in the capital market and/or which has a liability in excess of a certain amount. While the Issuer should fall within the current exceptions, it should be noted that the Secretary of State for Business may by regulation modify these exceptions.

Administration risk and the capital markets exception

The Issuer will enter into the Issuer Deed of Charge pursuant to which each will grant security in respect of certain of its obligations, including its obligations under the Notes. If certain insolvency proceedings are commenced in respect of the Issuer, the ability to realise the security may be delayed and/or the value of the security impaired.

The Insolvency Act allows for the appointment of an administrative receiver in relation to certain transactions in the capital markets. Although there is as yet no case law on how these provisions will be interpreted, based on advice from counsel, the Issuer believes it should be applicable to the floating charge created by the Issuer and granted by way of security to the Issuer Security Trustee under the Issuer Deed of Charge. However, as this is partly a question of fact, were it not to be possible to appoint an administrative receiver in respect of the Issuer, the Issuer would be subject to administration if it became insolvent.

In addition, it should be noted that, to the extent that the assets of the Issuer are subject only to a floating charge (including any fixed charge recharacterised by the courts as a floating charge), in certain circumstances under the Insolvency Act, certain floating charge realisations which would otherwise be available to satisfy the claims of secured creditors under the Issuer Deed of Charge, may be used to satisfy any claims of unsecured creditors. While certain of the covenants given by the Issuer in the Issuer Transaction Documents are intended to ensure it does not have any significant creditors other than the secured creditors under Issuer Deed of Charge, it will be a matter of fact as to whether it has any other such creditors at any time. There can be no assurance that the Noteholders will not be adversely affected by any such reduction in floating charge realisations upon the enforcement of the security.

While the transaction structure is designed to minimise the likelihood of the Issuer becoming insolvent, there can be no assurance that it will not become insolvent and/or the subject of insolvency proceedings and/or that the Noteholders would not be adversely affected by the application of insolvency laws (including English insolvency laws).

Liquidation expenses

On 6 April 2008, a provision in the Insolvency Act 1986 came into force which effectively reversed by statute the House of Lords' decision in 2004 in a case known as Leyland Daf. Accordingly, it is now the case that the costs and expenses of a liquidation (including certain tax charges) will be payable out of floating charge assets in priority to the claims of the floating charge-holder. In respect of certain litigation expenses of the liquidator only, this is subject to approval of the amount of such expenses by the floating charge-holder (or, in certain circumstances, the court) pursuant to the provisions set out in the Insolvency Rules 1986.

As a result of the changes described above, upon the enforcement of the floating charge security granted by the Issuer, floating charge realisations which would otherwise be available to satisfy the claims of secured creditors under the Issuer Deed of Charge will be reduced by at least a significant proportion of any liquidation expenses. The Noteholders may be adversely affected by such a reduction in floating charge realisations.

The Enterprise Act 2002 removes the Crown's preferential rights in all insolvencies (section 251) and makes provisions to ensure that unsecured parties take the benefits of this change (section 252) (although certain debts, including contributions to occupational and state pension schemes, retain preferential status and are payable in priority to debts owed to floating chargeholders). Under this latter provision the unsecured parties will have recourse to the floating charge assets up to a fixed amount (the "**prescribed part**") in priority to the holder of the floating charge concerned. The prescribed part will be 50 per cent. of the first £10,000 of net floating charge assets; then 20 per cent. of the remaining net floating charge assets until the prescribed part reaches a maximum of £600,000. The obligation on the insolvency officeholder to set aside the prescribed part for unsecured parties does not apply if the net floating charge realisations are less than £10,000 and the officeholder is of the view that the costs of making a distribution to unsecured parties would be disproportionate to the benefits. The prescribed part will apply to all floating charges created on or after 15 September 2003 regardless as to whether they fall within one of the exceptions or not. This means that the expenses of any administration, the claims of preferential creditors and the beneficiaries of the prescribed part will be paid out of the proceeds of enforcement of the floating charge ahead of amounts due to Noteholders. The prescribed part will not be relevant to property subject to a valid fixed security interest or to a situation in which there are no unsecured creditors.

Security over Issuer's bank accounts and other assets may take effect as a floating charge

Under the Issuer Deed of Charge, the Issuer has granted security over the Issuer Transaction Account and all of its other bank accounts from time to time, which security will be expressed to be fixed security.

Although various bank accounts are stated to be subject to various degrees of control, there is a risk that, if the Issuer Security Trustee does not either have or exercise the requisite degree of control over the relevant accounts in practice, a court could determine that the security interests granted in respect of those accounts take effect as floating security interests only and that the security interests granted over the assets from which the monies paid into the accounts are derived also take effect as floating security interests only, notwithstanding that the security interests are expressed to be fixed. In such circumstances, monies paid into accounts or derived from those assets could be diverted to pay preferential creditors and certain other liabilities or expenses were a receiver, liquidator or administrator to be appointed in respect of the Issuer.

Furthermore, the risk that fixed security may be recharacterised by a court as floating security applies to all other security created under the Issuer Deed of Charge which is expressed as fixed security. For further details on the types of charges created under the Issuer Deed of Charge, see the section of this document entitled "*Summary of Issuer Transaction Documents – The Issuer Deed of Charge*".

Withholding tax

Under current law, all payments under the Notes can be made without withholding or deduction on account of any UK tax provided that they are and continue to be listed on the Irish Stock Exchange (as to which see the section of this document entitled "*United Kingdom Taxation*").

In the event that any withholding or deduction for or on account of tax is required to be made from payments due under the Notes, neither the Issuer nor any Paying Agent nor any other person will be obliged to pay any additional amounts to Noteholders or to otherwise compensate Noteholders for the reduction in the amounts they will receive as a result of such withholding or deduction. If such a withholding or deduction is required to be made due to a change in tax laws after the Closing Date the Issuer will have the option (but not the obligation) of redeeming all outstanding Notes in full at their Principal Amount Outstanding (together with accrued interest) pursuant to Condition 5(f) (*Redemption and Purchase – Optional redemption due to change of tax law and illegality*). For the avoidance of doubt, neither the Note Trustee nor Noteholders will have the right to require the Issuer to redeem the Notes in these circumstances.

U.S. Foreign Account Tax Compliance withholding may affect payments on bonds

Under currently issued guidance, the Issuer may, under certain circumstances, be required pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder ("**FATCA**") to withhold U.S. tax at a rate of 30% on all or a portion of payments of principal and interest which are treated as "foreign pass-thru payments" made on or after 1 January 2017 to an investor or any other non-U.S. financial institution through which payment on the Notes is made that is not in compliance with FATCA.

This withholding tax may be triggered if (i) Issuer is treated as a foreign financial institution ("**FFI**") (as defined in FATCA) which enters into and complies with an agreement with the U.S. Internal Revenue Service ("**IRS**") to provide certain information on its account holders (making the Issuer a "**Participating FFI**"), (ii) the payments it makes are classified as foreign passthru payments, and (iii) either (a) an investor does not provide information sufficient for the relevant Participating FFI to determine whether that investor is subject to withholding under FATCA or (b) any FFI to or through which payment on such Notes is made is not a Participating FFI or otherwise exempt from FATCA withholding.

The application of FATCA to interest, principal or other amounts paid on or with respect to the Notes is not currently clear. In particular, the United Kingdom has entered into an intergovernmental agreement with the United States to help implement FATCA for certain entities in the United Kingdom. The impact of such an agreement on the Issuer's reporting and withholding responsibilities under FATCA is currently unclear. The Issuer may be required to report certain information on its U.S. accountholders (if any) to the government of the United Kingdom in order (i) to obtain an exemption from FATCA withholding on payments it receives and/or (ii) to comply with United Kingdom law. It is not yet certain how the United States and the United Kingdom will address withholding on "foreign passthru payments" (which may include payments on the Notes) or if such withholding will be required at all.

If an amount in respect of U.S. withholding tax were to be deducted or withheld from interest, principal or other payments on the Notes as a result of a Noteholder's failure to comply with FATCA, none of the relevant Issuer, any Paying Agent or any other person would pursuant to the Conditions be required to pay additional amounts as a result of the deduction or withholding of such tax. As a result, if FATCA withholding applies to payments on the Notes, investors may receive less interest or principal than they would otherwise receive.

However, Notes issued on or before the earlier of (a) 30 June 2014 and (b) the date that is six months after the date on which the term "foreign passthru payment" is defined in regulations published in the U.S. Federal Register (the "**Grandfather Date**") (other than Notes which are treated as equity for U.S. federal income tax purposes) generally will not be subject to withholding under FATCA. However, if, on or after the Grandfather Date, (i) another entity is substituted as the Issuer of the Notes created and issued on or before the Grandfather Date in accordance with Condition 5(f) *(Optional redemption due to change of* *tax law and illegality)* or (ii) the Notes are otherwise modified, then such Notes may become subject to withholding under FATCA if such substitution or modification results in a deemed exchange of the Notes for U.S. federal income tax purposes.

FATCA is particularly complex and its application to the Issuer, the Notes and the Noteholders is uncertain at this time. Each Noteholder should consult its own tax adviser to obtain a more detailed explanation of FATCA and advice on how FATCA might affect it in its particular circumstances.

Proposed changes to the Risk-Weighted Asset Framework

Noteholders should be aware that the regulatory capital treatment of any investment in the Notes may be determined by the interpretation which such Noteholder's regulator places on the regulations applicable to the Notes in the relevant jurisdiction (and in particular, with regard to EU credit institutions, the provisions of Directive 2006/48/EC and Directive 2006/EU, in each case as amended (together, the "**CRD**") as amended by Directive 2009/111/EC (the "**CRD2** and the provisions of national law which implements it and similar requirements to those which are expected to be implemented for other EU regulated investors, including investment firms, insurance or reinsurance undertakings, UCITS and alternative investment funds for example under the Solvency II Directive).

Any further changes to the regulation or regulatory treatment of the Notes for some or all investors may negatively impact the regulatory position of individual investors and, in addition, have a negative impact on the price and liquidity of the Notes in the secondary market.

In addition, implementation of and/or changes to the Basel II framework may affect the capital requirements and/or the liquidity of the Notes. The Basel II framework has not been fully implemented in all participating countries. The implementation of the framework in relevant jurisdictions may affect the risk weighting of the Notes for investors who are, or may become, subject to capital adequacy requirements that follow the framework.

It should also be noted that the Basel Committee has approved significant changes to the Basel II framework (such changes being commonly referred to as "Basel III"), including new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards and minimum leverage ratio for credit institutions. In particular, the changes refer to among other things, new requirements for the capital base, measures to strengthen the capital requirements for counterparty credit exposures arising from certain transactions and the introduction of a leverage ratio as well as short term and longer term standards for funding liquidity (referred to as the "**Liquidity Coverage Ratio**" and the "**Net Stable Funding Ratio**"). Member countries will be required to implement the new capital standards from January 2013, the new Liquidity Coverage Ratio from January 2015 and the Net Stable Funding Ratio from January 2018. The European authorities have indicated that they support the work of the Basel Committee on the approved changes in general, and the European Commission's corresponding proposals to implement the changes (through amendments to the Capital Requirements Directive known as "CRD IV") were published in July 2011. The changes approved by the Basel Committee may have an impact on the capital requirements in respect of the Notes and/or on incentives to hold the Notes for investors that are subject to requirements that follow the revised framework and, as a result, they may affect the liquidity and/or value of the Notes.

Investors in the Notes are responsible for analysing their own regulatory position and the Issuer is not responsible for informing Noteholders of the effects of changes to risk-weighting or any new regulatory capital measures. Investors should consult their own advisers as to the regulatory capital requirements in respect of the Notes and as to the consequences to and effect on them of any changes to the Basel II framework (including the Basel III changes described above) and the relevant implementing measures. No predictions can be made as to the precise effects of such matters on any investor or otherwise.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, member states are required to provide to the tax authorities of another member state details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other member state or to certain limited types of entities established in that other member state. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland). Luxembourg has announced that it will no longer apply the withholding tax system as from 1 January 2015 and will provide details of payments of interest (or similar income) as from this date.

The European Commission has proposed certain amendments to EC Council Directive 2003/48/EC, which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a member state or dependent or associated territory which has opted for a withholding system and as a consequence of such a system, an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer, any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. If such a withholding tax would be imposed on a payment made by a Paying Agent, the Issuer will be required to maintain a Paying Agent in a member state that will not be obliged to withhold or deduct tax pursuant to EC Council Directive 2003/48/EC (if there is any such member state).

European Monetary Union

It is possible that prior to the Final Maturity Date of the Notes the United Kingdom may become a participating member state in European Economic and Monetary Union ("**EMU**") and therefore the euro may become the lawful currency of the United Kingdom. In that event, all amounts payable in respect of the Notes may become payable in Euro as to which see Condition 14 (*European Economic and Monetary Union*) of the Notes and all amounts payable in respect of the Notes will become payable in euros. It cannot be said with certainty what effect the adoption of the Euro by the United Kingdom (if it occurs) would have on investors in the Notes.

The Issuer believes that the risks described above are the principal risks inherent in the transaction for Noteholders, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons and the Issuer does not represent that the above statements regarding the risks of holding the Notes are exhaustive. Although the Issuer believes that the various elements described in this document mitigate some of these risks for Noteholders, there can be no assurance that these measures will be sufficient to ensure payment to Noteholders of interest, principal or any other amounts on or in connection with the Notes on a timely basis or at all.

BASE CASE PROJECT CASHFLOWS SUMMARY

The financial information below regarding the sources and uses of funding by ProjectCo and related revenue and costs consists of unaudited figures extracted from the base case in the financial model relating to the Project and does not represent the full range of possibilities.

Sources & Uses of Funding Up To Construction End					
Uses of Funding	Amount	%	Sources of Funding	Amount	%
Construction Costs	80,704	61.5%	Class A Notes	71,710	54.6%
FC Costs	6,530	5.0%	Class B Notes	10,891	8.3%
Total Capital Expenditure	**87,234**	**66.4%**	**Total Senior Debt**	**82,601**	**62.9%**
Sub debt Interest & Fees	2,969	2.3%	Equity	1	0.0%
Class A Note Interest	13,721	10.5%	Subordinated Debt	12,517	9.5%
Class B Note Interest	3,289	2.5%	**Total Subordinated Funding**	**12,518**	**9.5%**
Reserve Account Funding	9,210	7.0%			
Net Working Capital Movements	(453)	(0.3%)			
Total Finance-Related Costs	**28,737**	**21.9%**			
			Gearing	**86.84%**	
Operating Costs	15,305	11.7%			
Tax	10	0.0%	Unitary Charges under Project Agreement During Construction	36,167	27.5%
Total Uses of Funding	**131,285**	**100.0%**	**Total Sources of Funding**	**131,286**	**100.0%**

Uses of Funding	Amount	%	Sources of Funding	Amount	%
			Sources & Uses of Funding From Construction End Up To Concession End		
Operating Costs	141,759	35.3%	Unitary Charges under Project Agreement During Construction	390,399	97.1%
Lifecycle Costs	37,851	9.4%	Interest on Cash Balances	5,419	1.3%
Net Working Capital Movements	453	0.1%	**Total Cashflows In**	**395,818**	**98.5%**
Taxation	1,732	0.4%			
Total Mandatory Costs	**181,795**	**45.2%**	Net Release of Reserve Account Funding	6,210	1.5%
			Total Reserve Release Funding	**6,210**	**1.5%**
Class A Note Interest	64,724	16.1%			
Class A Note Principal	71,710	17.8%			
Class B Note Interest	16,477	4.1%			
Class B Note Principal	10,891	2.7%			
Total Senior Debt Service	**163,802**	**40.7%**			
Subordinated Debt Interest	37,655	9.4%			
Subordinated Debt Principal	13,146	3.3%			
Dividends	5,629	1.4%			
Repayment of Equity	1	0.0%			
Total Sponsor Returns	**56,430**	**14.0%**			
Total Uses of Funding	**402,027**	**100.0%**	**Total Sources of Funding**	**402,028**	**100.0%**

The above financial information is based on certain assumptions, in particular that:

(a) 35% of total revenues of ProjectCo are indexed at RPI (assumed to be 2.5%);

(b) housing maintenance costs are indexed at RPI+1% (assumed to be 3.5%);

(c) housing management costs are indexed at RPI+0.5% (assumed to be 3%);

(d) insurance, ProjectCo and Issuer costs are indexed at RPI (assumed to be 2.5%);

(e) long-term interest rate on ProjectCo's deposits is assumed to be 0% until the Planned Full Services Commencement Date and then 0.5% per annum until 2018, 1% per annum from 2018-2023 and 2% per annum from 2024 onwards;

(f) long-term corporation tax rate applicable to ProjectCo assumed to be 21% (in the 2014-2015 tax year of ProjectCo) and 20% (during the 2015-2016 tax year of ProjectCo and afterwards);

(g) revenue of ProjectCo assumes 100% availability (with any availability deductions passed down to Chevin as operating sub-contractor);

(h) interest rate on ProjectCo's deposits is applied to all cash balances in the Project during operations;

(i) there is no early optional redemption of the Notes;

(j) there is no early termination of the Project Agreement or acceleration of amounts payable under the Credit Agreement;

(k) no Subordinated Bond-Lock Up Event occurs; and

(l) the Closing Date is 17 September 2013.

The actual cashflows of ProjectCo may differ from those outlined above given that the related assumptions may not prove to be correct. The actual characteristics of the cashflows and performance of ProjectCo are likely to differ from the assumptions used in constructing the figures above, which are hypothetical in nature and provided only to give a general sense of how the principal cashflows might be.

SUMMARY OF PROJECT DOCUMENTS

The following is a summary of certain provisions of the principal documents relating to the transaction described herein and is qualified in its entirety by reference to the detailed provisions of the Project Documents.

Terms used in this section "Summary of the Project Documents" which have been capitalised and which are not otherwise defined in this Offering Circular bear the meaning at paragraph 13 below (*Summary of Project Documents – Definitions*).

1 INTRODUCTION

The key project documents (which are all governed by English law) are as follows:

(a) The Project Agreement to be entered into between Salford City Council ("**Authority**") and Pendleton Together Operating Limited ("**ProjectCo**");

(b) the Building Contract with Keepmoat Regeneration (Bramall) Limited ("**Bramall**") as construction subcontractor ("**Building Contractor")** by which ProjectCo is required to procure and carry out the Works;

(c) the Response Repairs and Cyclical Maintenance and Renewal Contract ("**RRCMR Contract**") with Chevin Housing Association Limited ("**Chevin**") as facilities management subcontractor ("**RRCMR Contractor**") by which ProjectCo is required to procure and carry out the facilities management services ("**RRCMR Services**"); and

(d) the Housing Management Agreement ("**Housing Management Agreement**") with Chevin as housing management subcontractor ("**Housing Management Contractor")** by which ProjectCo is required to procure and carry out the housing management services ("**Housing Management Services**");

and the Building Contractor, the RRCMR Contractor and the Housing Management Contractor are the subcontractors ("**Subcontractors**"),

and the following ancillary documents to the above key project documents:

(e) a Parent Company Guarantee in respect of the Building Contract from Keepmoat Limited and Keepmoat Regeneration Limited, on a joint and several basis;

(f) an Interface Agreement with the Building Contractor, the Housing Management Contractor and the RRCMR Contractor which will grant each subcontractor direct rights of recourse against the other subcontractor, subject to various caps on liability;

(g) a Funder Direct Agreement with the Issuer, Issuer Security Trustee and the Authority. This Direct Agreement gives the Issuer certain rights of step-in and step-out on default to rectify such default by ProjectCo before the Authority may terminate the Project Agreement *see section Summary of Project Documents - Funders Direct Agreement*;

(h) Direct Agreements in relation to each of the Building Contract, Housing Management Contract and the RRCMR Contract, with the Issuer Security Trustee and the relevant Subcontractors. These Direct Agreements permit the Issuer Security Trustee to step-in and rectify a default by ProjectCo before the Subcontractor can terminate the relevant Subcontract; and

(i) Collateral Warranties in favour of the Authority and the Issuer Security Trustee by each Subcontractor. Furthermore Collateral Warranties are provided to ProjectCo, the Authority and the Issuer from any professionals appointed by the Building Contractor including the architects, structural engineers and mechanical engineers.

KEY PROJECT DOCUMENTS

2 THE PROJECT AGREEMENT

This section describes the principal terms of the Project Agreement. This is not exhaustive but focuses on issues that should be of particular interest to prospective noteholders.

2.1 Duration

The Project Agreement will be entered into by the Authority and ProjectCo. The Project Agreement will expire on the 17 September 2043, subject to termination rights under the Project Agreement.

2.2 The Works

Under the Project Agreement, ProjectCo is required to deliver the Works and Services.

Explanation of the Works

2.2.1 The Works themselves generally consist of refurbishment of 1253 rented units plus 17 leasehold Authority-owned dwellings and certain environmental works such as landscaping of public/commercial areas, perimeter fencing, security gates, car parking provision, bicycle storage facilities, accessibility and permeability for vehicles and pedestrians, waste management and recycling, crime and perception of crime, opportunities for both formal and informal recreation.

2.2.2 The Authority prescribes the requirements that the Works and Services must meet in an output specification which comprises part of the Project Agreement. The output specification includes the following requirements with respect to the Works:

(a) management requirements in relation to the Works;

(b) building performance requirements;

(c) neighbourhood environmental work requirements.

2.2.3 The environmental works are also required to comply with certain requirements. Certain aspects which are more particularly addressed in the output specification include gardens and boundaries, car parking, roads and footpaths and landscaping. Particular requirements in relation to boundary treatments are also stipulated, mainly relating to developing and implementing particular policies relating to security, pedestrian thoroughfares, parking and involvement and interfacing work.

Lastly, ProjectCo is required to have in place a waste management solution which addresses recycling, bin chutes, waste storage and waste collection.

2.2.4 The required specification for each dwelling is set out in the availability standards which form part of the output specification. The manner in which ProjectCo will deliver the Works in order to meet the output specification is set out in ProjectCo's proposals and these proposals comprise part of the Project Agreement.

Completion and Delay

2.2.5 The programme for completion of the Works covers a period of just over 45 months including a "bedding in period" of three months. Completion is certified by a suitably qualified and experienced independent consultant ("**Independent Certifier**") appointed jointly by the Issuer, ProjectCo and the Authority.

2.2.6 Progress of the Works is measured by way of milestone completion dates. Milestone Completion Date One is the last day in the 24th contract month in the Construction Programme. Milestone Completion Date Two is the last day in the 36th contract month in the Construction Programme.

2.2.7 The milestone completion dates feed into events of default of ProjectCo (please see the section on Termination at para 2.7.6(f) below). The relevant triggers are:

(a) the completion (and certification) of at least 244 dwellings has not been achieved on or before Milestone Completion Date One; and

(b) the completion (and certification) of at least 856 dwellings has been achieved on or before Milestone Completion Date Two.

2.2.8 The milestone completion dates themselves, may be adjusted upon the occurrence of the following events and subject to the procedures set out in the relevant provisions of the Project Agreement:

(a) delays due to the occurrence of a breach by the Authority of its obligations or warranties under the Project Agreement or any matter or event deemed a compensation event under the Project Agreement ("**Compensation Event**");

(b) delays due to the occurrence of:

(i) fire, explosion, lightning, storm, tempest, flood, bursting or overflowing of water tanks, apparatus or pipes, ionising radiation (to the extent it does not constitute a Force Majeure Event), earthquakes, riot and civil commotion;

(ii) failure by any statutory undertaker, utility company, local authority or other like body to carry out Works or provide Services;

(iv) any accidental loss or damage to any of the sites relating to the Project or any roads servicing them;

(v) any failure or shortage of power, fuel or transport;

(vi) any blockade or embargo which does not constitute a Force Majeure Event;

(vii) any:

(A) official or unofficial strike;

(B) lockout;

(C) go-slow; or

(D) other dispute,

generally affecting the construction, housing or facilities management industry or a significant sector of it;

(viii) access not being obtained to a dwelling in order carry out the Works or perform the Services;

(ix) damage to a dwelling or other properties the subject of the Project by a tenant or a third party;

(x) a material failure of a roof, external fabric or windows or failure to obtain a lift certificate, failure of space and water heating or a failure of any core electrical system or door entry system at a tower block the subject of the Project,

each a "**Relief Event**".

delays due to a Qualifying Change in Law; and

(c) replacement of Sub-Contractors.

2.2.9 Once the Independent Certifier determines that a dwelling, retail unit, Common Part or Common Area has achieved the relevant services availability requirement set out in the Project Agreement, the Independent Certifier will issue a certificate of availability in respect of that dwelling, retail unit, Common Part or Common Area.

2.2.10 To account for circumstances where the Works cannot be carried out by ProjectCo due to certain factors that are outside of ProjectCo's control (for example where a tenant will not grant access for the Works to be carried out), the Project Agreement provides that where a certificate has not been issued in relation to a dwelling by the date required under the Project Agreement because ProjectCo has not been able to get access to the dwelling, a certificate of availability is deemed to be issued in respect of that dwelling.

2.2.11 A failure by ProjectCo to complete the Works in relation to the Common Areas and the Common Parts will incur a completion charge payable by ProjectCo to the Authority until such date as a certificate of availability for such Common Areas or Common Parts is achieved.

2.2.12 If the Works to be undertaken in relation to a dwelling and/or any retail units do not achieve the services availability standard for those dwellings and/or retail units by the date set out in the Project Agreement (but subject to any extensions to such dates allowed under the Project Agreement), ProjectCo is required to indemnify the Authority for losses incurred by the Authority as a consequence of such dwellings and/or retail units being unavailable up to an overall cap of £50,000.

2.2.13 The Project Agreement contains a requirement for a certificate of availability for all the dwellings, Common Parts, Common Areas and retail units to be issued on or before the Long Stop Date. The Long Stop Date is the date 12 months after the

Planned Services Commencement Date for the last dwelling or Common Part ("**Long Stop Date**"). A failure to achieve the certificates of availability for all the dwellings, Common Parts, retail units and Common Areas by the Long Stop Date will constitute a default of ProjectCo under the Project Agreement entitling the Authority to exercise its right to terminate the Project Agreement.

2.2.14 The Long Stop Date is subject to adjustments under the Project Agreement on the occurrence of a Compensation Event or a Relief Event, and Qualifying Change in Law.

2.2.15 The Authority is required to carry out works to the future development sites, which are the sites adjoining the PFI sites and earmarked for future demolition and re-development, so that these sites comply with the demolition standard set out in the Project Agreement. ProjectCo's obligation to carry out Works and provide the Services in respect of the future development sites is conditional upon such sites being handed over in compliance with this standard.

Title risk

2.2.16 Under the Project Agreement, the Authority warrants that there are no interests, rights, easements, covenants, restrictions, stipulations or similar affecting the project sites that if exercised would prevent or disrupt the carrying out of the Works and/or the provision of the Services.

2.2.17 Furthermore, the Authority also warrants that, as at the date of commencement of the Services, each of the dwellings complies with the initial availability standard prescribed in the output specification.

2.3 The Services

Explanation of the Services

2.3.1 ProjectCo’s obligations to provide the Services will include the provision of facilities management services as well as housing management services as set out in the output specification.

2.3.2 ProjectCo is required to perform each of the Services in accordance with the output specification and the method statements that comprise part of the Project Agreement. The performance and delivery of the Services is to be measured against the key performance indicators set out in the output specification. If ProjectCo fails to provide the Services in accordance with the key performance indicators and the output specification, then the Authority shall be entitled to make deductions from the unitary charge payable to ProjectCo, resulting in reduced revenue for ProjectCo.

2.3.3 ProjectCo will pass all cyclical maintenance repair and replacement risk down to the RRCMR Contractor under the RRCMR Contract and all housing management services risk down to the Housing Management Contractor under the Housing Management Agreement.

Market Testing

2.3.4 Under the Project Agreement, the following elements of the Services are subject to market testing for cost: (i) grounds maintenance and (ii) cleaning and caretaking.

2.3.5 If the market testing process demonstrates that ProjectCo can obtain better value for money with a new winning tenderer then the unitary charge is adjusted and

ProjectCo will make a corresponding adjustment in its cost on appointing the winning tenderer as a replacement Subcontractor for the relevant service elements().

2.3.6 The first market testing review date is five years from the date of commencement of the Services and the subsequent marketing testing review dates fall on each fifth anniversary of that date.

Tenant and Third Party Damage

2.3.7 The risk of damage caused by tenants or third parties (such as fly tipping) is shared between the Authority and ProjectCo. A protocol regulates the risk allocation between the parties ("**Tenant and Third Party Damage Protocol**").

2.3.8 It should be noted that:

(a) the occurrence of an event of tenant and third party damage, provided ProjectCo has complied with the Tenant and Third Party Damage Protocol, is an Excusing Event;

(b) the occurrence of an event of tenant and third party damage is a Relief Event.

2.3.9 In relation to the costs of dealing with tenant and third party damage, the risk of bearing such cost depends on whether a cost is a qualifying cost. If a cost is a qualifying cost, then the Authority will be responsible for 50% of such qualifying costs each Contract Year. If the cost is not a qualifying cost, it will be the responsibility of ProjectCo.

2.3.10 Costs that are not qualifying costs are the following:

(a) any damage to dwellings and/or retail units that is not Tenant Damage or Third Party Damage, provided that any third party damage to Common Areas and/or Common Parts will also not be a qualifying cost;

(b) any damage caused by ProjectCo or any person for which ProjectCo is responsible;

(c) all costs caused by Tenant Damage or Third Party Damage up to an annual cap of twenty thousand pounds (£20,0000) (indexed);

(d) any costs not properly incurred or of an amount that is not reasonable in the circumstances and any costs incurred in breach of the Project Agreement or resulting from any failure to take proper and sufficient steps to recover the costs from the responsible person(s) in accordance with the terms of the relevant tenancy agreement;

(e) any costs (including insurance) recovered from tenants, former tenants or anyone else in respect of Tenant Damage or Third Party Damage;

(f) any costs in respect of which insurance proceeds are recovered (or which ought to be recoverable) under the insurance policies required to be procured under the Project Agreement.

Rent Collection Risk

2.3.11 ProjectCo does not take volume (ie dwelling occupancy) or credit (rental arrears) risk, which remain for the Authority's account. However, rent collection is one of the housing management functions that forms part of the Services that ProjectCo is obliged to deliver. As with other service elements, poor performance will result in performance points being awarded and thus the Authority making deductions from the Unitary Charge. The full failure of the relevant KPI will result in a deduction from the unitary charge of less than 1% per annum. ProjectCo will pass down the risk of payment deductions relating to the rent collection KPI to the Housing Management Contractor, subject to the relevant caps on liability.

Disrepair Actions

2.3.12 Council tenants and council leaseholders have a statutory right to request that repair works are carried out to their homes. The responsibility, including costs, associated with such dealing with such requests ("**Disrepair Actions**") will generally depend upon the time the Disrepair Action is raised.

2.3.13 The Project Agreement provides that Disrepair Actions become ProjectCo's risk on the "**Disrepair Actions Cut Off Date**", which is the date that is one year after the date of the Project Agreement.

CNDT

2.3.14 As tenants and leaseholders have certain statutory rights to purchase their dwellings, the Project Agreement deals with the effect of the change in the nature of the dwellings by tenure ("**CNDT**").

2.3.15 In general terms if a CNDT occurs, through the issue of a notice by a tenant or leaseholders, then this will affect both the Works and the Services required to be carried out or provided to those dwellings. A property which was council-owned may become privately owned and would therefore fall out of the scope of the Works to be carried out by ProjectCo. The Project Agreement provides for an adjustment to the unitary charge based on the costs savings to ProjectCo, in terms of variable costs and semi-variable costs due to either Services no longer having to be provided, or a lower level of Services having to be provided. Furthermore, where there are capital cost savings (ie the Works are not required to be carried out because the CNDT occurs prior to the Works commencing at the relevant dwelling), those capital cost savings are reimbursed to the Authority, through a payment at the time that such amounts would have been paid to the Building Contractor for the carrying out of such Works.

Employment

Transferring Employees

2.3.16 If at any time the costs modelled by ProjectCo in respect of transfer of employees from the Authority to ProjectCo are required to be adjusted on account of any differences between the information contained in the list provided on the date of execution of the Project Agreement ("**First Employee List**") and that contained in the list provided after the transfer of services to ProjectCo (the "**Final Employee List**"), or on account of any inaccuracies in or omissions from the information contained in the First Employee List or the Final Employee List then there will be a corresponding adjustment to the unitary charge to compensate for any such difference.

2.3.17 The Authority will remain responsible, after transfer, for employment-related liabilities of the employees that have transferred from the Authority to Project Co relating to the period prior to the relevant transfer date other than accrued pension rights in respect of those transferring employees who agreed to a bulk transfer payment. ProjectCo will be responsible for all employment related liabilities arising on and from the relevant transfer date.

2.3.18 ProjectCo intends for the transferring employees to transfer their existing entitlements into the Local Government Pension Scheme and Chevin has been advised by the Greater Manchester Pension Fund that it will be accorded admission body status in respect of that Scheme from the date the employees transfer.

2.3.19 ProjectCo, in its financial model, has assumed an employer pension contribution rate of 17.8%. There is a 'cap and collar' arrangement so that the unitary charge is adjusted if the employer contributions exceed or fall below the assumed employer pensions contributions rate by more than 3% so that ProjectCo is liable for not more than 17.8% plus or minus 3%.

2.4 **Changes to the Works or Services**

2.4.1 Either party can, in certain circumstances request a variation to the Works and/or the Services ("**Change**"). The change protocol, which is a schedule to the Project Agreement, regulates the process to be followed by the Authority and ProjectCo in agreeing such Changes.

2.4.2 The Project Agreement provides that neither Party may propose or implement a Change:

(a) which requires the Works or Services to be performed or carried out in a way that infringes any legislation or guidance or is inconsistent with good industry practice;

(b) which would cause an existing authorisation, consent or approval to be revoked or a new authorisation, consent or approval required to implement the relevant Change to be unobtainable;

(c) which would materially and adversely affect ProjectCo's ability to perform the Works or Services in a manner which is not compensated pursuant to the change protocol;

(d) which would materially and adversely affect the health or safety of any person;

(e) which would require ProjectCo to implement the Change in an unreasonable period of time;

(f) which would materially and adversely change the nature of the Project (including its risk profile);

(g) whereby the Authority does not have the legal power or capacity to require the implementation of such Change;

(h) which would, if implemented, adversely affect enforceability of priority held by or on behalf of the Issuer.

2.4.3 The Change Protocol provides for three levels of Changes. These are:

(a) changes that are low value changes or Works of a minor nature or the provision of plant or equipment having a cost of not more than £10,000 (indexed) or such Change in Services the implementation of which does not exceed £10,000 (indexed) ("**Low Value Changes**"). Where a Change aggregated together with Low Value Changes over the period of six months preceding such Change exceeds £60,000, then such Change is then to be regarded as a Medium Value Change (see paragraph (b) below) rather than a Low Value Change;

(b) changes that are not Low Value Changes, and cost less than £200,000 to implement, or require an adjustment to the unitary charge that is less than 2% of the Annual unitary charge in the relevant year (**"Medium Value Changes**");

(c) changes whose costs exceed the threshold for a Medium Value Change ("**High Value Changes**").

2.4.4 The key difference between the three levels of Changes are that for Low Value Changes, pricing is generally in accordance with a catalogue of prices ("**Catalogue**") along with the time for implementation of such Low Value Change. ProjectCo is not entitled to any additional charge for the processing, implementing or managing of a Low Value Change, except other than the cost set out in the Catalogue. The one exception to this is if the total number of Low Value Changes in a contract year exceeds 12, then an amount of £50 (indexed) is paid in respect of management and implementation costs for each subsequent Low Value Change. In addition, the Issuer will not be involved in agreeing Low Value Changes.

2.4.5 Provision is made for due diligence costs in carrying out of Medium Value Changes and High Value Changes. In these instances, ProjectCo and the Authority will pre-agree a cap to apply to the legal, technical, financial and insurance due diligence costs, and the estimate needs to be fully evidenced by ProjectCo (including at least two quotes for the relevant work).

2.4.6 If the Authority requires a Medium Value Change, the Authority will issue a notice (**"Authority Change Notice**") to ProjectCo setting out the details of the Change required. ProjectCo is required to respond to that Authority Change Notice including, amongst other things, an estimate of the costs it is likely to incur as a result of the Medium Value Change ("**Estimated Change in the Project Costs**"). Once ProjectCo's response has been received, the Authority may either confirm or withdraw the Authority Change Notice or reject ProjectCo's response. If the Authority withdraws the Authority Change Notice then the Authority is required to pay ProjectCo the reasonable additional third party costs incurred by ProjectCo in preparing its response (unless ProjectCo's response does not comply with the requirements of the change protocol). If the Authority rejects ProjectCo's response on the grounds of non-compliance with the change protocol, the Authority shall not be responsible for payment of any costs incurred by ProjectCo in preparing the response.

2.4.7 The change protocol provides for Project Co's response in respect of a Medium Value Change to include any amendment to the Project Agreement, Project Document or any Project Finance Documents required as a result of the Medium Value Change. Hence any changes to the relevant dates such as the milestone dates should be included in ProjectCo's response.

2.4.8 The negotiation and implementation of a High Value Change is a multi-stage process. If the Authority requires ProjectCo to carry out a High Value Change, the Authority initiates the process by issuing an Authority Change Notice setting out the details of the required High Value Change. ProjectCo must then provide an initial response which provides an indication of anticipated costs should the change be implemented. Upon receipt of ProjectCo's initial response, the Authority can then either confirm in writing that ProjectCo should develop a detailed response to the proposed High Value Change which shall include an outline programme for implementing the High Value Change, an indication of the impact of the Change on the Works and/or Services and the various costs involved with the implementation ("**ProjectCo Stage One Response**") or advise that it withdraws the Authority Change Notice. If a ProjectCo Stage One Response is required, the Authority shall consider such response, once received, in good faith. The Authority will then confirm whether it requires ProjectCo to prepare a further, more detailed response which shall include information such as detailed design solution, details of proposed consultants, sub-contractors which ProjectCo considers necessary to appoint, details of any consents or approvals, impact on cost or revenue, approvals required from the Issuer or insurers and a timetable for implementation of the High Value Change ("**ProjectCo Stage Two Response**") or advise that it withdraws the Authority Change Notice.

2.4.9 ProjectCo will be paid at the following stage in the process of development of the High Value Change: upon confirmation by the Authority of the ProjectCo Stage One Response and the ProjectCo Stage 2 Response or withdrawal by the Authority of Authority Change Notice after the ProjectCo Stage 2 Response provided that ProjectCo's Stage 2 Response complied with the relevant provisions of the change protocol.

2.4.10 ProjectCo is entitled to charge for a High Value Change a management fee for the time incurred by its employees in project managing the development, procurement and implementation of such High Value Change.

2.4.11 In respect of both Medium Value Changes and High Value Changes, ProjectCo is required to use reasonable endeavours to obtain funding for the whole of the capital expenditure to be incurred in respect of such Change. If ProjectCo is unable to do so, ProjectCo may inform the Authority and request the Authority provide such funding. If the Authority is unable to provide funding for the capex then ProjectCo will have no obligation to carry out the Authority Change.

2.5 Payments and Payment Mechanics

Scope of Payment and Reporting

2.5.1 The Project Agreement requires the Authority to pay ProjectCo on a monthly basis the monthly unitary charge in accordance with the calculations set out in the payment mechanism of the Project Agreement. The calculation in accordance with the payment mechanism results in a net monthly payment. The net monthly payment is calculated based on a gross monthly unitary charge. The gross monthly unitary charge is based on a combination of the number of dwellings that meet the required availability standards and the base dwelling charges for each. This is further explained below.

2.5.2 On the first business day of each payment period ProjectCo will submit to the Authority a report for that payment period setting out:

(a) the base unitary charge;

(b) the aggregate unavailability deductions for the payment period falling two months prior to the relevant payment period;

(c) the aggregate performance deductions for the payment period;

(d) any other adjustments to the unitary charge for the payment period falling two months prior to the relevant payment period;

(e) any undisputed amounts owed by either party to the other;

(f) any amounts owed to ProjectCo by the Authority, or deducted from payments required to be made to ProjectCo, in accordance with specified clauses in the Project Agreement in which ProjectCo is required to pay amounts to the Authority;

(g) the amount of any pass through costs;

(h) the amount of any compensation resulting from a CNDT;

(i) the dwellings, retail units, Common Parts and Common Areas receiving a certificate of availability in that month; and

(j) the dwellings subject to a CNDT in that month,

and submit an invoice for the amount.

Payment Mechanism

2.5.3 The payment mechanism requires ProjectCo to submit two reports every month: a report on the availability of the dwellings, details of the instances of unavailability, a calculation of the unavailability deductions levied ("**Unavailability Monitoring Report**"), and a report on the performance of ProjectCo including details of the instances of performance failures and a calculation of the performance deductions levied ("**Performance Monitoring Report**").

2.5.4 The net payment of unitary charge for each month is calculated based on a gross monthly unitary charge (in turn calculated from the initial monthly service dwelling charge and the full monthly services dwelling charge). The initial monthly service dwelling charge is based on the initial annual rented dwelling charge and the initial annual leaseholder dwelling charge, and the number of dwellings, which have not been subject to a certificate of availability prior to the relevant contract month. The full monthly services dwelling charge is based on the full annual rented dwelling charge, and the full annual leaseholder dwelling charge, and the number of dwellings that have received a certificate of availability.

2.5.5 The payment increase from the initial monthly services dwelling charge to the full monthly services dwelling charge is subject to a cap ("**Maximum Monthly Certification Cap**") to provide cash flow certainty to the Authority. If dwellings are completed ahead of the profile determined based on the Maximum Monthly Certification Cap that applies for each contract month ("**Agreed Completion Profile**"), the gross monthly unitary charge will not be increased earlier than the Agreed Completion Profile.

2.5.6 35% of the initial annual rented dwelling charge and the full annual rented dwelling charge is indexed. The indexation is applied annually in April and is based on the RPIx published in February each year, as against the RPIx at February 2011. The same indexation formula applies to the initial annual leasehold dwelling charge and the full annual leasehold dwelling charge.

Availability Deductions and Performance Deductions

2.5.7 There is a 'mobilisation period' of three months, which begins the day after the Closing Date during which neither unavailability deductions nor performance deductions will apply.

2.5.8 Where a dwelling fails to achieve the availability standards, ProjectCo is required to rectify the unavailability during the period for rectification. If ProjectCo fails to rectify the unavailability within the period for rectification then the dwelling will be deemed to be unavailable from the date of receipt of notification by ProjectCo of the unavailability.

2.5.9 The total unavailability deduction is a sum of the initial unavailability deduction and the full unavailability deduction (for the dwellings), together with the deductions for unavailability of the Common Parts and Common Areas.

2.5.10 Essentially the unavailability deduction involves the deduction of the amount of the annual rented dwelling charge (initial or full, whichever is relevant) in respect of dwellings which fails to meet the relevant availability standard. When a dwelling is unavailable but used, then 70% of the initial annual rented dwelling charge/ initial annual leasehold dwelling charge is deducted. The above deductions are then multiplied by a factor ("**Ratchet Factor**") based on how long the unavailability lasts.

2.5.11 Furthermore, there is a period or cycle of repeated unavailability within which ProjectCo is not allowed to repeat an unavailability. If an event of unavailability repeats and re-occurs, no period of rectification will be permitted to rectify the event of unavailability.

2.5.12 There is a requirement for ProjectCo to find alternative accommodation for the tenants if a dwelling is unavailable, and poses a risk to health and safety. If such suitable alternative accommodation is found then unavailability deductions will not apply. Where it is the Authority that finds suitable alternative accommodation, then the Authority is entitled to deduct the cost of the alternative accommodation.

2.5.13 The total value of the performance deductions applied to ProjectCo are the sum of the monthly, quarterly and annual performance deductions applicable to the current contract month(s) in relation to the relevant key performance indicators. Each of the performance deductions set out above are calculated by multiplying the unitary charge over the relevant period with a factor applying to that relevant period, and the ratio for the sub-standard performance.

2.5.14 No performance deductions will apply if the service performance failure arises out of an Excusing Event, as a result of breach by a party other than ProjectCo or a party for which ProjectCo is responsible and ProjectCo is taking reasonable steps to mitigate the effect of the Excusing Event.

2.5.15 A performance ratchet will also apply to performance deductions. It should be noted that each key performance indicator includes a minimum tolerable threshold which, when breached for 3 or more periods of measurement, will double the number of points corresponding to a sub-standard performance recorded for the key performance indicators.

2.5.16 Where a failure in performance reporting occurs, if a correction has not been made prior to the receipt of the net monthly payment, the Authority is entitled to make deductions equal to 50% of the deductions that are the subject of the reporting failure in cases where the failure is deliberate or fraudulent, or intentional; or 25% otherwise.

2.5.17 The application of deductions may be limited as follows:

- an overall cap applies on a yearly basis in relation to the application of deductions in any contract year, equal to the gross unitary charge for the contract year and any excess deductions are permanently disregarded;
- a monthly cap on deductions equal to the gross monthly unitary charge for that contract month, except that excess deductions are carried forward and can be deducted in subsequent months;
- no performance deductions may be made to a dwelling in respect of which an unavailability deduction has already been applied, although there are certain exceptions to this.

2.6 **Liability, disputes and assignment**

Extent of Liability

Authority's obligations

2.6.1 The Authority has limited obligations under the Project Agreement. Some of the main obligations of the Authority under the Project Agreement include the following:

(a) payment to ProjectCo of the unitary charge;

(b) providing access to the sites to ProjectCo;

(c) obtaining particular consents and approvals that cannot be obtained by ProjectCo;

(d) making up to two (2) decant households available if requested by ProjectCo; and

(e) carrying out demolition works to the future development sites in compliance with the demolition standard set out in the Project Agreement.

Limited liability and exclusive remedies

2.6.2 The indemnities in favour of the Authority provided for by the terms of the Project Agreement are relatively similar to that which are expected in any typical PFI project. The following heads of indemnity apply:

(a) death or personal injury;

(b) loss of or damage to property, including property belonging to the Authority or for which the Authority is responsible but excluding the land, buildings, plant, equipment and other assets which are the responsibility of ProjectCo to maintain;

(c) third party actions claims, demands costs, charges and expenses;

(d) direct losses and indirect losses arising from third party actions claims or demands for breach of statutory duty which arise as a consequence of a breach by ProjectCo of its obligations under the Project Agreement.

2.6.3 Specific caps on liability that apply to the above general indemnities include:

(a) where the amount of any claim for damage to Authority property or third party claims is in excess of the level of cover required by the Project Agreement in respect of such liability (excluding liability for any excess or deductible which is required to be paid under the policy of insurance);

(b) liability in excess of £250,000 (indexed) in respect of uninsured losses in any one occurrence or series of occurrences arising from the same event;

(c) liability in excess of £1,000,000 (indexed) in respect of any uninsured losses in any rolling 5 contract year period and in any contract year in excess of £350,000 (indexed);

(d) in respect of the indemnities referred to in paragraphs (b) and (c) above, and ProjectCo is required to insure the risk where the amount of any claim is in excess of the level of insurance.

2.6.4 Subject to express rights under the Project Agreement, the Authority's remedy for non-compliant provision of the Services will be confined to its rights under the payment mechanism, which can ultimately result in termination of the relevant Subcontract or part of the Subcontract or the Project Agreement (as the case may be).

Delay, relief and compensation

2.6.5 ProjectCo is not required to perform its obligations under the Project Agreement to the extent that performance is prevented by the occurrence of any of the following events: Compensation Events, Force Majeure Events, uninsurable risk, certain Excusing Events or Relief Events.

2.6.6 Compensation Events only apply during the period of the Works and permit ProjectCo to apply for relevant dates to be extended to allow for any relief arising from delay suffered including a milestone completion date or the Long Stop Date.

2.6.7 Relief Events are generally insured risks for which, if there is accompanying material damage, business interruption insurance proceeds will be available to cover ProjectCo's loss of revenue.

2.6.8 ProjectCo is entitled to compensation (i) for Compensation Events (or for uninsurable risks where the Authority does not terminate the Project Agreement); or (ii) if other specified events occur (other than in relation to Changes or a change in law or legislation which are separately provided for) in each case, to the extent ProjectCo incurs direct loss or expense.

Force Majeure

2.6.9 Upon the occurrence of war, civil war, armed conflict or terrorism or nuclear, chemical or biological contamination (unless it is caused by ProjectCo) or pressure waves caused by devices travelling at supersonic speeds which directly causes either the Authority or ProjectCo to be unable to comply with all or a material part its obligations under the Project Agreement ("**Force Majeure Event**"), both the Authority and ProjectCo will be relieved from liability to the extent that either of them are unable to perform their obligations. There is a requirement to use reasonable endeavours to mitigate the consequences of the Force Majeure Event and continue to perform each of their obligations under the Project Agreement. Payments of the unitary charge by the Authority are only made to the extent that the Services are actually performed by ProjectCo.

2.6.10 If a Force Majeure Event occurs, there are the following key consequences:

(a) relief from obligations;

(b) the entitlement to make deductions from the unitary charge as a result of the operation of the payment mechanism is not affected;

(c) the parties seek to agree how to mitigate the effects of the Force Majeure Event and facilitate the continued performance of the Project Agreement;

(d) if the party affected by the Force Majeure Event ("**Affected Party**") is unable to comply with its obligations under the Project Agreement for a period of more than 120 business days then either party may give 30 business days' notice to terminate the Project Agreement to the other Party;

(e) if a notice of termination is issued by ProjectCo, then the Authority is not obliged to accept that notice of termination and may instead issue a notice that it will continue under the Project Agreement. If such notice is issued by the Authority, the Authority is required to pay the unitary charge and any contribution payments due from the Authority to ProjectCo from the date that termination would have occurred as if the Services were being fully provided by ProjectCo.

2.6.11 Notwithstanding the above, there is a continuing requirement for the Parties to mitigate the effect of the Force Majeure Event.

Allocation of Liability

Building Defects

2.6.12 Within five (5) business days of the issue of the relevant certificate of availability to ProjectCo, the Independent Certifier is required to issue a list of snagging items and within a further five (5) business days, ProjectCo is required to provide to the Authority and the Independent Certifier, a program for making good if such snagging items set out in the snagging list provided that each snagging item is to be made good within twenty (20) business days. If the snagging items have not been made good in accordance with the snagging program to the satisfaction of the Independent Certifier, then the Authority is entitled to procure such repairs as is necessary and recover the costs of doing so from ProjectCo.

Latent Defects

2.6.13 As the Works generally consist of refurbishment works, ProjectCo has taken entire responsibility for any defects and any asbestos.

Contamination and Unforeseen Ground Conditions

2.6.14 There are three types of contamination:

(a) contamination brought on to a site or any part of a site by the Authority or a party for which the Authority is responsible ("**Authority Contamination**");

(b) contamination existing in any part of a site (including in any dwelling, property, Common Area or Common Part) or brought on to any site or any part of any site by the Contractor or a party for which the Contractor is responsible ("**Contractor Contamination**");

(c) other contamination which is neither Authority Contamination nor Contractor Contamination and is in, on or under any part of a development site or a future development site but only for the period ProjectCo is required to maintain each of these sites ("**Qualifying Contamination**").

2.6.15 The Authority is solely responsible for Authority Contamination including indemnifying ProjectCo in respect of all direct losses and holding ProjectCo harmless from cleaning up and otherwise dealing with Authority Contamination.

2.6.16 However where Contamination is Qualifying Contamination, then ProjectCo will bear all risk of Qualifying Contamination up to a cap of £500,000 (indexed) in each and any contract year. While ProjectCo remains responsible for Qualifying Contamination, ProjectCo will still receive the benefit of a Relief Event and an Excusing Event.

2.6.17 To the extent the contamination is Authority Contamination, or exceeds the Qualifying Contamination Cap, the Authority will be responsible. Although, in practice, the remediation will be carried out by ProjectCo, ProjectCo will receive the benefit of a Compensation Event, no deductions will be made in respect of a dwelling, retail unit, Common Area or Common Areas, and the Authority is required to indemnify ProjectCo and hold ProjectCo harmless.

Asbestos

2.6.18 ProjectCo takes entire responsibility for dealing with any asbestos discovered on the Project during the term of the contract.

Uninsurable Risks

2.6.19 Where a relevant risk becomes uninsurable then the relevant provision of the Project Agreement will apply.

2.6.20 Uninsurable means in relation to a risk, either that:

(a) insurance is not available to ProjectCo in respect of the Project in the worldwide insurance market with reputable insurers of good standing in respect of that risk; or

(b) the insurance premium payable for insuring that risk is at such a level that the risk is not generally being insured against in the worldwide insurance market with reputable insurers of good standing by contractors in the United Kingdom.

2.6.21 If the risk is uninsurable and ProjectCo can demonstrate to the Authority that a contractor in similar circumstances, acting reasonably, would resolve to cease to operate such a business as a result of such risk becoming uninsurable, then the parties are required to meet to discuss how the risk is to be managed. Also, the parties are required to discuss self insurance by either party.

2.6.22 If the Parties cannot agree how to share the risks should there be an uninsurable event, then the Authority can either terminate the Project Agreement and pay an amount equivalent to the amount payable for compensation on termination for a Force Majeure Event in respect of third party liability insurance or elect to require that the Project Agreement continue.

2.6.23 If the Project Agreement continues, then in respect of contractors all risk, property damage insurance, third party liability insurance, delay in start up and business interruption (but not loss of profits) insurance or statutory insurances the Project Agreement is required to continue and on the occurrence of the risk the Authority is required to pay ProjectCo an amount equal to the insurance proceeds that would have been payable had the relevant insurance been in place or an amount equal to the amount calculated in accordance with the compensation on termination provisions for a Force Majeure Event pursuant to the Project Agreement, and the Project Agreement will then terminate.

2.6.24 While the Project Agreement is not terminated, ProjectCo is required to approach the insurance market at least once every four months to establish whether the risk remains uninsurable. The parties will discuss in good faith the possibility for the Authority to self insure in such circumstances.

Change in Law

2.6.25 The Authority will compensate ProjectCo for a Qualifying Change in Law.

2.6.26 A "**Qualifying Change in Law**" means a change in law which was not foreseeable upon execution of the Project Agreement and which applies:

(a) expressly to the Project and not to similar projects procured under the PFI, ProjectCo and not to other persons, PFI contractors and not to other persons and/or the Authority and not to other local authorities;

(b) to the provision of housing services or tenant management services to housing owned by a local housing authority or a registered provider of social housing, provision of construction and maintenance of housing services to residential tenanted accommodation, a tenant or leaseholder or other lawful occupiers of housing owned by a local housing authority or a registered provider and/or the holding of shares in companies or industrial and provident societies whose main business is providing housing or tenant management services or construction and maintenance of housing services; or

(c) a change in law that is not (a) or (b) above and which involves capital expenditure,

2.6.27 Changes in law which are not a Qualifying Change in Law are a ProjectCo risk.

2.6.28 The costs in relation to a Qualifying Change in Law, and any postponement of relevant dates, are calculated in accordance with the provisions of the Project Agreement.

Disputes and Assignment

Dispute Resolution

2.6.29 The Project Agreement contains a dispute resolution procedure which will be applicable whenever there is a dispute between the Parties. The Authority and ProjectCo are required first to consult in good faith in an attempt to come to an agreement in relation to the disputed matter. Without prejudice to that requirement, either party may give the other notice of intention to refer the dispute to adjudication and the adjudicator will be selected in accordance with the relevant provisions of the Project Agreement.

2.6.30 Either party may, within twenty (20) business days of receipt of the adjudicator's decision or where the adjudicator fails to give a decision, give notice to the other party of its intention to refer the dispute to English courts for final determination.

2.6.31 The Project Agreement also includes provisions dealing with the inclusion of disputes under the Building Contract ("**Building Contract Disputes**"), disputes under the Housing Management Agreement ("**Housing Management Agreement Disputes**") and disputes under the Responsive Repairs and Cyclical Maintenance and Renewal Contract ("**Responsive Repairs and Cyclical Maintenance and Renewal Contract Disputes**") which must be heard at the same time as a similar dispute under the Project Agreement.

2.6.32 Whilst the adjudicator does not have jurisdiction to determine a Building Contract Dispute, a Housing Management Agreement Dispute or a Responsive Repairs and Cyclical Maintenance and Renewal Contract Dispute the adjudicator's decision will be binding on ProjectCo and each of the Building Contractor, Housing Management Contractor and RRCMR Contractor in so far as it determines issues under the Project Agreement that relate to their respective contracts. Both ProjectCo and the Authority have the option of referring the Adjudicator's decision to the courts of England and Wales.

Assignment by ProjectCo and change of ownership

2.6.33 ProjectCo may not assign its interest in the Project Agreement. The Project Agreement prohibits the subcontracting, assignment, under letting, charging, selling or bargaining or otherwise dealing with any benefit of the Project Agreement in whole or in part except with the prior written consent of the Authority. Certain exceptions apply which are:

(a) the grant of any security for any loan made to ProjectCo under the Project Finance Documents;

(b) the provision of the Works or Services from a Subcontractor whose identity has been notified to the Authority prior to the appointment of such Subcontractor.

2.6.34 Except in the limited circumstances set out in paragraph 2.6.36 below, no change in ownership of ProjectCo is permitted during an initial period where equity is locked in ("**Lock in Period**"). The Lock in Period is the period ending one year after the certificate of availability has been issued in relation to all dwellings in the Project.

2.6.35 Change in ownership is defined in the Project Agreement as any sale, transfer or disposal of any legal, beneficial or equitable interest in any of the shares in ProjectCo or ProjectCo Holdco (including control over the exercise of voting rights) conferred on those shares, control over the right to appoint or remove directors or the rights to dividends) and/or any arrangements that have or will have the same effect ("**Change in Ownership**").

2.6.36 The above restrictions on the Change in Ownership will not apply to the following events:

(a) the grant or enforcement of security of the Issuer over or in relation to any shares of ProjectCo or ProjectCo Holdco; or

(b) any transfer of shares in ProjectCo or ProjectCo Holdco by a company that is an affiliate of the Together Housing Group Limited ("**Together Group Entity**") to another Together Group Entity.

2.6.37 If during the Lock-in Period, the holder of any shares in ProjectCo or ProjectCo HoldCo is a Together Group Entity, and that holder ceases to be a Together Group Entity, it is in breach of the above restriction if those shares held by that holder are not within 20 business days of that holder ceasing to be a Together Group Entity, transferred to a Together Group Entity.

2.7 **Step in and termination**

Authority Step-In

2.7.1 The Authority has step-in rights, following notice to ProjectCo, to take over the Services and, in certain circumstances, the Works if:

(a) there is a serious risk in relation to health or safety of persons or properties or to the environment; or

(b) to discharge a statutory duty;

(c) to enable the collection of service charges where for twelve consecutive months, the average levels of service charge arrears for the period of twelve months up to and including each of those twelve months calculated in accordance with the output specification is greater than ten percent (10%);

(d) where a dwelling, or retail unit has not been made available for a period of 7 days and ProjectCo has commenced Works or other actions sufficient to restore availability but the Authority reasonably believes that despite having commenced such Works or other actions sufficient to restore Availability ProjectCo is unlikely to complete (or to have completed) them within the period of 7 days,

(e) where a Common Part or Common Area, during the relevant period of Works, has not been made available for a period of seven (7) days save where the Contractor has commenced Works to restore availability unless, having commenced such Works, the Authority reasonably believes that the Contractor is unlikely to complete (or to have completed) them within the period of two (2) months following the relevant Planned Full Services Commencement Date.

2.7.2 ProjectCo is required to give reasonable assistance to the Authority while the Authority is exercising its step-in rights. The Authority is required, in exercising its step-in rights, to take action in accordance with good industry practice and is required to indemnify ProjectCo against all direct losses where the Authority fails to take its action in accordance with good industry practice and the step in has not been occasioned by a ProjectCo breach. ProjectCo will be relieved of its obligations to carry out the Works and/or the relevant Services during the Authority step-in period.

2.7.3 If the Authority steps in where ProjectCo has not been in breach of its obligations, the Authority will pay ProjectCo the unitary charge that ProjectCo would have received if it were satisfying all of its obligations in carrying out the Works and or the relevant Services.

2.7.4 If the Authority steps in as a result of a breach by ProjectCo, then the Authority will pay ProjectCo the unitary charge that it would have received if it had been carrying out all of the Works and Services less an amount equal to all the Authority's costs of operating and taking action during the step-in period.

Termination

2.7.5 The Project Agreement will incorporate early termination rights for ProjectCo and the Authority. Compensation will be payable by the Authority upon termination of the Project Agreement. The amount of termination compensation payable will depend on the reason for termination and other circumstances.

2.7.6 Early termination rights fall into the following categories: (a) termination on Authority Default; (b) voluntary termination and termination for failure to issue a certificate; (c) termination for ProjectCo default; (d) termination for breach of refinancing provisions; (e) termination for corrupt gifts and fraud; (f) termination on a Force Majeure Event; and (g) termination for failure to secure Secretary of State approval.

Termination on Authority Default

(a) "**Authority Default**" – is defined in the Project Agreement as follows:

(i) an expropriation, sequestration or requisition of a material part of the assets and/or shares of ProjectCo, the Housing Management Contractor, the RRCMR Contractor and/or the Building Contractor by the Authority or any court with the relevant jurisdiction and any local, national or supra-national agency, authority, inspectorate, minister, ministry, official or public or statutory person of the government of the United Kingdom or of the European Union;

(ii) a failure by the Authority to make payment of any amount of money exceeding one month's unitary charge (indexed) that is due and payable by the Authority under the Project Agreement within 20 business days of service of a formal written demand by ProjectCo, where the amount fell due and payable 30 business days prior to the date of service of the written demand;

(iii) a breach by the Authority of its obligations under the Project Agreement which substantially frustrates or renders it impossible for ProjectCo to perform its obligations under the Project Agreement for a continuous period of 30 business days; or

(iv) a breach by the Authority of the restrictions on assignment and sub-contracting under the Project Agreement.

(b) ProjectCo is entitled to terminate the Project Agreement if an Authority Default occurs and has not been rectified within 30 business days of ProjectCo giving the Authority written notice.

(c) The compensation on termination payable by the Authority within 60 days of the date of termination consists of:

(i) the sum of all amounts outstanding under the Project Finance Documents (including interest) and all amounts (including breakage costs) in relation to Authorised Investments and the

Bond Make-Whole Amount, less the sum of certain account credit balances over which the Issuer has security;

(ii) redundancy payments for ProjectCo employees and losses incurred in respect of the provision of the Services or completion of the Works; and

(iii) the net present value of dividends, distributions, repayments and interest modelled as payable by ProjectCo;

Voluntary Termination and termination for failure to issue a certificate

(d) The Authority may terminate the Project Agreement for convenience or if it fails to issue a certificate under the Local Government Contracts Act.

(e) The compensation on terminable payable by the Authority within 60 days of the date of termination consists of:

(i) the sum of all amounts outstanding under the Project Finance Documents (including interest) and all amounts (including breakage costs) in relation to Authorised Investments and the Modified Bond Make-Whole Amount, less the sum of certain account credit balances over which the Issuer has security;

(ii) redundancy payments for ProjectCo employees and losses incurred in respect of the provision of the Services or completion of the Works; and

(iii) the net present value of dividends, distributions, repayments and interest modelled as payable by ProjectCo;

Termination for ProjectCo default

(f) A default by ProjectCo is defined in the Project Agreement as follows:

(i) a breach by ProjectCo of any of its obligations and/or warranties under the Project Agreement which materially and adversely affects the performance of the Services;

(ii) a persistent breach occurs;

(iii) a court makes an order that ProjectCo or ProjectCo Holdco be wound up or a resolution for a voluntary winding-up of ProjectCo or ProjectCo Holdco is passed;

(iv) any receiver or manager in respect of ProjectCo or ProjectCo Holdco is appointed or possession is taken by or on behalf of any creditor of any property of ProjectCo or ProjectCo Holdco that is the subject of a charge;

(v) any voluntary arrangement is made for a composition of debts or a scheme of arrangement is approved under the Insolvency Act 1986 or the Companies Act 2006 in respect of ProjectCo or ProjectCo Holdco;

(vi) an administration order is made, or an administrator is appointed in respect of ProjectCo or ProjectCo Holdco;

(vii) a breach by ProjectCo of the restrictions on assignment and subcontracting;

(viii) a breach of the restrictions on Change in Ownership;

(ix) ProjectCo abandons the Project at any time;

(x) ProjectCo has not commenced the Works by 60 days following the date of commencement of the Services;

(xi) a certificate of availability for all of the dwellings, Common Parts, retail units and Common Areas in the Project has not been issued by the Long Stop Date;

(xii) a certificate of availability for 244 of the dwellings in the Project has not been issued by Milestone Completion Date One;

(xiii) in any 4 month-period the Authority has been entitled to reduce the amount of the unitary charge by more than 20% through unavailability deductions;

(xiv) in each and every of any 9 month-period, the Authority has been entitled to reduce the amount of the unitary charge by more than 10% through performance deductions;

(xv) a breach by ProjectCo of its obligations to take out and maintain any of the insurance policies required under the Project;

(xvi) failure to replace a party for whom ProjectCo is responsible following the occurrence of an incident of public safety;

(xvii) a certificate of availability for 856 of the dwellings in the Project have not been issued by Milestone Completion Date Two;

(g) the Authority may terminate the Project Agreement in the event of default by ProjectCo and if rectifiable, such default has not been rectified by the relevant time period specified in the Project Agreement;

(h) for termination by reason of default by ProjectCo, the amount of compensation payable by the Authority to Projectco will be calculated by reference to the market value of the unexpired term of the Project Agreement. The Authority is entitled to either retender the provision of the Project or require an expert determination to value the unexpired project term;

(i) the objective of the retendering procedure is to establish and pay to ProjectCo the price corresponding to the value of the Project as a result of the tender process ("**Highest Compliant Tender Price**"). If the adjusted Highest Compliant Tender Price is less than 0, then ProjectCo is required to pay that amount to the Authority on the date of a new project agreement is entered into with a new contractor;

(j) If the Authority is not entitled to retender the provision of the Project or the Authority elects to require an expert determination, then an estimated fair value of the Project Agreement ("**Adjusted Estimated Fair Value of the Contract**") is to be determined in accordance with the principles set out in the Project Agreement. To the extent the Adjusted Estimated Fair

Value of the Contract is less than 0, then ProjectCo is required to pay the Authority this amount.

Termination for breach of refinancing provisions

(k) If ProjectCo fails to obtain the Authority's consent prior to undertaking certain refinancings, the Authority will be entitled to terminate the Project Agreement.

(l) The compensation on termination payable by the Authority within 60 days of the date of termination consists of:

(i) the sum of all amounts outstanding under the Project Finance Documents (including interest) and all amounts (including breakage costs) in relation to Authorised Investments, less the sum of certain account credit balances over which the Issuer has security and any distributions made in respect of additional permitted borrowings (see paragraph 2.7.7 below);

Termination for corrupt gifts and fraud

(m) The Authority shall be entitled to terminate the Project Agreement if ProjectCo or any subcontractor, agent or shareholder of ProjectCo has given a bribe or gift as inducement or otherwise acted fraudulently.

(n) The compensation on termination payable by the Authority within 60 days of the date of termination consists of:

the sum of all amounts outstanding under the Project Finance Documents (including interest) and all amounts (including breakage costs) in relation to Authorised Investments, less the sum of certain account credit balances over which the Issuer has security and any distributions made in respect of additional permitted borrowings (see paragraph 2.7.7. below);

Termination on a Force Majeure Event and termination for failure to secure Secretary of State approval

(o) If the Project Agreement is terminated following Force Majeure or if the Authority fails to secure approval from the Secretary of State of a replacement sub-contractor exercising the Authority's housing management functions, the compensation on termination payable by the Authority within 60 days of the date of termination consists of:

(i) the sum of all amounts outstanding under the Project Finance Documents (including interest) and all amounts (including breakage costs) in relation to Authorised Investments less the sum of certain account credit balances over which the Issuer has security;

(i) dividends, distributions, repayments and interest modelled as payable by ProjectCo less interest already received; and

(iii) redundancy payments for ProjectCo employees and losses incurred in respect of the provision of the Services or completion of the Works.

Compensation Instalment Payments

(p) For terminations other than for Authority Default the Authority is entitled, to make the compensation payments in instalments of principal and interest (excluding any Make Whole Payment) as scheduled under the Notes. Where the compensation is not sufficient to cover the principal and interest payments, the instalments shall be pro-rated.

Additional Permitted Borrowing

2.7.7 The provisions for payment of compensation on termination in the Project Agreement also take account of any Additional Permitted Borrowings raised by ProjectCo, which will be equal to the amount of principal that is outstanding under the credit agreement with the Issuer. If required, ProjectCo is entitled to raise Additional Permitted Borrowings without the consent of the Authority up to a limit. Any borrowings in excess of such limit will only be raised by ProjectCo with the consent of the Authority. This may be necessary if ProjectCo had to raise additional funding for example for a change to the Works.

2.7.8 If a distribution of dividend, reduction of capital, payment or receipt of benefits, etc is made while any additional permitted borrowing is outstanding, and ProjectCo fails to notify the Authority of that distribution (as it is required to do so under the Funders Direct Agreement), then in addition to the deduction of the distribution made, the Authority will be entitled to set off the value of the distribution a second time against the compensation due to ProjectCo by the Authority where the Project Agreement is terminated through no fault of ProjectCo ("**Authority Default Termination Sum**") provided that the amount of the Authority Default Termination Sum will not be less than the aggregate of the senior debt outstanding at the termination date plus breakage costs and interest.

Corrupt Gifts

2.7.9 The Project Agreement provides that the Authority has the right to terminate the Project Agreement where ProjectCo or any of its employees or those of its subcontractors have made a corrupt gift or bribe to the Authority (or to any person employed by or on behalf of the Authority) and ProjectCo has not taken appropriate action, for example by dismissing the relevant Subcontractor, director or employee. If the corrupt gift or bribe is made by ProjectCo (or an employee acting with the authority or knowledge of one or more of ProjectCo's directors), the Authority has an immediate right to terminate the Project Agreement. The amount of compensation payable by the Authority on such termination has been structured to enable ProjectCo to pay the Issuer to enable it to meet its obligations under the Notes.

Refinancing

2.7.10 The Project Agreement sets out ProjectCo's obligations in relation to any refinancing of the Project. Wilful default of the refinancing provisions by ProjectCo constitutes a default by Project Co under the Project Agreement. Where refinancing occurs (unless it is exempt from the provisions), ProjectCo is under an obligation to share with the Authority, the gains (if any) derived from such refinancing.

Permitted Borrowings

2.7.11 Under the terms of the Project Agreement, ProjectCo is generally able to deal with its funding agreements as it sees fit provided the same does not materially and adversely affect ProjectCo's ability to perform its obligations under the various Project Documents to which it is a party. Where ProjectCo amends, waives or exercises any rights under the Credit Agreement, the Authority's liabilities on early termination of the Project Agreement may only be increased where ProjectCo has obtained the prior written consent of the Authority or where the amendments, waivers or exercise of a right constitutes a borrowing which is permitted under the Project Agreement.

2.7.12 Permitted Borrowings comprise:

(a) advances to ProjectCo under the Project Finance Documents by the Issuer;

(b) any Additional Permitted Borrowing;

(c) advances to ProjectCo under any committed standby facility made solely for the purpose of funding any cost overruns, increased expenses or loss of revenue incurred by ProjectCo; and

(d) interest on the above amounts and other amounts accrued or payable under the Project Finance Documents.

3 KEY SUBCONTRACTS

The obligations in the Project Agreement are largely flowed down into three key subcontracts. These key subcontracts are as follows:

(a) Building Contract with Keepmoat Regeneration (Bramall) Limited;

(b) Responsive Repairs and Cyclical Maintenance and Renewal Contract with Chevin Housing Association Limited.

(c) Housing Management Agreement with Chevin Housing Management Association Limited.

4 BUILDING CONTRACT

The Building Contract has been drafted on a flow down basis of the Project Agreement in relation to the Works. Hence this summary only covers some of the key terms of the Building Contract that may be relevant to better understanding the flow down.

4.1 Design and construction of the works

4.1.1 The Building Contractor is required to design and carry out the Works in order to achieve completion by the relevant Planned Full Services Commencement Dates. The Works shall be certified as complete by the Independent Certifier in accordance with the procedure set out in the Project Agreement and the Independent Certifier Appointment.

4.1.2 The Building Contractor will, in accordance with the Interface Agreement, liaise with the Housing Management Contractor and the RRCMR Contractor when undertaking the Works.

4.2 Equivalent project relief

4.2.1 The Building Contract contains a provision such that where the Building Contractor claims a payment relief or other entitlement under the Building Contract and ProjectCo has a right under the Project Agreement to claim a corresponding payment, relief or other entitlement, ProjectCo will only be liable to make any payment or grant any relief or other entitlement to the Building Contractor to the extent that ProjectCo's payment, relief or other entitlement has arisen under the Project Agreement and ProjectCo has become entitled to receive such payment, relief or other entitlement.

4.2.2 The Building Contractor has the usual prescribed rights (with relevant obligations) to pursue certain rights of ProjectCo under the Project Agreement in order to give effect to the equivalent project relief provisions.

4.3 **Contract sum, payment and security**

4.3.1 The contract sum is £80,147,955.19 plus VAT (the "**Contract Sum**"). The Contract Sum is a lump sum fixed price for the carrying out of the Works, with limited provision for adjustment of the Contract Sum by way of:

(a) Changes instructed under the Building Contract;

(b) Qualifying Changes in Law;

(c) Compensation Events.

4.3.2 Payment of the Contract Sum is made against a drawdown schedule and (apart from the initial payment in respect of the Building Contractor's pre-completion costs) on the basis of Works completed, as evidenced in interim applications for payment (to be made on a monthly basis) submitted by the Building Contractor. The aggregate of interim payments at any time shall never exceed the cumulative amount identified in the drawdown schedule as payable by and at that time, notwithstanding the progress of work on site.

4.3.3 The Building Contractor is to provide a performance bond in the amount of 15% of the Contract Sum from an insurance company or bank acceptable to the ProjectCo and Issuer. The bond is required to remain in place until certified completion of all dwellings, Common Parts, retail units and Common Areas has been achieved and is an adjudication bond.

4.3.4 The bond reduces (in the absence of any default by the Building Contractor) in accordance with the following step-down profile:

(a) 12% when dwelling completion > 50%;

(b) 9% when dwelling completion > 75%;

(c) 6% when dwelling completion > 90%; and

(d) 0% after certified completion of all dwellings, Common Parts, retail units and Common Areas.

4.3.5 Amounts due in interim payments will be subject to a retention of 5%, limited in total to £2m provided the performance bond and letter of credit are in full force and effect. This amount shall be held as security until the certificate of making good defects has been issued at the end of the defects liability period.

4.3.6 The Building Contractor will provide a letter of credit for £4m on or before the execution of the Building Contract. Provision of this letter of credit is also a condition precedent to the Credit Agreement. £2m of the letter of credit will be released once the retention monies have reached £2m, and the final £2m of the letter of credit will be released after certification of the final property to be certified.

4.3.7 If the credit rating of the surety providing the performance bond or the bank providing the letter of credit fall below A- Standard & Poor's or A3 Moody's, the Building Contractor has to provide a replacement letter of credit or performance bond as the case may be from a surety or bank with the appropriate credit rating.

4.4 **Site conditions**

4.4.1 The Building Contractor is responsible for:

(a) contamination brought onto any site by it, any other party for whom the Building Contractor is responsible or a third party;

(b) existing contamination in any dwelling, Common Area or Common Part or any area where the Building Contractor is carrying out works during the period of those works; and

(c) the condition of the sites, during the period that the Building Contractor is carrying out works at that site,

but excluding contamination brought onto any site by the Authority or ProjectCo.

4.4.2 To help mitigate this risk, the Building Contractor is procuring a collateral warranty from the relevant surveyors in favour of the Building Contractor.

4.5 **Defects**

The responsibility for the majority of defects is flowed down from the Project Agreement to the Building Contractor. The Building Contractor is liable for the first twelve years for the defects for which it is responsible. Defects for which the Building Contractor is not responsible are the responsibility of Chevin as the RRCMR Contractor.

4.6 **Liquidated damages**

4.6.1 If the Building Contractor fails to complete the required number of dwellings or retail units by their Planned Full Service Commencement Date it will be liable to pay liquidated damages to ProjectCo. The level of liquidated damages will reflect the losses and costs that would otherwise be suffered by ProjectCo (including interest payable under the Project Finance Documents) and will be in addition to any liquidated damages due to the Authority (such as the charges for late completion of Common Areas and Common Parts).

4.6.2 Liquidated damages include:

(a) loss of unitary charge revenue;

(b) other costs arising from delay to construction completion.

4.6.3 The Building Contractor is liable to pay liquidated damages where the delay is due to a Relief Event or Force Majeure.

4.6.4 The amount of liquidated damages is subject to the liability cap referred to below.

Direct Agreements and Collateral Warranties

4.6.5 A Direct Agreement and Collateral Warranty is being entered into with the Issuer and the Authority respectively. Such Direct Agreement and Collateral Warranty is being executed and delivered on Financial Close in a form acceptable to the Issuer and the Authority (respectively).

4.6.6 The Building Contractor is procuring in favour of the Authority, ProjectCo and (where so required) the Issuer, collateral warranties from the professional team together with all specialist sub-contractors (including those with a design responsibility) referred to in the Building Contract and/or the Project Agreement.

4.7 **Parallel loan agreement**

The Building Contractor is required to enter into a Parallel Loan Agreement with the loan provider being the parent organization of the Building Contractor, to the effect that if the Building Contractor becomes entitled to payment which is equivalent project relief before ProjectCo has received payment from the Authority, the loan provider will in effect discharge ProjectCo's liability to make that payment to the Building Contractor.

4.8 **Parent company guarantee**

The Building Contractor is required to procure a parent company guarantee from Keepmoat Limited and Keepmoat Regeneration Limited, on a joint and several basis, as primary obligors, in relation to all of the obligations under the Building Contract. Keepmoat Limited and Keepmoat Regeneration Limited will each be required to satisfy a net worth test that it maintains net assets at equal to or greater than sixty-five million pounds (£65 million).

4.9 **Variations**

4.9.1 To the extent that ProjectCo is obliged to give effect to variations that the Authority is entitled to propose pursuant to the Project Agreement, the Building Contractor is obliged to undertake the appropriate processes as set out in the Project Agreement in relation to pricing, responding to and implementing the same.

4.9.2 ProjectCo is entitled to propose and require the implementation of variations under the Building Contract on a similar basis to the rights of the Authority under the Project Agreement and ProjectCo will use reasonable endeavours to enforce its rights under the Project Agreement in relation to variations.

4.10 **Force majeure, relief events and compensation events**

4.10.1 The Building Contract passes down those provisions in the Project Agreement in relation to Force Majeure Events, Relief Events and Compensation Events, save that the Building Contractor will not be entitled to terminate the Building Contract on the grounds of a Force Majeure Event. Where ProjectCo chooses not to exercise its rights to terminate the Project Agreement on the grounds of a Force Majeure Event, ProjectCo will pay the Building Contractor its reasonable standstill costs from the period following the date that the Project Agreement would have terminated had ProjectCo exercised such of its rights, to the extent that the same are recovered under the Project Agreement.

4.10.2 The Building Contractor is also entitled to compensation in the event that ProjectCo is in breach of its obligations under the Building Contract and such breach/obligation is unrelated to a breach/obligation under the Project Agreement and is occasioned directly by ProjectCo (and not as a result of acts or omissions of others).

4.11 **Termination of the building contract**

4.11.1 ProjectCo's rights of termination arise upon specified defaults including the following:

(a) failure by the Building Contractor to commence the Works by 30 days following the date of commencement of the Services;

(b) in respect of a Building Contractor persistent breach, a Final Warning Notice is issued (following a breach that has continued for more than fourteen (14) days or occurred more than three (3) times in any six (6) month period) and the breach continues for 10 days after issue of that notice or recurs in 1 or more months within the 6 month period following the date of service of the Final Warning Notice;

(c) abandonment by the Building Contractor;

(d) a certificate of availability for all of the dwellings, Common Parts, retail units and Common Areas has not been issued by the date which is six (6) months following the Planned Full Services Commencement Date for the last dwelling, Common Part, retail unit or Common Part;

(e) the occurrence of the usual insolvency events in relation to the Building Contractor;

(f) a breach by the Building Contractor of the restrictions on its rights to assign, subcontract or sub-let its rights or obligations under the Building Contract without the consent of ProjectCo;

(g) an incident occurs which results in serious personal injury to or death of any party for which the Authority is responsible or Project Co is responsible or tenant or leaseholder which may have been caused by a negligent act or omission of the Building Contractor or party for which the Building Contractor is responsible in the performance of the Works;

(h) the Building Contractor materially breaches the Construction (Design and Management) Regulations 2007;

(i) an act or omission by the Building Contractor or any party for whom the Building Contractor is responsible that causes or contributes to the termination of the Project Agreement or any Project Finance Documents;

(j) the provision of a corrupt gift or bribe;

(k) the performance bond, parent company guarantee or letter of credit ceases to be in full force and effect subject to certain replacement rights;

(l) failure to pay an amount exceeding £50,000 due to ProjectCo within 10 Business Days of the date of a written demand from ProjectCo where the final date for payment fell due and payable at least twenty (20) business days prior to the date of the service of such demand;

(m) any act, omission, neglect or default on the part of the Building Contractor or any Building Contractor Related Party or a Building Contractor guarantor that causes or contributes to any event or circumstance described as an Event of Default under a Project Finance Document;

(n) 75% of the limit on the Building Contractor's liability to ProjectCo under the Building Contract is reached;

(o) a breach by the Building Contractor of its obligations and/or warranties provided by the Building Contractor which materially and adversely affect the performance of the Works and/or other obligations of the Building Contractor;

(p) failure to achieve any of the following milestones:

(i) Completion of 113 dwellings by the end of month 12;

(ii) Completion of 244 dwellings by the end of month 18;

(iii) Completion of 540 dwellings by the end of month 24;

(iv) Completion of 856 dwellings by the end of month 30; and

(v) Completion of 1095 dwellings by the end of month 36,

of the construction programme;

(q) 100% of the limit on the Building Contractor's liability to ProjectCo for liquidated damages under the Building Contract is reached unless the parties have agreed to increase or refresh each such limit;

(r) the guarantors fail to satisfy the net worth test and no suitable substitute security has been provided by the Building Contractor;

(s) the credit rating of the surety providing the performance bond or the bank providing the letter of credit falls below the credit rating thresholds and no suitable substitute bond or letter of credit is provided.

(t) failure by the Building Contractor to comply with a written notice or instruction which materially affects the Works;

(u) a breach of the key provisions of the Building Contractor Direct Agreement;

4.11.2 The termination triggers have been drafted with sufficient headroom to permit earlier termination by ProjectCo, and step in by the Issuer where practicable.

4.11.3 If the Project Agreement is terminated for whatever reason, the Building Contract will terminate automatically.

4.11.4 The Building Contractor's rights of termination arise where ProjectCo suffers an insolvency event, where ProjectCo breaches its obligations which substantially frustrates or renders it impossible for the Building Contractor to perform its obligations for a continuous period of 3 months, and upon a failure by ProjectCo to pay amounts owing greater than £500,000 (indexed) for two months and following notification by the Building Contractor provided that any such event was not caused by another Subcontractor or party for which a Subcontractor is responsible.

4.11.5 Any right of the Building Contractor to terminate is subject to any Direct Agreement with the Issuer and the Collateral Warranty in favour of the Authority.

4.11.6 ProjectCo also has the right to terminate the Building Contract on grounds of the occurrence of a Force Majeure Event.

4.12 **Compensation on termination**

4.12.1 The Building Contractor's liability for costs on termination of the Building Contract are, where due to the Building Contractor's acts or omissions or defaults as referred to above, all of the costs and losses incurred by ProjectCo as a result of termination of the Building Contract. Such costs and losses are recoverable on an indemnity basis and include:

(a) The costs of rectification of the Works to the extent such work has not been performed in accordance with the Building Contract.

(b) the reasonable costs incurred by ProjectCo in connection with the re-tendering of the remaining obligations of the Building Contractor under the Building Contract and concluding the replacement subcontract;

(c) the replacement Contract Sum incurred by ProjectCo in procuring the performance of the Works under the replacement sub-contract, less the amount ProjectCo would have been obliged to pay the Building Contractor under the Building Contract in respect of the Works had the Building Contract not been terminated;

(d) all additional financing costs, monitoring costs, hedging costs and breakage costs incurred by ProjectCo in connection with the termination of the Building Contract;

(e) if the Project Agreement is terminated as a result of the Building Contractor's acts or omissions or defaults as referred to above:

(i) all amounts owing under the Project Finance Documents, including without limitation, accrued interest and hedging costs payable by ProjectCo as a result of such termination; and

(ii) a sum equal to such other losses and costs of ProjectCo arising out of the termination of the Project Agreement.

4.12.2 Such losses and costs are subject to the cap on the Building Contractor's liability (to the extent that such costs and losses do not fall within the specific exclusions to such cap).

4.12.3 Where the Building Contract is terminated for some reason other than the Building Contractor's acts or omissions or defaults as referred to above, then (subject to equivalent project relief where applicable) ProjectCo will pay the Building Contractor losses that have been or will be reasonably and properly incurred by the Building Contractor as a direct result of the termination.

4.13 **Caps on liability**

4.13.1 The Building Contract contains limits of liability on the part of the Building Contractor, although certain liabilities will be unlimited. The liability of the Building Contractor is limited under the Building Contract to 70% of the Contract Sum. Within this 70% there is a sub-cap of 10% of the Contract Sum which relates to liquidated damages only. Common Parts completion charges and Common Area completion charges are excluded from the cap and the sub-cap.

4.13.2 Certain liabilities are outside of the cap including:

(a) liability in relation to death or personal injury arising out of acts, omissions, negligent acts or defaults of the Building Contractor or any party for which the Building Contractor is responsible;

(b) liability caused or contributed to by wilful misconduct or wilful default, fraud or fraudulent misrepresentation (including any corrupt gift or bribe) by the Building Contractor or any party for which the Building Contractor is responsible or abandonment by the Building Contractor of the Works;

(c) any liability incurred as a consequence of the Building Contractor repudiating the Building Contract; and

(d) any liability incurred as a consequence of gross negligence by the Building Contractor.

5 RESPONSIVE REPAIRS AND CYCLICAL MAINTENANCE AND RENEWAL CONTRACT ("RRCMR CONTRACT")

The RRCMR Contract has been drafted on a flow down basis from the Project Agreement in relation to the Services (except tenancy management services which are delivered under the Housing Management Agreement). Hence this summary only covers some of the key terms of the RRCMR Contract that may be relevant to better understanding the flow down.

The RRCMR Contract will be entered into by ProjectCo and the RRCMR Contractor. The RRCMR Contract will expire on the 17 September 2043, subject to termination rights under the RRCMR Contract.

5.1 Performance of the Services

5.1.1 The RRCMR Contractor is required to perform all cyclical maintenance repair and replacement comprised within the Services in accordance with the output specification and method statements set out in the RRCMR Contract (the '**RRCMR Services**"). The performance and delivery of the RRCMR Services is to be measured against the key performance indicators set out in the RRCMR Contract. If the RRCMR Contractor fails to provide the RRCMR Services in accordance with the key performance indicators and the output specification, then ProjectCo shall be entitled to make deductions from the Service Payment payable to the RRCMR Contractor.

5.1.2 The RRCMR Contractor will, in accordance with the Interface Agreement, liaise with the Building Contractor and the Housing Management Contractor when undertaking the RRCMR Services.

5.2 Equivalent project relief

5.2.1 The RRCMR Contract contains a provision such that where the RRCMR Contractor claims a payment, relief or other entitlement under the RRCMR Contract and ProjectCo has a right under the Project Agreement to claim a corresponding payment, relief or other entitlement, ProjectCo is only liable to make any payment or grant any relief or other entitlement to the RRCMR Contractor to the extent that ProjectCo's right to payment, relief or other entitlement has arisen under the Project Agreement and ProjectCo has become entitled to receive such payment, relief or other entitlement.

5.2.2 The RRCMR Contractor has the usual prescribed rights (with relevant obligations) to pursue certain rights of ProjectCo under the Project Agreement in order to give effect to the equivalent project relief provisions.

5.3 **Service payments and lifecycle payments**

5.3.1 A monthly service payment is paid to the RRCMR Contractor in consideration for the performance of the Services (the "**Service Payment**"). In general terms, this is a fixed amount per month and is paid monthly in arrears.

5.3.2 The precise amount of the Service Payment due each month is calculated by reference to a payment mechanism (the "**Payment Mechanism**"). This will (to the extent necessary) comply with the relevant requirements of the Housing Grants Construction and Regeneration Act 1996.

5.3.3 The whole of the Service Payment is subject to annual indexation at RPI_x until May 2017 and RPI_x+1% thereafter. It is capable of adjustment in light of the exercise of rights to buy, the implementation of changes and other relevant events, all in a manner that is consistent with the approach adopted in the Project Agreement. Refer to paragraph 2.4 of the summary of the Project Agreement regarding the approach to changes.

5.3.4 The RRCMR Contractor is also entitled to be paid a monthly amount (the "**Lifecycle Payment**") in respect of the lifecycle works and activities ("**Lifecycle Activities**") (if any) that it undertakes as part of the Services in any contract month.

5.3.5 The RRCMR Contract contains mechanisms that restrict the amount of Lifecycle Payments to be paid to the RRCMR Contractor, including so as to ensure that:

(a) the ongoing and total cumulative Lifecycle Payment never exceeds the amount that has been agreed at financial close as being allocated for Lifecycle Activities at the time in question ("**Lifecycle Fund**"), save as subsequently varied with Issuer and ProjectCo consent; and

(b) payments of the Lifecycle Payment are only made as against Lifecycle Activities actually undertaken.

5.3.6 Lifecycle Activities to be undertaken are as per the approved schedule of such activities and are subject to the approval processes contained in the Project Agreement.

5.3.7 The RRCMR Contractor bears the risk of the Lifecycle Fund being insufficient and is not be given any relief from its obligations as a result of such inadequacies. In consideration for this risk, the RRCMR Contractor is entitled to any remaining balance in the Lifecycle Fund as at the Expiry Date and to the release of a proportion of any surpluses at certain specified intervals.

5.4 **Deductions from payments**

5.4.1 Where any unavailability deductions or performance deductions are awarded or made pursuant to the Project Agreement it is passed down to either the Housing Management Contractor or the RRCMR Contractor in its entirety in accordance with a pre-agreed allocation of such deductions or service failure / performance points.

5.4.2 In respect of unavailability deductions and/or performance deductions that are pre-allocated to the RRCMR Contractor, ProjectCo will deduct from the monthly Service

Payment and the Lifecycle Payment (together the **"Total Service Payment"**), the same amount that is deducted from the unitary charge pursuant to the Project Agreement. If the amount of the deduction exceeds the Total Service Payment for that contract month, the RRCMR Contractor shall pay the excess to ProjectCo on the date upon which the payment of the Service Payment for that contract month would otherwise have been made.

5.4.3 ProjectCo shall be entitled to levy deductions as described above, even where the Housing Management Contractor or the Building Contractor (as opposed to the RRCMR Contractor) is responsible for such deductions. The RRCMR Contractor's recourse in such circumstances is a claim against the Housing Management Contractor or the Building Contractor under the Interface Agreement.

5.5 **Defects and asbestos**

5.5.1 A detailed regime has been agreed between the Subcontractors in the Interface Agreement for dealing with defects in the Works. The RRCMR Contractor has some defects risk while the Works are being performed and has entire responsibility for defects once the Building Contractor's limitation period, which is 12 years from the completion of the relevant Works, has expired.

5.5.2 The RRCMR Contractor is liable for asbestos from the end of the limitation period under the Building Contract, being the date that is 12 years from completion of the relevant Works.

5.6 **Service commencement and commissioning**

5.6.1 The RRCMR Contractor will be responsible for the fulfilment of certain specified service availability criteria that relate to the Services (as opposed to the Works).

5.6.2 The RRCMR Contractor is responsible for procuring from the Building Contractor such access and rights of occupation that the RRCMR Contractor requires for commissioning, training and familiarization.

5.7 **Direct agreements and collateral warranties**

A Direct Agreement and Collateral Warranty will be entered into with the Issuer and the Authority respectively. Such Direct Agreement and Collateral Warranty is executed and delivered on Financial Close in a form acceptable to the Issuer and the Authority (respectively).

5.8 **Parallel loan agreement**

The RRCMR Contractor is required to enter into a Parallel Loan Agreement with the loan provider being the parent organisation of the RRCMR Contractor to the effect that if the RRCMR Contractor becomes entitled to payment which is equivalent project relief before ProjectCo has received payment from the Authority, the loan provider will in effect discharge ProjectCo's liability to make that payment to the RRCMR Contractor .

5.9 **Force majeure, relief events and compensation events**

5.9.1 The RRCMR Contract includes a pass down of those provisions in the Project Agreement in relation to Force Majeure, Relief Events and Compensation Events, save that the RRCMR Contractor is not entitled to terminate the RRCMR Contract on the grounds of Force Majeure.

5.9.2 The RRCMR Contractor is not entitled to any greater relief, entitlement or compensation than that to which ProjectCo is entitled under the Project Agreement.

5.9.3 The RRCMR Contractor is also entitled to compensation in the event that ProjectCo is in breach of its obligations under the RRCMR Contract and such breach/obligation is unrelated to a breach/obligation under the Project Agreement and is occasioned directly by ProjectCo (and not as a result of acts or omissions of others).

5.10 **Termination**

5.10.1 ProjectCo's rights of termination arise upon specified defaults including the following:

(a) in respect of an RRCMR Contractor persistent breach, a Final Warning Notice is issued (following a breach that has continued for more than fourteen (14) days or occurred more than three (3) times in any six (6) month period) and the persistent breach continues for 10 days after issue of that notice or recurs in 1 or more months within the 6 month period following the date of service of the Final Warning Notice;

(b) material breach by the RRCMR Contractor;

(c) abandonment by the RRCMR Contractor;

(d) the occurrence of the usual insolvency events in relation to the RRCMR Contractor;

(e) a breach by the RRCMR Contractor of the restrictions on its rights to assign, subcontract or sub-let its rights or obligations under the RRCMR Contract without the consent of ProjectCo;

(f) a breach by the RRCMR Contractor of its obligations to take out and maintain any required insurances;

(g) an incident occurs which results in serious personal injury to or death of any Authority related party, ProjectCo related party or tenant or leaseholder which may have been caused by a negligent act or omission of the RRCMR Contractor or any RRCMR Contractor related party in the performance of the RRCMR Services (a "**Public Safety Incident**");

(h) the occurrence of a corrupt gift or bribe by the RRCMR Contractor or anyone employed by or acting on behalf of it (a 'Prohibited Act');

(i) failure to pay an amount exceeding £25,000 due to ProjectCo within 10 business days of the date of a written demand from ProjectCo where the final date for payment fell due and payable at least twenty (20) business days prior to the date of such demand;

(j) any act, omission, neglect or default on the part of the RRCMR Contractor or any RRCMR Contractor Related Party that causes or materially contributes to an "Event of Default" under the Credit Agreement;

(k) 100% of the limit on the RRCMR Contractor's liability to ProjectCo under the RRCMR Contract is reached unless the parties have agreed to increase or refresh such limit;

(l) one or more of the warranties provided by the RRCMR Contractor prove to be materially untrue and the effect of which would have a material adverse effect on ProjectCo;

(m) in any three (3) month period the Authority has been entitled to reduce the amount of the unitary charge by more than ten per cent. (10%) through unavailability deductions or in any two (2) month period the Authority has been entitled to reduce the amount of the unitary charge by more than fifteen percent (15%) through unavailability deductions;

(n) in each and every month of any five (5) month period the Authority has been entitled to reduce the amount of the unitary charge by more than five and a half per cent. (5.5%) through Performance Deductions and such entitlement includes an entitlement to reduce the amount of the unitary charge by more than one and a half per cent. (1.5%) through performance deductions under the RRCMR Contract;

(o) ProjectCo's rights against the RRCMR Contractor's parent company guarantor cease to be in full force and effect;

(p) termination of the Project Agreement or the Credit Agreement arising out of any act, omission, breach or default by the RRCMR Contractor or a related party;

(q) a material breach of the RRCMR Contractor's obligations resulting in criminal investigation, prosecution and conviction under health and safety legislation;

(r) breach of the key provisions of the RRCMR Direct Agreement or any obligation to novate the RRCMR Contract.

5.10.2 If the Project Agreement is terminated for whatever reason, the RRCMR Contract terminates automatically.

5.10.3 The RRCMR Contractor's rights of termination arises where ProjectCo suffers an insolvency event; where ProjectCo materially breaches its obligations which substantially frustrates or renders it impossible for the RRCMR Contractor to perform its obligations for a continuous period of three months; and upon a failure by ProjectCo to pay amounts owing greater than £150,000 (indexed at RPI_x+ 1%) within 20 business days of demand where such amount fell due two or more months prior to the date of such demand.

5.10.4 Any right to terminate shall be subject to any Direct Agreement with the Issuer and the Collateral Warranty in favour of the Authority.

5.10.5 ProjectCo also has the right to terminate the RRCMR Contract on grounds of convenience, Force Majeure and Uninsurable risks.

5.10.6 ProjectCo is entitled to terminate the RRCMR Contract if a judicial review challenge is commenced and it considers that it is necessary to seek a Section 27 consent for a sub-agreement to replace the RRCMR Contract.

5.11 **Compensation on termination**

5.11.1 The RRCMR Contractor's liability for costs on termination of the RRCMR Contract is, where due to the RRCMR Contractor's acts or omissions or defaults as referred to above, all of the costs and losses incurred by ProjectCo as a result of termination of the RRCMR Contract. Such costs and losses shall include:

(a) any amounts incurred by ProjectCo in connection with the re-tendering of the remaining obligations of the RRCMR Contractor under the RRCMR Contract;

(b) loss of profit (by reference to the Base Case); and

(c) if the Project Agreement is terminated as a result of the RRCMR Contractor's acts or omissions or defaults as referred to above:

(i) all amounts owing under the Project Finance Documents, including without limitation, accrued interest and hedging costs payable by ProjectCo as a result of such termination; and

(ii) a sum equal to such other losses and costs of ProjectCo arising out of the termination of the Project Agreement.

5.11.2 Such losses and costs are subject to the cap on the RRCMR Contractor liability on termination (to the extent that such costs and losses do not fall within the specific exclusions to such cap).

5.11.3 Where the RRCMR Contract is terminated for some reason other than the RRCMR Contractor's acts or omissions or defaults as referred to above, then (subject to Equivalent Project Relief where applicable) ProjectCo shall pay the RRCMR Contractor its reasonable Subcontractor Breakage Costs.

5.11.4 Where the RRCMR Contract is terminated as set out in paragraph 5.10.5 above, ProjectCo is only obliged to pay the RRCMR Contractor any amounts due but unpaid for Services performed prior to termination.

5.12 **Caps on liability**

5.12.1 The RRCMR Contract will contain limits of liability on the part of the RRCMR Contractor, although certain liabilities are unlimited. The extent and quantum of these limits is as follows:

(a) in any year of the contract, 100% of the Total Service Payment (Service Payment);

(b) on termination, up to an additional 200% of the Total Service Payment for the contract year in which termination occurs plus the lower of £5m (indexed at RPI_x+1%) and the amount of any shortfall in the Lifecycle Fund which is required to meet expenditure for Lifecycle Activities, required under the RRCMR Contract.

5.12.2 The following are examples of liabilities that are outside of the above caps:

(a) liability arising out of any fraud, fraudulent misrepresentation, repudiatory breach, abandonment, wilful misconduct or wilful default of the RRCMR Contractor or any related party;

(b) liability which the RRCMR Contractor recovers under any insurance policy, or would have done but for any act or omission of the RRCMR Contractor or any related party and any deductibles or excesses relating to claims made by the RRCMR Contractor in relation to its acts/omissions;

(c) sums payable by the RRCMR Contractor as a result of termination for corrupt gifts or fraud;

(d) any liability pursuant to certain indemnities given by the RRCMR Contractor to ProjectCo;

(e) payment of interest on any sum to be paid by the RRCMR Contractor;

(f) any costs incurred by the RRCMR Contractor in respect of Lifecycle Works which were not programmed to be incurred in the relevant contract year but have been incurred by the RRCMR Contractor;

(g) any liability for which the RRCMR Contractor is responsible under the Tenant and Third Party Damage Protocol;

(h) liability in relation to death or personal injury;

(i) liability for certain contamination;

(j) liability for certain defects;

(k) liability for gross negligence;

(l) employment and pensions liability;

6 HOUSING MANAGEMENT AGREEMENT

The Housing Management Agreement has been drafted on a flow down basis of the Project Agreement in relation to the tenancy management services. Hence this summary only covers some of the key terms of the Housing Management Agreement that may be relevant to better understanding the flow down.

The Housing Management Agreement will be entered into by ProjectCo and the Housing Management Contractor. The Housing Management Agreement will expire on the 17 September 2043, subject to termination rights under the Housing Management Agreement.

6.1 Performance of the Services

6.1.1 The Housing Management Contractor is required to perform all housing and tenancy management within the Services in accordance with the output specification and method statements set out in the Housing Management Agreement (the 'Housing Management Services'). The performance and delivery of the Housing Management Services is to be measured against the key performance indicators set out in the Housing Management Agreement. If the Housing Management Contractor fails to provide the Housing Management Services in accordance with the key performance indicators and the output specification, then ProjectCo shall be entitled to make deductions from the Service Payment payable to the Housing Management Contractor.

6.1.2 The RRCMR Contractor will, in accordance with the Interface Agreement, liaise with the Building Contractor and the RRCMR Contractor when undertaking the Housing Management Services.

6.2 **Equivalent project relief**

6.2.1 An overriding clause is included in the Housing Management Agreement to ensure that, where the Housing Management Contractor claims a payment, relief or other entitlement under the Housing Management Agreement and ProjectCo has a right under the Project Agreement to claim a corresponding payment, relief or other entitlement, ProjectCo is only liable to make any payment or grant any relief or other entitlement to the Housing Management Contractor to the extent that ProjectCo's right to payment, relief or other entitlement has arisen under the Project Agreement and ProjectCo has become entitled to receive such payment, relief or other entitlement.

6.2.2 The Housing Management Contractor has the usual prescribed rights (with relevant obligations) to pursue certain rights of ProjectCo under the Project Agreement in order to give effect to the equivalent project relief provisions.

6.3 **Service payments**

6.3.1 A monthly service payment is paid to the Housing Management Contractor in consideration for the performance of the Services (the "**Service Payment**"). This is a fixed amount per month paid monthly in arrears and is indexed at RPI_x – 0.5% until May 2017 and RPI_x + 0.5% thereafter.

6.3.2 The precise amount of the Service Payment due each month is calculated by reference to a payment mechanism (the "**Payment Mechanism**").

6.3.3 The whole of the Service Payment is subjection to indexation at RPIx+0.5% applied on annual basis. It is capable of adjustment in light of the implementation of changes and other relevant events, all in a manner that is consistent with the Project Agreement. The process of changes is detailed in *Summary of Project Documents - Key Project Documents - Project Agreement - Changes to the Works or Services - section 2.4*.

6.4 **Deductions from payments**

6.4.1 Where any unavailability deduction or performance deduction is awarded or made pursuant to the Project Agreement it is passed down to either the RRCMR Contractor or the Housing Management Contractor in its entirety in accordance with a pre-agreed allocation of such deductions or service failure / performance points.

6.4.2 In the case of a deduction, this is affected by ProjectCo deducting from the aggregate amount of the monthly Service Payment, the same amount that is deducted from the unitary charge pursuant to the Project Agreement. If the amount of the deduction exceeds the Service Payment for that contract month, the Housing Management Contractor shall pay the excess to ProjectCo on the date upon which the payment of the Service Payment for that contract month would otherwise have been made.

6.4.3 ProjectCo shall be entitled to levy deductions as described above, even where the RRCMR Contractor or the Building Contractor (as opposed to the Housing Management Contractor) is responsible for such deductions. The Housing Management Contractor's recourse in such circumstances is a claim against the RRCMR Contractor or the Building Contractor under the Interface Agreement.

6.5 **Direct agreements and collateral warranties**

A Direct Agreement and Collateral Warranty will be entered into with the Issuer and the Authority respectively. Such Direct Agreement and Collateral Warranty is executed and delivered on the Closing Date in a form acceptable to the Issuer and the Authority (respectively).

6.6 **Force majeure, relief events and compensation events**

6.6.1 The Housing Management Agreement includes a pass down of those provisions in the Project Agreement in relation to force majeure, Relief Events and Compensation Events, save that the Housing Management Contractor is not entitled to terminate the Housing Management Agreement on the grounds of force majeure.

6.6.2 The Housing Management Contractor is not entitled to any greater relief, entitlement or compensation than that to which ProjectCo is entitled under the Project Agreement.

6.6.3 The Housing Management Contractor is also entitled to compensation in the event that ProjectCo is in breach of its obligations under the Housing Management Contract and such breach/obligation is unrelated to a breach/obligation under the Project Agreement and is occasioned directly by ProjectCo (and not as a result of acts or omissions of others).

6.7 **Termination**

6.7.1 The Housing Management Agreement will set out circumstances in which the parties may terminate the agreement.

6.7.2 ProjectCo's rights of termination arise upon the following:

(a) in respect of an Housing Management Contractor persistent breach, a Final Warning Notice is issued (following a breach that has continued for more than fourteen (14) days or occurred more than three (3) times in any six (6) month period) and the persistent breach continues for 10 days after issue of that notice or recurs in 1 or more months within the 6 month period following the date of service of the Final Warning Notice;

(b) material breach by the Housing Management Contractor;

(c) abandonment by the Housing Management Contractor;

(d) the occurrence of the usual insolvency events in relation to the Housing Management Contractor;

(e) a breach by the Housing Management Contractor of the restrictions on its rights to assign, subcontract or sub-let its rights or obligations under the Housing Management Contract without the consent of ProjectCo;

(f) a breach by the Housing Management Contractor of its obligations to take out and maintain any required insurances;

(g) an incident occurs which results in serious personal injury to or death of any Authority related party, ProjectCo related party or tenant or leaseholder which may have been caused by a negligent act or omission of the Housing Management Contractor or any related party in the performance of the Services (a 'Public Safety Incident');

(h) the occurrence of a corrupt gift or bribe by the Housing Management Contractor or anyone employed by or acting on behalf of it (a 'Prohibited Act');

(i) failure to pay an amount exceeding £25,000 due to ProjectCo within 10 business days of the date of a written demand from ProjectCo where the final date for payment fell due and payable at least 20 business days prior to such demand;

(j) any act, omission, neglect or default on the part of the Housing Management Contractor or any related party that causes or materially contributes to an "Event of Default" under the Credit Agreement;

(k) 100% of the limit on the Housing Management Contractor's liability to ProjectCo under the Housing Management Agreement is reached unless the parties have agreed to increase or refresh such limit;

(l) one or more of the warranties provided by the Housing Management Contractor prove to be materially untrue and the effect of which would have a material adverse effect on ProjectCo;

(m) in each and every month of any five (5) month period the Authority has been entitled to reduce the amount of the unitary charge by more than five and a half per cent. (5.5%) through Performance Deductions and such entitlement includes an entitlement to reduce the amount of the unitary charge by more than three and a half per cent. (3.5%) through performance deductions allocated under the Housing Management Agreement;

(n) ProjectCo's rights against the Housing Management Contractor's parent company guarantor cease to be in full force and effect;

(o) termination of the Project Agreement or the Credit Agreement arising out of any act, omission, breach or default by the Housing Management Contractor or a related party;

(p) a material breach of the Housing Management Contractor's obligations resulting in criminal investigation, prosecution and conviction under health and safety legislation;

(q) breach of the key provisions of the Housing Direct Agreement or any obligation to novate the Housing Management Agreement.

6.7.3 If the Project Agreement is terminated for whatever reason, the Housing Management Agreement terminates automatically.

6.7.4 The Housing Management Contractor's rights of termination arises where ProjectCo suffers an insolvency event; where ProjectCo materially breaches its obligations which substantially frustrates or renders it impossible for the Housing Management Contractor to perform its obligations for a continuous period of three months; and upon a failure by ProjectCo to pay amounts owing greater than £100,000 (indexed) within 20 business days of demand where such amount fell due two or more months prior to the date of such demand.

6.7.5 Any right to terminate shall be subject to any Direct Agreement with the Issuer and the Collateral Warranty in favour of the Authority.

6.7.6 ProjectCo also has the right to terminate the Housing Management Agreement on grounds of convenience, Force Majeure Event and Uninsurable risks.

6.8 **Compensation on termination**

6.8.1 The Housing Management Contractor's liability for costs on termination of the Housing Management Agreement is, where due to the Housing Management Contractor's acts or omissions or defaults as referred to above, all of the costs and losses incurred by ProjectCo as a result of termination of the Housing Management Agreement. Such costs and losses shall include:

(a) any amounts incurred by ProjectCo in connection with the re-tendering of the remaining obligations of the Housing Management Contractor under the Housing Management Agreement;

(b) loss of profit (by reference to the Base Case); and

(c) if the Project Agreement is terminated as a result of the Housing Management Contractor's acts or omissions or defaults as referred to above:

(i) all amounts owing under the Project Finance Documents, including without limitation, accrued interest and hedging costs payable by ProjectCo as a result of such termination; and

(ii) a sum equal to such other losses and costs of ProjectCo arising out of the termination of the Project Agreement.

6.8.2 Such losses and costs are subject to the cap on the Housing Management Contractor liability on termination (to the extent that such costs and losses do not fall within the specific exclusions to such cap).

6.8.3 Where the Housing Management Agreement is terminated for some reason other than the Housing Management Contractor's acts or omissions or defaults as referred to above, then (subject to Equivalent Project Relief where applicable) ProjectCo shall pay the Housing Management Contractor its reasonable Subcontractor Breakage Costs.

6.9 **Caps on liability**

6.9.1 The Housing Management Agreement shall contain limits of liability on the part of the Housing Management Contractor, although certain liabilities are unlimited.

6.9.2 The extent and quantum of these limits are as follows:

(a) in any year of the contract, 100% of the Service Payment for that contract year;

(b) on termination, up to 200% of the Service Payment for the contract year in which termination occurs.

6.9.3 The following are examples of liabilities that are outside of the cap:

(a) liability arising out of any fraud, fraudulent misrepresentation, repudiatory breach, abandonment, wilful misconduct or wilful default of the Housing Management Contractor or any related party;

(b) liability which the Housing Management Contractor recovers under any insurance policy, or would have done but for any act or omission of the Housing Management Contractor or any related party and any deductibles or excesses relating to claims made by the Housing Management Contractor in relation to its acts/omissions;

(c) sums payable by the Housing Management Contractor as a result of termination for corrupt Gifts or fraud;

(d) liability pursuant to certain indemnities given by the Housing Management Contractor to ProjectCo;

(e) payment of interest on any sum to be paid by the Housing Management Contractor;

(f) any shortfall in the collection of the leasehold guarantee sum;

(g) any shortfall in the collection of amounts due from owner occupiers for certain works;

(h) liability in relation to death or personal injury;

(i) liability for gross negligence;

(j) employment and pensions liability;

7 INTERFACE AGREEMENT

The parties to the Interface Agreement are: ProjectCo, the Building Contractor, the RRCMR Contractor, the Housing Management Contractor, the Housing Management Guarantor, the two Construction Guarantors and the RRCMR Guarantor. The Interface Agreement will be entered on the same date the Project Agreement and other project documents will be entered into.

The Interface Agreement entitles ProjectCo to allocate any performance deductions or unavailability deductions in accordance with an agreed schedule contained in the Interface Agreement.

Especially given that two of the Sub-Contractors are delivering the Services while the other Sub-Contractor is delivering the Works, the Sub-Contractors need to work together effectively. The general need for effective communication and cooperation between in the parties has required detailed working protocols on changes, defects and allocation of deductions for poor performance, which are set out in the Interface Agreement.

The Interface Agreement grants each Sub-Contractor direct rights of recourse against another Sub-Contractor where it considers that any performance deduction or unavailability deductions allocated to it by ProjectCo have been caused by that other Sub-Contractor and it therefore wishes to reallocate the deductions between Sub-Contractors.

Furthermore if a Sub-Contractor is in breach of its obligations under the Interface Agreement, then the Sub-Contractor in breach is required to compensate the other Sub-Contractor for direct losses, costs, liabilities, expenses or damages.

These direct rights of recourse are required because under each Sub-Contract the Sub-Contractor waives certain rights against ProjectCo, and agrees to pursue any such claims under the Interface Agreement.

The Interface Agreement will enable the Sub-Contractors to claim directly against each other without having to require ProjectCo to take such action on their behalf through the operation of the Sub-Contracts. The Interface Agreement will also cap each Sub-Contractor's liability to the other Sub-Contractors incurred under the Interface Agreement.

8 FUNDERS DIRECT AGREEMENT

The Issuer, U.S. Bank Trustees Limited in its capacity as security trustee under the Security Trust and Intercreditor Deed (the "**ProjectCo Security Trustee**"), the Authority and ProjectCo will enter into a direct agreement on the Closing Date in favour of the Issuer ("**Funder Direct Agreement**") in connection with the Project.

The Funder Direct Agreement requires the Authority to give the Issuer notice of any right of termination it is entitled to exercise under the Project Agreement as a result of a default of ProjectCo. The Authority may not exercise its right to terminate the Project Agreement for a period of 120 days from the date it gives the Issuer notice of termination where a right of termination accrues prior to the issue of the final certificate of availability for a dwelling, retail until, Common Part or Common Area or a period of 90 days if a right of termination accrues after the issue of a certificate of availability for the final dwelling, retail unit, Common Part or Common Area in order to give the Issuer an opportunity to remedy ProjectCo's default.

The Issuer may remedy ProjectCo's default by electing to either:

(a) step-in to ProjectCo's obligations under the Project Agreement; or

(b) replace ProjectCo with a suitable substitute contractor who is approved by the Authority.

If the Issuer exercises its right to step-in, it will be responsible for the discharge of ProjectCo's obligations under the Project Agreement until such time as it steps out of ProjectCo's obligations under the Project Agreement. Upon step-out, the Issuer will be released from all obligations and liabilities to the Authority under the Project Documents.

If ProjectCo is replaced by a suitable substitute contractor, upon such replacement becoming effective, both ProjectCo and the Issuer will be released from any obligations under the Project Agreement. Any grounds subsisting for termination of the Project Agreement by the Authority shall be deemed to have no effect and any subsisting notice of termination shall be automatically revoked.

If, during the period in which the ProjectCo default is subsisting and the Issuer is entitled to exercise its step-in rights, the Authority and the Issuer agree that a liquid market for the replacement of ProjectCo does not exist, the Project Agreement will automatically terminate.

A liquid market is considered to exist if there are at least two parties, each of which is capable of performing the obligations of ProjectCo under the Project Agreement, in the market for PFI contracts or similar for the price that is likely to be achieved through a tender to be indicative of fair value that would be achieved in an arm's length transaction.

The Authority agrees that prior to the date on which ProjectCo repays in full all amounts owing to the Issuer under the Project Finance Documents, the Authority will not make a claim under any collateral warranty or associated contract, take any steps to wind up, dissolve, appoint and administrator or similar in relation to ProjectCo, ProjectCo Holdco or any subcontractor appointed in connection with providing the Works or Services or make any claims (unless the Issuer has given its prior consent) under the Project Documents that compete with the rights of the Issuer or the ProjectCo Security Trustee.

9 CONSTRUCTION DIRECT AGREEMENT

The Building Contractor, the Construction Guarantor, the Issuer, the ProjectCo Security Trustee and ProjectCo will enter into a direct agreement on the Closing Date (the "**Construction Direct Agreement**").

The Construction Direct Agreement requires the Building Contractor to give the ProjectCo Security Trustee and the Issuer notice if it intends to suspend or terminate the performance of its obligations should such rights arise under the Building Contract. The Building Contractor shall not be entitled to exercise its suspension or termination rights for a certain period in order to give the ProjectCo Security Trustee and/or the Issuer an opportunity to remedy the circumstances giving rise to the proposed suspension or termination.

During this initial period, or at any time after an event of default under the Credit Agreement has occurred, the ProjectCo Security Trustee or the Issuer may elect to step-in to ProjectCo's obligations under the Building Contract. Upon step-in, the ProjectCo Security Trustee or the Issuer will be jointly and severally responsible with ProjectCo for the discharge of ProjectCo's obligations under Building Contract and the Building Contractor shall not be entitled to terminate or suspend the Building Contract during the step-in period. Upon step-out, the ProjectCo Security Trustee or the Issuer will be released from any obligations and liabilities to the Building Contractor under the Building Contract.

During the initial period in which the Building Contractor is not entitled to exercise its suspension or termination rights, the step-in period or after an event of default under the Credit Agreement has occurred, the ProjectCo Security Trustee or the Issuer may replace ProjectCo with a substitute contractor.

There are certain circumstances in which the Building Contractor is not precluded from exercising its right of suspension or termination. These circumstances are limited to non-payment of amounts which were notified to the ProjectCo Security Trustee and the Issuer during the initial period or are owing to the Building Contractor and which remain unpaid for a specified period.

10 RRCMR DIRECT AGREEMENT

The RRCMR Contractor, the RRCMR Guarantor, the Issuer, the ProjectCo Security Trustee and ProjectCo will enter into a direct agreement on the Closing Date (the "**RRCMR Direct Agreement**").

The RRCMR Direct Agreement requires the RRCMR Contractor to give the ProjectCo Security Trustee and the Issuer notice if it intends to suspend or terminate the performance of its obligations should such rights arise under the RRCMR Contract. The RRCMR Contractor shall not be entitled to exercise its rights of suspension or termination for a certain period in order to give the ProjectCo Security Trustee and/or the Issuer an opportunity to remedy the circumstances giving rise to the proposed suspension or termination.

During this initial period or at any time after an event of default under the Credit Agreement has occurred, the ProjectCo Security Trustee or the Issuer may elect to step-in to ProjectCo's obligations under the RRCMR Contract. Upon step-in, the ProjectCo Security Trustee or the Issuer will be jointly and severally responsible with ProjectCo for the discharge of ProjectCo's obligations under the RRCMR Contract and the RRCMR Contractor shall not be entitled to terminate or suspend the RRCMR Contract during the step-in period. Upon step-out, the ProjectCo Security Trustee or the Issuer will be released from any obligations and liabilities to the RRCMR Contractor under the RRCMR Contract.

During the initial period in which the RRCMR Contractor is not entitled to exercise its suspension or termination rights, the step-in period or after an event of default under the Credit Agreement has occurred, the ProjectCo Security Trustee or the Issuer may replace ProjectCo with a substitute contractor.

There are certain circumstances in which the RRCMR Contractor is not precluded from exercising its right of suspension or termination. These circumstances are limited to non-payment of amounts which were notified to the ProjectCo Security Trustee and the Issuer during the initial period or are owing to the RRCMR Contractor and which remain unpaid for a specified period.

11 HOUSING MANAGEMENT DIRECT AGREEMENT

The Housing Management Contractor, the Housing Management Guarantor, the Issuer, the ProjectCo Security Trustee and ProjectCo will enter into a direct agreement on the Closing Date (the "**Housing Management Direct Agreement**").

The Housing Management Direct Agreement requires the Housing Management Contractor to give the ProjectCo Security Trustee and the Issuer a notice if it intends to suspend or terminate the performance of its obligations should such rights arise under the Housing Management Agreement. The Housing Management Contractor shall not be entitled to exercise its suspension or termination rights for a certain period in order to give the ProjectCo Security Trustee and/or the Issuer an opportunity to remedy the circumstances giving rise to the proposed suspension or termination.

During this initial period or at any time after an event of default under the Credit Agreement has occurred, the ProjectCo Security Trustee or the Issuer may elect to step-in to ProjectCo's obligations under the Housing Management Agreement. Upon step-in, the ProjectCo Security Trustee or the Issuer will be jointly and severally responsible with ProjectCo for the discharge of ProjectCo's obligations under the Housing Management Agreement and the Housing Management Contractor shall not be entitled to terminate or suspend the Housing Management Agreement during the step-in period. Upon step-out, the ProjectCo Security Trustee or the Issuer will be released from any obligations and liabilities to the Housing Management Contractor under the Housing Management Contract.

During the initial period in which the Housing Management Contractor is not entitled to exercise its suspension or termination rights, the step-in period or after an event of default under the Credit Agreement has occurred, the ProjectCo Security Trustee or the Issuer may replace ProjectCo with a substitute contractor.

There are certain circumstances in which the Housing Management Contractor is not precluded from exercising its right of suspension or termination. These circumstances are limited to non-payment of amounts which were notified to the ProjectCo Security Trustee and the Issuer during the initial period or are owing to the Housing Management Contractor and which remain unpaid for a specified period.

12 COLLATERAL WARRANTIES

Collateral Warranties from the Building Contractor, RRCMR Contractor and Housing Management Contractor in favour of Authority

The Building Contractor, RRCMR Contractor and Housing Management Contractor shall each provide a collateral warranty in favour of the Authority.

Under these collateral warranties, each warranting party undertakes to the Authority to perform its obligations under the Building Contract, RRCMR Contract and Housing Management Contract respectively to a level of skill and care that could reasonably be expected from an appropriately qualified and competent contractor in the position of the warranting party. This grants the Authority a direct right of recourse against the Building Contractor, RRCMR Contractor and Housing Management Contractor if their respective standards of performance prescribed under their the Building Contract, RRCMR Contract or Housing Management Contract are not met.

Collateral warranties from second-tier sub-contractors in favour of the Authority

The Building Contractor will obtain collateral warranties in favour of the Authority from each of the architects, structural engineers, mechanical and electrical engineers, mechanical and electrical engineer sub-contractor, external cladding design sub-contractor and lift supplier and installation designer it appoints to carry out and discharge certain of its obligations under the Building Contract.

Contractor to a level of skill and care that could be reasonably expected from an appropriately qualified and competent contractor in the position of the warranting party. This grants the Authority a right of recourse against the second-tier sub-contractors.

Collateral warranties from second-tier sub-contractors in favour of ProjectCo

The Building Contractor will also obtain collateral warranties in favour of ProjectCo from each of the architects, structural engineers, mechanical and electrical engineers, mechanical and electrical engineer sub-contractor, external cladding design sub-contractor and lift supplier and installation designer it appoints to carry out and discharge certain of its obligations under the Building Contract.

Under these warranties, the warranting party will undertake to ProjectCo to perform their obligations under each of their respective sub-contracts with the Building Contractor to a level of skill and care that could be reasonably expected from an appropriately qualified and competent contractor in the position of the warranting party. This grants ProjectCo a right of recourse against the second-tier sub-contractors.

The RRCMR Contractor and the Housing Management Contractor are also required to procure collateral warranties in favour of ProjectCo should they appoint any sub-contractors. No such subcontractors are contemplated at the commencement of the Project.

Collateral warranties from second-tier sub-contractors in favour of the Issuer

The Building Contractor will also obtain collateral warranties in favour of the Issuer from each of the architects, structural engineers, mechanical and electrical engineers, mechanical and electrical engineer sub-contractor, external cladding design sub-contractor, lift supplier and installation designer sub-contractor, it appoints to carry out and discharge certain of its obligations under the Building Contract.

Under these warranties, the warranting party will undertake to the Issuer to perform their obligations under each of their respective sub-contracts with the Building Contractor to a level of skill and care that could be reasonably expected from an appropriate qualified and competent contractor in the position of the warranting party. This grants the Issuer a right of recourse against the second-tier sub-contractor.

13 DEFINITIONS

The following terms shall, where used in the Project Documents, have the following meanings:

"**Excusing Events**" means certain events set out in the Project Agreement which result in ProjectCo receiving the unitary charge payment without deductions being levied.

"**Final Warning Notice**" means a final warning notice given in respect of Persistent Breach by the Contractor.

"**Planned Full Services Commencement Date**" means in relation to each Dwelling, Common Part, Retail Unit and Common Area the date shown as the Planned Full Services Commencement Date in column 3 of Schedule 18 (Start on Site Dates and Planned Full Services Commencement Dates) or such later date as may be allowed in accordance with this Agreement.

"**Services**" means reactive and cyclical repairs, void property management services, grounds and estates maintenance, caretaking and cleaning, tenancy and household management, sheltered accommodation, provision and maintenance of community rooms, shops management, lettings management, income and debt recovery from tenants, tenant and community involvement, and garage management services.

"**Tenant Damage**" means any damage wilfully, intentionally or negligently caused to a dwelling by a tenant of that dwelling, a member of his household or by a person invited into the dwelling but excluding any damage arising from fair wear and tear.

“**Third Party Damage Third Party Damage**” means any damage caused to a dwelling, retail unit or Common Area by a tenant or third party save to the extent such damage constitutes Tenant Damage.

"**Works**" means all of the works (including design and works necessary for obtaining access to the site or dwellings and as detailed in *Summary of Project Documents - Key Project Documents - The Project Agreement - section 2.2*

SUMMARY OF PROJECT FINANCE DOCUMENTS

*The following is a summary of certain provisions of the principal documents relating to the transaction described herein and is qualified in its entirety by reference to the detailed provisions of the Credit Agreement, any security arrangements of which the Notes will have the benefit, the ProjectCo Debenture, the HoldCo Debenture and the Security Trust and Intercreditor Deed (the "**Project Finance Documents**").*

1 CREDIT AGREEMENT

The following is an overview of certain of the provisions of the Credit Agreement. It is not exhaustive and is subject to the detailed provisions of the Credit Agreement.

The Obligors, the Issuer as lender (the "**Lender**") and the Security Trustee will on or before the Issue Date enter into a credit agreement (the "**Credit Agreement**") in which the Obligors will give certain representations and covenants to the Lender and the Security Trustee.

Under and subject to the terms of the Credit Agreement, the Lender will agree to make available to ProjectCo a loan, in an aggregate principal amount equal to £82,600,595.01 (the "**Loan**"), as described below.

1.1 Purpose

The Loan may only be used for:

(a) the payment of agreed capital expenditure, operating and financing costs, including the costs of any necessary or customary authorisations, payment of insurance premia, payment of professional fees, costs and expenses and payment of Ongoing Lender Costs, each together with any tax in respect thereof;

(b) funding the Construction Account, the Construction Reserve Account and the Equity Reserve Account (as further described below);

(c) meeting any Tax liability;

(d) funding any payment into the Maintenance Reserve Account, Debt Service Reserve Account and the Forward Cover Ratio Reserve Account (each as further described below) in accordance with the provisions of the Credit Agreement; and

(e) any other purpose approved by the Lender,

in each case (other than in relation to funding the Construction Account) to the extent set out in the Operating Budget (subject to any Permitted Budget Variance).

1.2 Utilisation

ProjectCo may only draw the Loan once the Lender has notified ProjectCo that all of the conditions precedent to the Credit Agreement have been satisfied, including relevant corporate authorisations, the execution of the Finance Documents and the Project Documents and evidence of satisfactory insurances being in place (each in form and substance satisfactory to the Lender) and/or that it has waived receipt of such conditions precedent.

1.3 **Interest**

1.3.1 The Loan will bear interest at 5.82375 per cent. per annum from (and including) the Utilisation Date to (but excluding) the date on which the Loan is repaid in full. Interest will be payable on each Payment Date in respect of the relative Interest Period. If the whole or any part of the Loan is repaid on any day during any Interest Period then the Borrower shall pay interest accrued (but unpaid) or payable as outlined in this paragraph 1.3.1 on the amount repaid on the same day.

1.3.2 For the purpose of calculating interest on the Loan, any principal amount of the Loan paid to the Lender shall be deemed to remain outstanding for two Business Days after the date on which it is received by the Lender (and shall accrue interest for two additional Business Days accordingly). Any such additional interest must be paid in advance to the Lender on the date such principal amount is paid.

1.3.3 If ProjectCo fails to pay any amount payable by it under the Credit Agreement, it must immediately on demand by the Lender or the relevant Finance Party pay interest on the overdue amount from its due date up to the date of actual payment, before, on and after judgment. Interest payable on any overdue amount is payable at 8.35 per cent. per annum.

1.4 **Fees**

An upfront arrangement fee is payable by the ProjectCo to the Lender pursuant to a fee letter entered into between the parties in relation to the Credit Agreement. The arrangement fee has been calculated to meet certain upfront costs of the Lender.

1.5 **Tax Gross-up**

1.5.1 If any deduction or withholding for or on account of Taxes from any payment made or to be made by ProjectCo to any Finance Party under the Credit Agreement is required by law, then ProjectCo will: (a) ensure that the deduction or withholding does not exceed the minimum amount legally required; (b) pay to the relevant authorities within the period for payment permitted by the applicable law such amount as is required to be paid in consequence of the deduction; (c) promptly pay to the relevant Finance Party (without such Finance Party having to make any demand therefor) an additional amount being the amount required to procure that the aggregate net amount received by the relevant Finance Party will equal the full amount which would have been received by it had no such deduction or withholding been made; and (d) indemnify each Finance Party on demand against any losses or costs incurred by it by reason of any failure on the part of ProjectCo to make any deduction or withholding, or any additional amount not being paid on the due date for payment thereof.

1.5.2 If any deduction or withholding for, or on account of, Taxes from any payments made or to be made by the Security Trustee to any Finance Party in connection with the Credit Agreement (in accordance with the Security Trust and Intercreditor Deed) is required by law, then ProjectCo will promptly pay to such Finance Party an additional amount being the amount required to procure that the aggregate net amount received by the relevant Finance Party will equal the full amount which would have been received by it had no such deduction or withholding or other deduction been made.

1.5.3 If ProjectCo makes a payment in accordance with paragraphs 1.5.1 or 1.5.2 above and the relevant Finance Party has received or been granted a credit against, relief, remission or repayment of, any tax paid or payable, or which would otherwise be paid or payable, which is identified by the relevant Finance Party as being attributable to that payment or the corresponding payment under the Credit Agreement, the relevant Finance Party must pay to ProjectCo such amount as the relevant Finance Party reasonably determines to be attributable to such payment.

1.6 **Repayment**

ProjectCo shall repay the Loan in instalments at six monthly intervals on the relevant dates specified in the Credit Agreement, which are set 2 Business Days before the Note Payment Dates. Any principal amount of the Loan outstanding on the Final Maturity Date must be repaid in full on the Final Maturity Date together with all accrued but unpaid interest and fees in respect of the Loan. No amounts of the Loan which are repaid may subsequently be re-borrowed.

1.7 **Prepayment**

1.7.1 Illegality

The Lender must notify ProjectCo promptly if it becomes aware that it is unlawful for the Lender to perform any of its obligations under a Finance Document or to fund or maintain the Loan. If ProjectCo receives any such notification then it must repay or prepay the Loan at par together with accrued interest on the later of (i) such date the Lender may notify ProjectCo and (ii) the tenth Business Day prior to the last day of any applicable grace period allowed by law. If the Loan has not yet been advanced, the Lender's obligation to advance the Loan shall be cancelled.

1.7.2 Mandatory Repayment

If any of the following events occur:

(a) either the Authority or ProjectCo serves a notice to terminate the Project Agreement and either (i) the Authority is not entitled to serve a notice electing to pay compensation amounts in instalments in accordance with Clause 49.2 (*Instalments*) of the Project Agreement, (ii) the Authority does not serve such a notice on or before the last day on which it is entitled to do so in accordance with the terms of the Project Agreement, or (iii) the Authority elects not to pay compensation amounts in instalments; or

(b) following a termination of the Project Agreement and the service of a notice by the Authority electing to pay compensation amounts in instalments in accordance with Clause 49.2 (*Instalments*) of the Project Agreement, either (i) the Authority serves a notice under Clause 49.4 (*Payment of the Outstanding Element*) of the Project Agreement electing to pay all compensation amounts in full on any instalment date or (ii) ProjectCo serves a notice under Clause 49.5 (*Authority Default in Payment*) of the Project Agreement requiring any unpaid and outstanding element of compensation amounts to be paid immediately,

ProjectCo must pay the Make-Whole Payment specified in paragraph 1.7.4 below (together with accrued interest on the Loan to the date of payment) no later than the earlier of (a) the date falling three Business Days after the date on which the Authority is required to pay compensation under the Project Agreement and (b) the day on which the Authority actually pays such compensation.

1.7.3 Voluntary Prepayment

ProjectCo may elect to prepay the Loan in whole (but not in part) on any Payment Date by giving not less than 30 days' notice to the Lender. Any such notice shall be irrevocable once given and shall oblige ProjectCo to pay the Make-Whole Payment specified in paragraph 1.7.4 below (together with accrued interest on the Loan to the date of payment) on the Payment Date specified in the notice.

1.7.4 Make-Whole Payment

(a) Payment of the "**Make-Whole Payment**" shall constitute repayment of the principal amount of the Loan and (in relation to any amount in excess of the principal amount of the Loan) a premium and, therefore on the payment of the Make-Whole Payment, the principle amount of the Loan shall be zero.

(b) Subject to the provisions outlined in paragraph (d) below:

(i) in circumstances in which the Notes are subject to mandatory early redemption under Condition 5(c)(i) thereof, the aggregate "Modified Bond Make-Whole Amount" in respect of all the Notes calculated in connection with such redemption in accordance with the conditions of the Notes;

(ii) in circumstances in which the Notes are subject to mandatory early redemption under Condition 5(c)(ii) thereof the aggregate "Bond Make-Whole Amount" in respect of all the Notes calculated in connection with such redemption in accordance with the conditions of the Notes;

(iii) in circumstances in which the Notes are subject to mandatory early redemption under Condition 5(c)(iv) thereof (by reason of the termination of the Project Agreement on Contractor Default) the aggregate "Bond Make-Whole Amount" in respect of all of the Notes calculated in connection with such redemption in accordance with the conditions of the Notes;

(iv) in circumstances in which the Notes are subject to mandatory early redemption under Condition 5(c)(vi)(C) thereof either:

(A) if the original termination of the Project Agreement was pursuant to clause 37.1 (Voluntary Termination by the Authority) or clause 78.3 (Failure to issue a Certificate) of the Project Agreement the aggregate "Modified Bond Make-Whole Amount" calculated in connection with such redemption in accordance with the terms of the Notes;

(B) if termination of the Project Agreement followed a Contractor Default, the aggregate "Bond Make-Whole Amount" in respect of all of the Notes calculated in connection with such redemption in accordance with the conditions of the Notes;

(C) otherwise, the aggregate Principal Amount Outstanding of the Notes (as defined in the conditions of the Notes);

(v) in circumstances in which the Notes are subject to mandatory early redemption under Condition 5(c)(v), the aggregate Principal Amount Outstanding of the Notes.

(c) Subject to the provisions outlined in this paragraph 1.7.4 in relation to a voluntary prepayment outlined in paragraph 1.7.3 above, the Make-Whole Payment shall be an amount equal to the aggregate "Bond Make-Whole Amount" payable (or which will be payable) in respect of the early redemption of the Notes (calculated in accordance with condition 5(e) of the Notes).

(d) The Make-Whole Payment shall be calculated by the Lender and the components of the calculation shall be provided to the Company. In the absence of manifest error, any determination by the Lender of the Make-Whole Payment (or any aspect of the calculation of the Make-Whole Payment) shall be final and binding upon all parties. In no circumstance will the Make-Whole Payment be less than the principal amount outstanding of the Loan.

1.7.5 Instalment Premium

If in conjunction with a termination of the Project Agreement, the Authority serves a notice electing to pay compensation amounts in instalments in accordance with Clause 49.2 (Instalments) of the Project Agreement and the Authority subsequently makes any payment under Clause 49.2(b)(i)(B) of the Project Agreement, ProjectCo shall within three Business Days pay to the Lender (in addition to any other amount the Lender is entitled to under the Credit Agreement) an amount equal to such payment.

1.7.6 Miscellaneous

(a) Any notice of prepayment and/or cancellation under the Credit Agreement is irrevocable and must specify the relevant date(s).

(b) All prepayments under the Credit Agreement must be made with accrued interest on the amount prepaid. No premium is payable in respect of any prepayment except for any Make-Whole Payment or any payment as described in paragraph 1.12.3 below.

(c) The Lender may agree a shorter notice period for a voluntary prepayment or a voluntary cancellation.

(d) No prepayment or cancellation is allowed except in accordance with the express terms of the Credit Agreement.

1.8 **Representations**

1.8.1 As at the date of the Credit Agreement, each of ProjectCo and the ProjectCo HoldCo (as applicable) make the representations contained in the Credit Agreement to the Lender in relation to: status; powers and authority; legal validity; non-conflict; no default; authorisations; financial statements; calculations and forecasting; budgets and projections; insolvency; litigation; environmental law; ownership of assets; no other business; the Project Documents; ownership; corrupt gifts/procurement; taxes; security documents; pari passu ranking; stamp and registration duties; intellectual property rights; information; the technical adviser's report; insurance and legal opinions.

1.8.2 On each Payment Date and each date when sums are released from the Construction Account (as further described below)in respect of construction costs, certain representations made by ProjectCo or ProjectCo HoldCo in relation to status; powers and authority; legal validity; non-conflict; no default; authorisations;

financial statements; calculations and forecasting; budgets and projections; insolvency; environmental law; ownership of assets; no other business; ownership; corrupt gifts/procurement; security documents; pari passu ranking; intellectual property rights; information; insurance; and legal opinions are deemed to be repeated.

1.9 **Covenants**

The covenants contained in the Credit Agreement will, *inter alia*, require the Obligors:

1.9.1 Information covenants:

(a) to supply to the Lender the audited financial statements of each Obligor, each Sponsor and each other Major Project Party, the semi-annual management accounts of ProjectCo, the quarterly management accounts of the Construction Guarantor and the semi-annual management accounts for each of the RRCMR Guarantor, the Housing Management Guarantor and the Housing Management Contractor. Each set of financial statements supplied must comply with the requirements (if any) specified in the Credit Agreement;

(b) to supply to the Lender monthly progress reports in relation to the construction of the Project (in the required form). In addition, ProjectCo must supply such clarification and further information as the Lender may reasonably require in connection with any such report as soon as reasonably practicable and in any event within three Business Days of request or, if later, eight Business Days after the end of the relevant period;

(c) to notify the Lender of breaches of safety or security in relation to the Project, any claim it may have under certain provisions of the Building Contract, any change of work it wishes to request under the Building Contract, any actual or proposed change in the work programme under the Building contract, a copy of material information, communication or documentation received from the Authority or Building Contractor in relation to the Project and confirm satisfaction of pre-commencement conditions to any planning consent;

(d) to provide certain information in respect of insurance maintained in relation to the Project to the insurance adviser and the Lender, including: any event which is likely to entitle the Authority to terminate or suspend any of ProjectCo's rights under the Project Agreement; any actual, proposed or threatened deduction in excess of £30,000 from, or any suspension of, payments to be made by the Authority; any actual, proposed or threatened refusal by the Independent Certifier to issue a completion or similar certificate relating to progress of the Works; any warning notice or notice of default or termination given by the Authority under the Project Agreement; any actual, proposed or threatened exercise or purported exercise by the Authority of any step-in rights; the satisfaction of any conditions to commencement or takeover of the Works; the issue of any certificate necessary for the Project; any actual or proposed change to the specification or scope of the Project or the Services or to ProjectCo's core construction or operating requirements requested or required by the Authority; any request for and all information relating to any benchmarking or market testing of services under the Project Agreement; the payment of any compensation; any warning notices issued by the Authority; any actions or claims (including but not limited to insurance claims) against ProjectCo or the Authority in relation to the Project Agreement of £35,000 or more; the occurrence of any Compensation Event and/or any Relief Event (each as defined in the Project Agreement); the occurrence of any dispute to be resolved in accordance with clause 60 of the Project Agreement; any other circumstances becoming known to it which have led or which are reasonably likely to lead to any Project Document not being in full force and effect; any circumstances becoming known to it which have led or are likely to lead to any obligation of any party under the Project Documents being suspended or incapable of fulfilment; or any emergency;

(e) to supply to the Lender a six-monthly investor report, a draft Operating Budget for each financial year and a copy of any material information, documentation or communication provided to or by the RRCMR Contractor, the Housing Management Contractor or the Authority in relation to the Project, together with such clarification and further information as the Lender may reasonably require in connection with such report as soon as reasonably practicable and in any event within three Business Days of request or, if later, eight Business Days after the end of the relevant period;

(f) to promptly notify the Lender in relation to specified events occurring under or in relation to the Project Agreement;

(g) supply to the Lender further information specified in the Credit Agreement, including in relation to any event which may interrupt the Project, details of any litigation, arbitration or administrative proceedings current, pending or threatened against any Obligor, further information regarding any Principal Project Party as any Finance Party may request, details of any event which may have a Material Adverse Effect, details of claims against the Project insurances or changes to such insurances, details of damage to or destruction of Project assets, copies of any notice of default or termination of a Project Document, details of any proposal for amendment or waiver of, or of any dispute under, any Project Document, details of anticipated or actual expenditure likely to result in the budget for any financial year being exceeded beyond permitted levels, (upon request by the Lender) copies of any Transaction Authorisation and amendments thereto, details of material or latent defects contained in the Works, details of any default by a Major Project Party under any Project Document, details of action by any trespasser or protestor in respect of the Project likely to have a Material Adverse Effect, following termination of the Project Agreement, written details of all Accrued Rights (as such term is defined in the Authority Direct Agreement) of which it is aware that it may claim against the Building Contractor, the RRCMR Contractor, the Housing Management Contractor or the Project Contract Guarantors, together with an indicative non-binding assessment of the value of such rights, (upon request by the Lender) details of any information provided to it by (i) the Building Contractor pursuant to the Building Contract, (ii) the RRCMR Contractor pursuant to the RRCMR Agreement and (iii) the Housing Management Contractor pursuant to the Housing Management Agreement, copies of surveys carried out pursuant to the RRCMR Agreement, details of any change of law which would materially and adversely affect ProjectCo's ability to perform its obligations under the Transaction Documents, details of any proposal or threat to suspend or delay the construction or operation of any Property or any part of the Project which is reasonably likely to have a Material Adverse Effect or to abandon the Project in whole or in part, details of any Class A Notes and Class B Notes held by ProjectCo, the

Sponsors, the Building Contractor, RRCMR Contractor or Housing Management Contractor or any of their Affiliates or by any other person for the benefit of ProjectCo, the Sponsors, the Building Contractor, RRCMR Contractor or Housing Management Contractor or any of their Affiliates and if required by the Lender at any time ProjectCo will provide the Lender with a certificate setting out such details, with access to any on-line reporting system relevant to the Project to which the Authority also has access, details of any dispute referred by any person to the dispute resolution procedure under the Project Agreement, any information required by the Lender in relation to ProjectCo, ProjectCo HoldCo, the Sponsors, the Project or the Project Documents for the purpose of maintaining the listing of the Class A Notes and the Class B Notes or in relation to ongoing disclosure requirements, and such other information relating to the operation, maintenance and/or management of the Properties as the Lender may from time to time reasonably require;

(h) to provide to the Lender and the technical adviser not less than five Business Days' notice of dates on which ProjectCo proposes to inspect the Works and a copy of any proposed programme to rectify a Building Contractor Default (as defined in the Building Contract) an RRCMR Contractor Default (as defined in the RRCMR Agreement) and a Housing Management Contractor Default (as defined in the Housing Management Agreement);

(i) to notify the Lender and the Security Trustee of any default or Trigger Event and the steps being taken, if any, to remedy it;

(j) on each Payment Date and on each date it delivers a Withdrawal Request, to deliver to the Lender and the technical adviser a certificate detailing any funding shortfall and the steps being taken, if any, to remedy it;

(k) in relation to ProjectCo, not to change its financial year end (without the consent of the Lender), or to change its auditors, unless the change is to a pre-approved auditor in accordance with the Credit Agreement;

(l) to supply, or procure the supply of, any additional "know your customer" information as may be required by the Lender;

(m) to notify the Lender of any deduction or withholding on account of any Tax imposed on any payment to or from any Obligor under any Transaction Document;

(n) allow the Lender to call meetings with the finance manager of ProjectCo twice in each financial year to discuss financial information delivered under the Credit Agreement;

(o) to allow the Lender to call for meetings at which the senior management of ProjectCo will give a presentation for the benefit of the holders and potential holders of the Class A Notes and/or the Class B Notes and discuss the financial information delivered under the Credit Agreement.

1.9.2 General covenants

(a) to obtain and maintain in full force and effect and comply with the terms of any Transaction Authorisations;

(b) to comply in all material respects with all laws to which it is subject and all regulations applicable to it;

(c) to ensure that its payment obligations under the Finance Documents rank at least pari passu with all its other present and future unsecured payment obligations, except for obligations mandatorily preferred by law applying to companies generally;

(d) not to create or allow to exist any mortgage, pledge, lien, charge assignment hypothecation or security interest or any other agreement or arrangement having a similar effect on any of its assets other than permitted encumbrances;

(e) not to dispose of all or any part of its assets other than as contemplated and permitted by the Transaction Documents, such contemplated and permitted disposals including disposals of obsolete or surplus assets no longer required for the purpose of the Project; disposals constituted by a Security Interest permitted under clause 13.4(b) (Negative pledge) of the Credit Agreement; the disposal of assets in exchange for other comparable or superior assets provided that the aggregate capital value of the disposed or exchanged assets does not exceed £35,000 in aggregate or its equivalent in any one year; disposals for cash on arm's length terms where the amount received for all such disposals does not exceed £35,000 in aggregate in any year; any other disposal approved by the Lender;

(f) not to incur or allow to remain outstanding any financial indebtedness other than as permitted pursuant to the Transaction Documents, such permitted financial indebtedness to include any financial indebtedness incurred under the Company Loan Notes, the Building Contractor Parallel Loan Agreement and the RRCMR Contractor Parallel Loan Agreement; any financial indebtedness approved by the Lender; financial indebtedness under finance leases with aggregate annual lease payments of £5,000 or less; and any financial indebtedness not otherwise permitted and the outstanding amount of which does not exceed £35,000 in aggregate at any time;

(g) in the case of ProjectCo, not to carry on any business other than the Project and in the case of ProjectCo HoldCo, not to carry on any business other than the holding of shares in ProjectCo;

(h) not to enter into any amalgamation, demerger, merger or reconstruction;

(i) not to enter into any partnership, joint venture, profit sharing or royalty agreement, or allow any person any license or other right to use or share possession of all or any part of its present or future rights, claims revenues or assets or enter into any other similar arrangement whereby its income or profits are, or might be, shared with any other person or enter into any management contract or similar arrangement whereby its business or operations are managed by any other person, other than as permitted pursuant to the Credit Agreement;

(j) not to make any acquisition or investment other than as permitted under the Credit Agreement;

(k) to ensure that it is in compliance with Environmental Law and any applicable environmental approvals, to notify the Lender of actual or potential claims arising as a breach by ProjectCo of Environmental Law or environmental contamination, to prevent any environmental contaminant adversely effecting any Site to the extent that it may cause a Material Adverse Effect, to notify any relevant public bodies of any environmental contaminant and take steps to remedy, remove or prevent the further incursion of that environmental contaminant, to indemnify each Finance Party against loss or liability incurred as a result of any actual or alleged breach of Environmental Law and to operate environmental monitoring in accordance with good industry practice;

(l) not to be the creditor in respect of any Financial Indebtedness, provide any form of loan, credit or financial accommodation to any person except as permitted under the Credit Agreement;

(m) not to incur or allow to be outstanding any guarantee, indemnity or other assurance against loss by it in respect of any person other than as permitted under the Transaction Documents;

(n) not to take, and to ensure that no shareholder of ProjectCo Holdco takes, any action or step or fail to take any action or step which result in the Lender being unable to appoint an administrative receiver of either ProjectCo or ProjectCo Holdco under a Security Document;

(o) to promptly do all such acts and execute such documents as the Security Trustee may specify to perfect any encumbrances or security created under the Security Documents or, where the Security Trustee has elected or been instructed to enforce such security, to facilitate the realisation of the relevant assets, to ensure that any after-acquired assets are made subject to the Security Documents and not to do or omit to do anything which may adversely affect the security given by it;

(p) in the event that the Building Contractor Performance Bond Provider falls below the required rating as specified in the Building Contract, then ProjectCo shall procure that the Building Contractor notifies the Lender within 24 hours of such downgrade, provide to the Lender a list of three potential bond providers having the required rating and, within eight Business Days of confirmation from ProjectCo, issue a Replacement Performance Bond (as defined in the Building Contract), provided that amounts shall be retained in the Retention Account (as further described below) in accordance with the Building Contract;

(q) in the event that the Letter of Credit Provider falls below the required rating as specified in the Building Contract or the Building Contractor wishes to replace the Letter of Credit Provider or ProjectCo requests an extension to the Letter of the Credit, ProjectCo shall procure that the Building Contractor shall (within 24 hours) provide details of the proposed provider of the Replacement Letter of Credit (as defined in the Building Contract) and that the Building Contractor provides the Replacement Letter of Credit (as defined in the Building Contract);

(r) in the case of ProjectCo, not settle a claim for liquidated damages or other damages or compensation, or any litigation, under any Transaction Document without the prior written consent of the Lender.

1.9.3 Project covenants

(a) in the case of ProjectCo, not to incur any expenditure other than in accordance with the Operating Budget other than amounts which do not exceed in aggregate the Permitted Budget Variance in any financial year and in the case of HoldCo, not to incur any expenditure;

(b) in the case of ProjectCo, to ensure that the Works are completed in accordance with the Transaction Documents and not to permit, recommend or agree to the abandonment of the Project in whole or in part and in the case of ProjectCo HoldCo, not to take any action which would interfere with or prevent the Works from being completed in accordance with the Project Documents;

(c) in the case of ProjectCo, to diligently operate and maintain, or ensure the diligent operation and maintenance of, the Project in a safe, efficient and business-like manner and in accordance with the Transaction Documents and good industry practice

(d) to duly and punctually perform and comply with its obligations under the Project Documents and any applicable Transaction Authorisations;

(e) not to agree (without the consent of the Lender, such consent not to be unreasonably withheld or delayed): to amend, vary, modify or waive all or any part of a Project Document or Transaction Authorisation or propose or agree to any variation or amendment, modification or waiver in relation to the Works or Services (save as permitted under the Credit Agreement), to assign, transfer, novate, dispose or sub-contract any of its rights under any Project Document or Transaction Authorisation or take any similar action (save as permitted under the Transaction Documents), propose or agree to a Medium Value Change or a High Value Change, to terminate, suspend or abandon a Project Document or Transaction Authorisation or take any material steps to do so, take prohibited action against the Authority or any Principal Project Party or compromise or settle any such action over a certain threshold, take rectification action following notice by the Authority of a Contractor Default, to a Contractor Default, a substitute index if RPIx ceases to be published, agree any matter in relation to the Estimated Fair Value of the Contract, Adjusted Estimated Fair Value of the Contract, Base Senior Debt Termination Amount or Revised Senior Debt Termination Amount (each as defined in the Project Agreement) element of the Termination Sum (as defined in the Project Agreement) or the payment of any such sum in instalments, or take any action in relation to certain events under the Project Agreement, exercise its right to agree the contents of the updated lifecycle programme pursuant to Clause 33.3(e) of the RRCMR Agreement, or exercise its right to grant an extension of time to the Building Contractor pursuant to Clause 16 of the Building Contract;

(f) in the case of ProjectCo: where any right or discretion to take any step referred to in paragraph (e) above can be exercised by ProjectCo without another person's approval, it must exercise that right or discretion if required to do so by the Lender; not exercise any discretion under the Project Agreement where there is a reasonable prospect that such could cause or constitute an Event of Default or a Trigger Event; supply to the Lender copies of any material notices received by ProjectCo from the Authority under or pursuant to any Project Document; exercise its right to procure the carrying out of a survey pursuant to the RRCMR Agreement if required to do so by the Lender; and duly and punctually perform and comply with its obligations under the Project Documents and any applicable Transaction Authorisations;

(g) not to enter into any contract (save as permitted under the Credit Agreement) other than the Transaction Documents, not to and not to agree to amend, vary, waive or modify or agree to the amendment, variation, waiver or modification of any Transaction Document (save as permitted under the Credit Agreement) and not to assign any of its rights or transfer any of its obligations under any Transaction Document in whole or in part or agree to any other party to any Transaction Document assigning any of its rights or transferring any of its obligations under any Transaction Document in whole or in part (except as permitted by the Finance Documents);

(h) in the case of ProjectCo, not engage any replacement contractor to the Building Contractor, RRCMR Contractor or Housing Management Contractor, unless certain conditions under the Credit Agreement are met;

(i) in the case of ProjectCo, not agree to the replacement of any Construction Guarantor or the RRCMR Guarantor or the Housing Management Guarantor, other than with the prior written consent of the Lender;

(j) co-operate with, and use reasonable endeavours to ensure that each other party to the Project Documents co-operates with, each adviser appointed under the Credit Agreement or contemplated by the Finance Documents;

(k) not enter into any derivative transaction protecting against or benefiting from fluctuations in any rate, price or other risk;

(l) comply with the provisions of the Credit Agreement in relation to Tax;

(m) if it does not comply with certain provisions of the Credit Agreement relating to insurance, Project Documents or operation and maintenance, (provided ProjectCo has the right to do so) allow the Lender and its agents and contractors to enter the Properties and to do anything the Lender considers necessary to remedy the failure to comply;

(n) allow the Lender (and any nominees, agents or representatives) and/or the technical adviser and/or the insurance adviser to attend certain meetings to which ProjectCo is a party and/or any inspection pursuant to the Building Contract and/or to inspect the Project, the Properties and any records of the Project;

(o) maintain up-to-date statutory books and other records as specified in the Credit Agreement;

(p) in the case of ProjectCo, attend any meetings with any advisers if so directed by the Lender;

(q) if requested by the Lender where the Lender suspects there has been a default or a Trigger Event, authorise and/or (as the case may be) engage auditors to discuss ProjectCo's financial matters with any of the Finance Parties (or their representatives) on terms and conditions acceptable to the Lender if that party replaces another party which had entered into a Direct Agreement with the Lender;

(r) in the case of ProjectCo, to maintain specified levels of insurance;

(s) ensure that each party to a Project Document that is entered into after the date of the Credit Agreement enters into a Direct Agreement with the

Lender in relation to that Project Document in form and substance satisfactory to the Lender if that party replaces another party which had entered into a Direct Agreement with the Lender;

(t) provide to the relevant parties (as identified in the Credit Agreement) copies of certain reports provided to it by the RRCMR Contractor pursuant to the RRCMR Agreement or by the Housing Management Contractor pursuant to the Housing Management Contract;

(u) in the case of ProjectCo, to ensure that it employs sufficient personnel and/or advisers of an appropriate standard to ensure it complies with its obligations under the Transaction Documents;

(v) in the case of ProjectCo, to procure that all insurance proceeds required to be paid into the Joint Insurance Account (as further described below) pursuant to the Project Agreement are applied in accordance with the Authority Direct Agreement and the Project Agreement;

(w) in the case of ProjectCo, to the extent that any Specialist Sub-Contractor has not been appointed on or before the date of the Credit Agreement, ProjectCo shall procure that within 5 Business Days of the appointment by the Building Contractor of the relevant Specialist Sub-Contractor, the relevant Specialist Sub-Contractor shall execute and deliver the Collateral Warranties it is required to provide in the form set out in the Project Agreement or the Building Contract (as the case may be);

(x) in the case of ProjectCo, to acknowledge that any Collateral Warranties entered into after the date of the Credit Agreement in favour of ProjectCo will be subject to the Company Debenture;

(y) in the case of ProjectCo, not to make any repayment under the Building Contractor Parallel Loan Agreement or the RRCMR Contractor Parallel Loan Agreement from any Account except where a corresponding amount has been received from the Authority;

(z) in the case of ProjectCo, to maintain a contingency plan in relation to the potential replacement of the Building Contractor in the event that the appointment of the Building Contractor is terminated or comes to an end for any reason; and

(aa) in the case of ProjectCo, to replace any project manager and/or terminate the corresponding management contract (if any) without undue delay if the Lender so requires, provided certain provisions of the Credit Agreement are met.

1.9.4 Shareholder-related matters

(a) save as expressly permitted by the Finance Documents or the Credit Agreement, not to issue, alter, grant, alter any rights, reduce, cancel, repay, purchase, redeem, register (or allow the registration of) any transfer of, its share capital (except that ProjectCo HoldCo may redeem Preference Shares on a £ for £ basis with any principal repayment of Company Loan Notes permitted under the Finance Documents), nor declare or pay any dividends or distributions, nor grant to any person any option, warrant or other right to call for the issue or allotment of, subscribe for, purchase or otherwise acquire any share or loan capital of ProjectCo or ProjectCo HoldCo (including any right of pre-emption, conversion or exchange) other than as contained in the Shareholders Agreement or the Memorandum and Articles of Association of ProjectCo or ProjectCo Holdco (in the form in which such documents are at the date of the Credit Agreement, subject to any amendments which the Lender may approve);

(b) not to make any distributions to the Distribution Account (as further described below), other than from amounts standing to the account of the Proceeds Account (as further described below) and available for such purpose, subject to the terms of the Credit Agreement; and

(c) not to enter into any contract or arrangements with any Equity Party (or any person connected with any Equity Party) without the prior written consent of the Lender, other than any Transaction Document to which an Equity Party is a party.

1.9.5 Forecasts Computer Models

(a) To prepare any Forecast and/or Computer Model in accordance with the provisions of clause 19 of the Credit Agreement.

1.10 **Trigger Events**

1.10.1 The occurrence of any of the following events will be a "**Trigger Event**":

(a) A Event of Default (as described at paragraph 1.11 below), or an event which would (with the expiry of a grace period, the giving of notice or the making of any determination under the Finance Documents, or any combination of them) be an Event of Default, is outstanding.

(b) The right occurs for ProjectCo to terminate any Construction Document, RRCMR Document or the Housing Management Agreement or any event which with the passage of time, the giving of any notice or the making of any determination would give rise to such a right occurs.

(c) ProjectCo's auditors qualify the audited financial statements of ProjectCo where in the opinion of the Lender that qualification is materially adverse to the interests of the Lender.

(d) ProjectCo fails to comply with any of the covenants set out in the Credit Agreement and the Lender gives notice to ProjectCo that such failure to comply shall constitute a Trigger Event.

(e) Any change in any law or regulation occurs which may, in the opinion of the Lender (acting reasonably), have a Material Adverse Effect.

(f) In any period of three calendar months, the Authority has been entitled to reduce the amount of the Unitary Charge by more than 10 per cent. by reason of Unavailability Deductions.

(g) In any period of two calendar months the Authority has been entitled to reduce the amount of the Unitary Charge by more than 15 per cent. by reason of Unavailability Deductions.

(h) In each and every month of any period of five calendar months the Authority has been entitled to reduce the amount of the monthly Unitary Charge by more than five per cent. through Performance Deductions.

(i) The Authority has issued one or more formal warning notices as referred to in Clause 38.1 of the Project Agreement.

(j) At any time after Final Full Services Commencement Date (Planned), (i) the historic debt service cover ratio (as finally determined) for the most recent date calculated in accordance with the Credit Agreement is less than 1.12:1, or (ii) the projected debt service cover ratio (as finally determined) for the most recent date calculated in accordance with the Credit Agreement is less than 1.12:1, or (iii) the loan life cover ratio (as finally determined) for the most recent date calculated in accordance with the Credit Agreement is less than 1.15:1.

(k) A failure of the Building Contractor to meet a Milestone Completion Date (as defined under the Building Contract).

(l) On any date the balance of the Debt Service Reserve Account, Forward Cover Ratio Reserve Account, Construction Reserve Account, Equity Reserve Account or Maintenance Reserve Account falls below the required balance as specified in the Credit Agreement.

(m) The Works have not commenced on or before the date six months after the planned date of the commencement of the Works.

1.10.2 If any Trigger Event is outstanding, the Lender will have certain additional rights to investigate, monitor, require relevant reports from and influence certain of the activities of ProjectCo (as more particularly provided in the Credit Agreement) and to require ProjectCo to deliver a remedial plan setting out the action it proposes to take and the manner and timetable in which such remedial action will be carried out.

1.10.3 If any Trigger Event is outstanding, ProjectCo must co-operate with any investigation by the Lender and its agents in respect of the Trigger Event, permit the Lender to discuss the affairs, finances and accounts of ProjectCo with such other person as the Lender determines (to the extent that the Lender would otherwise be prohibited from doing so), permit the Lender to consult the Technical Adviser in relation to the Project, the Project Documents and the assets of the Company (to the extent that the Lender would otherwise be prohibited from so doing), terminate the Building Contract, any sub-contract relating to the Building Contract, the RRCMR Agreement and the Housing Management Agreement (if the right has arisen for ProjectCo to terminate the relevant contract ant it is required to do so by the Lender) or such of them as the Lender shall specify, carry out any remedial plan agreed, and authorise ProjectCo's auditors (whose fees and expenses will be for the account of ProjectCo) to communicate with the Lender regarding the Accounts and Project operations and procure such authorisation in respect of the Account(s).

1.10.4 If a Trigger Event relates to a failure by ProjectCo to comply with its requirement to maintain specified insurances, the Lender may (or permit its agents or contractors to) do all such things the Lender may consider necessary or desirable to prevent or remedy such Trigger Event.

1.10.5 A Trigger Event will be remedied or waived only when notice of such remedy or waiver is given by the Lender to ProjectCo and ProjectCo (acting reasonably) will be entitled to request, from time to time, that the Lender confirms whether a Trigger Event has been remedied or is otherwise no longer subsisting.

1.11 **Events of Default**

The occurrence of any of the following events will, *inter alia*, constitute an "**Event of Default**":

(a) failure by any Obligor to make any payment when due by it under any Finance Document, within specified grace periods (where applicable);

(b) failure by any Obligor to comply with certain terms of the Credit Agreement (as more particularly provided in the Credit Agreement) or any of its obligations under the Finance Documents (other than as specified in the Credit Agreement), and failure by any party (other than a Finance Party) to comply with its obligations under the Security Trust and Intercreditor Deed in each case subject to any remedy or grace period (where applicable);

(c) any representation or warranty made or repeated by any Principal Project Party under or pursuant to any Finance Document, Project Document or Direct Agreement is incorrect when made or deemed to be repeated, in each case subject to any remedy period (where applicable);

(d) cross-default in respect of any Principal Project Party, subject to a threshold amount of £2.5 million and other exceptions (as more particularly provided in the Credit Agreement);

(e) in relation to any Principal Project Party, it is, or is deemed for the purpose of any law to be, unable to pay its debts as they fall due, it admits its inability to pay its debts as they fall due, it suspends or threatens to suspend making payments on any of its debts or announces an intention to do so, it begins negotiations with any creditor for the purposes of rescheduling any indebtedness (other than indebtedness incurred under the Company Loan Notes) or a moratorium is declared in respect of any of its indebtedness;

(f) in relation to any Principal Project Party, any insolvency proceedings occur, or any step is taken in respect to instigating insolvency proceedings, unless such step or proceeding is permitted under the Credit Agreement or is in the view of the Lender frivolous or vexatious and is discharged or struck out within 10 Business Days;

(g) any attachment, sequestration, distress, execution or analogous event affects any asset(s) of a Principal Project Party which, in relation to a Major Project Party, has an aggregate value of at least £2.5 million, and is not discharged within 10 Business Days;

(h) any Major Project Party or Obligor ceases, or threatens to cease, to carry on its business;

(i) it becomes unlawful for an any person (other than a Finance Party) to perform any of its obligations under the Transaction Documents, any part of a Transaction Document is not binding and effective or for any reason becomes capable of being avoided, cancelled, revoked, forfeited, surrendered or suspended, any Security Document does not create the security it purports to create or is ineffective, the Lender would not, at any time, be entitled to appoint an administrative receiver of the ProjectCo or ProjectCo HoldCo under any Security Agreement (assuming that any such security has become enforceable) or any party (other than a Finance Party) terminates, cancels, revokes, surrenders, forfeits or repudiates a Transaction Document or material provision thereof or evidences an intention to do the same or to disclaim any liability under any Transaction Document;

(j) any Transaction Authorisation is not obtained or is ineffective, is revoked or cancelled, is not renewed or is varied such that it ceases to be a Transaction Authorisation;

(k) any Project Document (other than the Project Agreement in circumstances in which the Authority elects to pay the termination sum in instalments) or Direct Agreement is terminated or becomes capable of being terminated, any Principal Project Party fails to comply with any of its obligations under any Transaction Document and the lender considers such non-compliance to have a Material Adverse Effect (subject to any available remedy), any representation or warranty made or repeated by any Principal Project Party under any Project Agreement or Direct Agreement (or pursuant to any document delivered by or on behalf of any Principal Project Party under any Project Document or Direct Agreement) is incorrect in any material respect when made or deemed to be repeated;

(l) an Environmental Contaminant (as more particularly described in the Credit Agreement) is discovered on a Site or a Principal Project Party fails to comply with any Environmental Law or licence and the Lender considers this to have a Material Adverse Effect or any Secured Finance Party's rights under any Finance Document are adversely affected by an Environmental Law;

(m) a change is made to any Obligor's memorandum, articles of association or other constitutional document which the Lender considers will have, or is likely to have, a Material Adverse Effect;

(n) all or a material part of the Project is abandoned or suspended for a specified length of time;

(o) any part of the property is nationalised, any part of the ProjectCo's rights under the Transaction Documents or the Transaction Authorisations are forfeited, suspended or otherwise abrogated by any Government Entity, or any Government Entity takes any action to in order to condemn, seize or appropriate, or assume custody or control of, a Principal Project Party or all or any substantial part of its assets or takes action to curtail such Principal Project Party's authority in the overall conduct of its business or operations;

(p) any litigation, arbitration or administrative proceedings are current or (to the knowledge of either Obligor) are pending or threatened against any Obligor or any Major Project Party which have or might have a Material Adverse Effect;

(q) the specified level of insurance required to be maintained under any Transaction Document is no longer maintained to the specified level;

(r) the occurrence of certain Project related events, including service by the Authority of a termination notice under the Project Agreement, the ProjectCo (without the consent of the Lender) accepts an Authority Change pursuant to Schedule 26 (*Change Protocol*) of the Project Agreement which would, if implemented, materially and adversely change the nature of the

Project (including its risk profile), ProjectCo wholly or substantially wilfully ceases to carry out the Works for sufficient days within a given time period (except when relieved of the obligation to do so by the express provisions of the Project Agreement), and specified events related to poor performance by ProjectCo of its obligations under the Project Agreement;

(s) on the basis of the most recent Historic Statement or Forecast (as each is more particularly described in the Credit Agreement), (i) the historic annual debt service cover ratio is less than or equal to 1.05:1, or (ii) the projected debt service cover ratio is less than or equal to 1.05:1, or (iii) the loan life cover ratio is less than or equal to 1.08:1;

(t) ProjectCo HoldCo ceases to hold legally and beneficially 100% of the voting share capital of ProjectCo;

(u) ProjectCo Holdco commences any business or carries out any activity other than holding the shares in ProjectCo or activities incidental thereto;

(v) any event or series of events occurs which in the opinion of the Lender has or is reasonably likely to have a Material Adverse Effect.

1.12 **Consequences of Events of Default**

1.12.1 If any Event of Default is outstanding then the Lender may:

(i) exercise any remedies or rights it has in respect of any Trigger Event;

(ii) declare all or part of any amounts outstanding under the Finance Documents are immediately due and payable together with any make-whole payment required under the Credit Agreement;

(iii) instruct the Security Trustee to exercise any rights available to it under the Direct Agreements and/or take all steps necessary or desirable to perfect or enforce the security created under the Security Documents and/or exercise any other rights granted to it under the Finance Documents which it is entitled to exercise when an Event of Default is outstanding;

(iv) notify the relevant underwriters or insurers that an Event of Default has occurred and is outstanding;

(v) direct ProjectCo to terminate any existing contract or agreement or procure the termination of any existing contract or agreement, make specified changes to management, systems or advisers or other operational changes, make, compromise, settle or discontinue any claim which ProjectCo may have or purport to have against any other person and/or pay an amount equal to all outstanding amounts of principal, interest and default interest due or owing under or relating to the Credit Agreement; and/or

(vi) tender for any such new contracts as the Lender may specify on a basis approved by the Lender and on reasonable commercial terms.

1.12.2 In relation to the Events of Default described at paragraphs 1.11 (d) to (i) inclusive, 1.11 (k), and 1.11 (r) above, to the extent that they relate to a

Replaceable Party or a Replaceable Document, an Event of Default will not occur if, following the relevant event: (a) the Lender is satisfied that ProjectCo is taking all necessary steps in a timely manner and with sufficient prospects of success to replace the relevant Replaceable Document with the same Replaceable Party or enter into a replacement Replaceable Document with another Replaceable Party within 180 days of the occurrence of the relevant event; or (b) in respect of the insolvency Event of Default described at paragraph 1.11 (e) only, ProjectCo prepares a plan (within 30 days of the occurrence of such default) satisfactory to the Lender to remedy the default in accordance with the terms of the Credit Agreement. If any Replaceable Party is to be replaced, it shall be replaced with a person having legal capacity and technical and financial resources satisfactory to the Lender (acting reasonably). Where the Replaceable Party has (or should have) entered into a Direct Agreement, it must create a direct agreement in favour of the Security Trustee on substantially similar terms to the previous direct agreement or otherwise in form and substance acceptable to the Security Trustee. Where the Building Contractor Guarantor or any of their successive replacements are being replaced, the replacement guarantee provided must be on substantially on the same or better terms than the previous guarantee and the replacement guarantor must meet the requirements stipulated in the Credit Agreement.

1.12.3 If the Lender declares the Loan to be immediately due and payable as outlined at paragraph 1.12.1(ii) above and the aggregate Make-Whole Payment calculated in connection with the redemption of all of the Notes under Condition 5(c) thereof exceeds the principal amount of the Loan, then in addition to the principal amount of the Loan (and any other amounts to which the Lender may be entitled) ProjectCo shall pay an amount equal to such excess to the Lender immediately upon written demand from the Lender. The parties agree that such payment is a genuine pre-estimate of the Lender's loss. Any payment made as described in this paragraph 1.12.3 shall not apply to a mandatory prepayment as described at paragraph 1.7.2 above or a voluntary prepayment as described at paragraph 1.7.3 above.

1.13 **Costs and Indemnities**

1.13.1 ProjectCo must (without double counting) pay within 5 Business Days to:

(a) the Lender and the Security Trustee all costs and expenses reasonably incurred by it in connection with:

(i) the negotiation, preparation, printing and execution of any Transaction Document (other than a Transfer Certificate) executed after the date of the Credit Agreement;

(ii) the appointment agreements for the advisers referred to in paragraph 20 of Schedule 2 of the Credit Agreement and the appointment agreements for any other or replacement adviser appointed under clause 32 (*Advisers*) of the Credit Agreement; and

(iii) any amendment, waiver or consent required by ProjectCo; and

(b) each Finance Party all costs and expenses incurred by it in connection with the enforcement of, or the preservation of any rights under, any Finance Document.

1.13.2 ProjectCo must, as an independent obligation, indemnify each Finance Party as against any loss or liability incurred as a consequence of that Finance Party receiving an amount in respect of ProjectCo's liability under the Finance Documents or that liability being converted into a claim, proof, judgment or order in a currency other than the currency in which the amount is expressed to be payable under the relevant Finance Document

1.13.3 ProjectCo must indemnify each Finance Party against any loss or liability which that Finance Party incurs as a consequence of the occurrence of any Event of Default, any failure by ProjectCo to pay any amount due under a Finance Document on its due date, including any resulting from any distribution or redistribution of any amount among the Lender under the Credit Agreement, the Loan (or part of the Loan) and any other amount payable at the same time not being repaid or prepaid in accordance with a notice of prepayment, or the operation or performance of any Direct Agreement. ProjectCo's liability in each case includes any loss or expense on account of funds borrowed, contracted for or utilised to fund any amount payable under any Finance Document or the Loan.

1.13.4 ProjectCo must indemnify each Finance Party against any loss or liability (which may include the Lender's management time or other resources) incurred as a result of investigating any event which it reasonably believes to be a default or acting or relying on any notice which it reasonably believes to be genuine, correct and appropriately authorised.

1.13.5 In addition, ProjectCo must indemnify the Lender (on an after tax basis) against any fee, cost, expense, loss or liability in respect of Ongoing Lender Costs.

1.14 **Accounts**

1.14.1 The Credit Agreement regulates payments into and out of each of the accounts maintained by ProjectCo with the Account Bank pursuant to the Accounts Agreement (together, the "**Accounts**"), *inter alia*, to ensure the paying of the relevant debt service amounts and the prevention of certain prohibited payments.

1.14.2 ProjectCo must ensure that the proceeds of the Loan under the Credit Agreement are paid into the account designated the Proceeds Account under the Accounts Agreement, on the Utilisation Date. Such sums will, in summary, be applied during the term of the Loan to pay construction costs and permitted payments, to pay Ongoing Lender Costs, to pay debt service, to fund relevant reserves and to allow permitted distributions under the Credit Agreement.

1.14.3 Pursuant to the terms of the Accounts Agreement, ProjectCo will maintain the following Accounts:

(a) Compensation Account

Used (i) to receive compensation amounts paid by the Authority in respect of the termination of the Project Agreement and (ii) to pay principal, interest and Make-Whole Payments on the Notes.

(b) Construction Account

Used (i) to receive drawdown monies from the utilisation of the Loan, any voluntary payments which ProjectCo may make from the Distribution Account and any V.A.T. refunds, and (ii) to pay amounts to the Building Contractor subject to the receipt of a completed certificate from the technical adviser and the other conditions precedent to drawing set out in the Credit Agreement and to make other payments consistent with the permitted purpose of the Loan.

(c) Construction Interest Account

All interest accrued on the Construction Account (and any Authorised Investments standing to the credit of the Construction Account) is to be paid to the Construction Interest Account from which it may be paid to or to the order of the Authority. Investors should note that ProjectCo will not receive any benefit from any interest accruing on the Construction Account or such Authorised Investments.

(d) Construction Reserve Account

On the Utilisation date £3,000,000 will be credited to the Construction Reserve Account from the proceeds of the Loan. The balance of the Construction Reserve Account is intended to provide for any unpaid contractual liabilities following an event of default under the Housing Management Contract and/or the RRCMR Agreement and to pay the costs of replacing the Building Contractor and/or remedying any default by the Building Contractor. On the Final Full Services Commencement Date (Actual) ProjectCo is entitled to pay any balance remaining on the Construction Reserve Account to the Proceeds Account.

(e) Construction Security Account

Used (i) to receive any amount drawn or otherwise realised from the Construction Documents (including from the letter of credit and performance bond provided under the Building Contact); and (ii) for the same purposes as the Construction Reserve Account. On the Final Full Services Commencement Date (Actual) ProjectCo is entitled to pay any balance remaining on the Construction Reserve Account to the Proceeds Account.

(f) Debt Service Account

Used (i) to receive amounts required to pay debt service from the Operating Account and (to the extent there is a shortfall on the Debt Service Account two Business Days prior to any Interest Payment date, from certain other Accounts as described below) and (ii) to pay debt service on the Loan.

(g) Debt Service Reserve Account

On the Final Full Services Commencement Date (Planned) the Required DSRA Balance will be transferred from the Construction Account to the Debt Service Reserve Account and on each date on which amounts are applied from the Proceeds Account the balance of the Debt Service Account will be topped up so that it equals the Required DSRA Balance to the extent of available funds in the Proceeds Account. The Debt Service Reserve Account can be drawn on to meet shortfalls on the Debt Service Account and any amount standing to the credit of the Debt Service Reserve Account in excess of the Required DSRA Balance can be released to the Proceeds Account.

(h) Distribution Account

Amounts remaining in the Proceeds Account after all other payments and provisions have been made may be paid to the Distribution Account. Amounts in the Distribution Account may be used to pay scheduled principal and interest on the Company Loan Notes and/or to fund dividends to ProjectCo HoldCo. Once received by ProjectCo HoldCo, such amounts may be used to fund dividend payments, redemptions and payments of interest in relation to preference shares and other payments to the Sponsors.

(i) Equity Reserve Account

On the Utilisation Date, £3,000,000 will be credited to the Equity Reserve Account. The credit balance of the Equity Reserve Account can be used for the same purposes as the Construction Reserve Account. ProjectCo may transfer the balance of the Equity Reserve Account to the Proceeds Account if there is no Trigger Event outstanding at any time following the Final Services Commencement Date (Actual).

(j) Forward Cover Ratio Reserve Account

ProjectCo is required to fund the Forward Cover Ratio Reserve Account if, on any date on which funds are applied from the Proceeds Account, there is a Forward Cover Shortfall in relation to any future DSCR Period (in summary the "**Forward Cover Shortfall**" is the difference between 1.085 x forecast debt service and forecast net cashflow). The required provision for any Forward Cover Shortfall is spread across the period remaining until the relevant DSCR Period as more particularly described in the Credit Agreement.

(k) Insurance Proceeds Account

Insurance proceeds (other than those relating to delay in start-up, business interruption, loss in revenue and amounts to be paid to the Joint Insurance Account) are paid to the Insurance Proceeds Account. The balance of the Insurance Proceeds Account is used to replace lost or damaged assets or to meet third party liabilities as appropriate.

(l) Joint Insurance Account

The Joint Insurance Account is held in the joint names of ProjectCo and the Authority. It is used to receive Joint Insurance Proceeds. Amounts may only be drawn from the Joint Insurance Account in accordance with the Project Agreement, the Authority Direct Agreement and the Accounts Agreement.

(m) Maintenance Reserve Account

On the Final Full Services Commencement Date (Planned) ProjectCo will transfer an amount to the Maintenance Reserve Account to provide for lifecycle maintenance costs. Any balance on the Maintenance Reserve Account which is not used for such purpose and which is in excess of the agreed required provision can be transferred to the Proceeds Account.

(n) Operating Account

On each date on which funds in the Proceeds Account are applied, ProjectCo will transfer an amount to the Operating Account to pay or provide for operating costs, taxes and other permitted payments over the next 30 day period. Amounts may be drawn from the Operating Account to meet such amounts in accordance with the agreed budget and any permitted variance to the budget.

(o) Proceeds Account

The Proceeds Account is used to receive the proceeds of the Loan on the Utilisation Date (to the extent not credited to the Construction Reserve Account, Equity Reserve Account or the Construction Account) and also payments of Unitary Charge. The balance of the Proceeds Account is applied on a Proceeds Withdrawal Date in funding the Operating Account, paying amounts to the Issuer to meet ongoing costs and making any other provisions required by the Credit Agreement. Any balance remaining on a date 2 Business Days before a Payment Date under the Loan may be paid to the Distribution Account (to the extent described in relation to the Distribution Account above).

(p) Retention Account

The Retention Account is used to hold retentions which ProjectCo is permitted to make from payments to the Building Contractor under the Building Contract. The balance of the Retention Account can be used in the same circumstance as those in which a claim could be made under the letter of credit and to rectify any breach by the Building Contractor or the consequences thereof. Following the issue of the Certificate for Making Good Defects (as defined in the Building Contract) ProjectCo is required to repay any amount remaining to the Building Contractor as provided for in the Building Contract.

1.14.4 In addition to the circumstances in which the Accounts may be drawn as outlined in paragraphs 1.14.3 (a) to (p) above, on the second business day prior to each Payment Date if the balance on the Debt Service Account is insufficient to meet required payments of principal and interest on such Payment Date, ProjectCo shall procure that the Account Bank transfers amounts from the following Accounts in the following order until the shortfall is made up: the Proceeds Account, to the extent (if any) instructed by the Lender, the Construction Account, to the extent (if any) instructed by the Lender, the Retention Account, Construction Security Account, Equity Reserve Account, Construction Reserve Account, Forward Cover Ratio Reserve Account, Insurance Proceeds Account, Maintenance Reserve Account and the Debt Service Reserve Account.

1.14.5 Except as described in this paragraph, ProjectCo may only make a withdrawal from an Account if no default is outstanding or will occur as a result of the withdrawal. If a default is outstanding, ProjectCo may withdraw amounts standing to the credit of the Proceeds Account, for any purpose permitted by the Credit Agreement other than to transfer to the Distribution Account. ProjectCo may continue to operate and withdraw amounts from the Joint Insurance Account or (to the extent it is required to repay the balance to the Building Contractor under the Building Contract) the Retention Account where a default is outstanding. Notwithstanding the foregoing, if a default is outstanding, the Security Trustee may, and is irrevocably authorised to otherwise operate each Account (other than the Distribution Account, the Construction Interest Account and the Joint Insurance Account) in accordance with the Credit Agreement. If an Event of Default is outstanding, the Security Trustee: (i) will, on notice by it to the Account Bank, have sole signing rights in relation to the Accounts (other than the Distribution Account, the Construction Interest Account and the Joint Insurance Account); and (ii) may apply any amount in any Account (other than the Distribution Account and the Construction Interest

Account) in or towards amounts outstanding under any Transaction Document in such order and from such Account as the Security Trustee thinks fit.

1.15 **Authorised Investments**

Subject to the terms of the Credit Agreement and the Accounts Agreement, ProjectCo is permitted to invest any monies standing to the credit of any of the Accounts in Authorised Investments.

All Authorised Investments (other than any Authorised Bank Deposits) will be made under the direction of and on behalf of ProjectCo by the Account Bank and will be held in the name of the Account Bank and/or any Affiliate or nominee of the Account Bank (and be identifiable as an asset of the Account from which such Authorised Investment was made).

Authorised Bank Deposits may be made with other banks which comply with the rating criteria in relation to the relevant class of Authorised Investment, subject to such bank acknowledging the Security Trustee's security in, or substantially in, the form required by the Company Debenture.

1.16 **Security Trust and Intercreditor Deed**

1.16.1 The Credit Agreement is made subject to the terms of the Security Trust and Intercreditor Deed (as further described below).

1.16.2 Partial payments

(a) If the Lender receives a payment insufficient to discharge all the amounts then due and payable by ProjectCo under the Credit Agreement, the Lender shall, subject to the Security Trust and Intercreditor Deed and paragraph (b) below, apply that payment towards the obligations of ProjectCo under the Credit Agreement in the following order:

(i) first, in or towards payment pro rata of any unpaid fees, costs and expenses of the Lender under the Credit Agreement and the payment of Ongoing Lender Costs;

(ii) second, in or towards payment of any accrued interest or other financing costs due but unpaid under the Credit Agreement;

(iii) third, in or towards payment of any principal amount due but unpaid under the Credit Agreement;

(iv) fourth, in or towards payment of any other sum due but unpaid under the Credit Agreement; and

(v) fifth, in or towards payment pro rata of any other sum due but unpaid under the Finance Documents.

(b) The Lender may vary the order set out in paragraphs (a)(i) to (a)(iii) above by notice to ProjectCo.

1.17 **Governing Law**

The Credit Agreement and any non-contractual obligations arising out of or in connection with it shall be governed by English law.

1.18 **Definitions**

The following terms shall where used in the Credit Agreement have the following meanings:

"**Account Bank**" means Elavon Financial Services Limited U.K. Branch or such other bank performing the functions of the Account Bank.

"**Accounts Agreement**" means the account bank agreement dated on or about the date of the Credit Agreement between the Account Bank, the Lender, the Security Trustee and ProjectCo.

"**Additional Calculation Date**" means the date 10 Business Days after the date on which an additional Forecast is requested by ProjectCo or the Lender under Clause 19 (Forecasts) of the Credit Agreement.

"**Affiliate**" means a Subsidiary or a Holding Company of a person or any other Subsidiary of that Holding Company.

"**Authorised Bank Deposits**" means bank debt obligations in the form of certificates of deposit, time deposits or banker's acceptances falling within the definition of Authorised Investments which are held in ProjectCo's name and in relation to which ProjectCo has served notice on the relevant bank of the security constituted by the Company Debenture in accordance with its terms.

"**Authorised Investment**" means, subject to the terms of the Credit Agreement, an investment denominated in the lawful currency of the United Kingdom in any of the following:

(a) freely transferable and marketable debt securities issued by H.M. Government or issued or guaranteed by any European or worldwide supranational organization with a long-term senior debt rating by any Rating Agency which is the same or a higher rating than that of H.M. Government for the time being in each case subject to a minimum rating of A- by S&P and A3 by Moody's which constitute direct, primary and unsubordinated obligations having an outstanding maturity of no more than six months from the date of purchase; or

(b) bank debt obligations in the form of certificates of deposit, time deposits or banker's acceptances with a short term rating of A-1 or better by S&P and P-1 or better by Moody's issued in the United Kingdom by a bank which is an authorised institution (for the purposes of the Financial Services and Markets Act 2000) or a building society (which is an authorised institution under the Building Societies Act 1986) and having an outstanding maturity of no more than six months from the date of purchase; or

(c) freely transferable and marketable debt securities issued by H.M. Government or issued or guaranteed by any European or worldwide supranational organization with a long-term senior debt rating by any Rating Agency which is the same or a higher rating than that of H.M. Government for the time being in each case subject to a minimum rating of A+ by S&P or A1 by Moody's which constitute direct, primary and unsubordinated obligations having an outstanding maturity of six months or more but less than twelve months from the date of purchase, provided that ProjectCo has confirmed, in accordance with clause 22.17(d) of the Credit Agreement, that the monies to be invested in such debt securities will not be required to meet expenditure falling due in the period of six months following the date of the proposed investment; or

(d) bank debt obligations in the form of certificates of deposit, time deposits or banker's acceptances with a short term rating of A-1 or better by S&P and P-1 or better by Moody's issued in the United Kingdom by a bank which is an authorised institution (for the purposes of the Financial Services and Markets Act 2000) or a building society (which is an authorised institution under the Building Societies Act 1986) and having an outstanding maturity of six months or more but less than twelve months from the date of purchase, provided that ProjectCo has confirmed, in accordance with clause 22.17(d) of the Credit Agreement, that the monies to be invested in such bank debt obligations will not be required to meet expenditure falling due in the period of six months following the date of the proposed investment; or

other investments selected by ProjectCo and approved by the Lender in its sole discretion.

"**Authority**" means The Council of the City of Salford.

"**Authority Direct Agreement**" means the direct agreement in relation to the Project Agreement dated on or about the date of the Credit Agreement between the Authority, the Lender, the Security Trustee and ProjectCo.

"**Building Contract**" means the agreement dated on or around the date of the Credit Agreement between ProjectCo and the Building Contractor.

"**Building Contractor**" means Keepmoat Regeneration (Bramall) Limited a company incorporated in England and Wales with registered no. 01467161 whose registered office is at Keepmoat, The Waterfront, Lakeside Boulevard, Doncaster, South Yorkshire, DN4 5PL.

"**Building Contractor Parallel Loan Agreement**" means the Parallel Loan Agreement as defined in the Building Contract.

"**Building Contractor Performance Bond**" means any performance bond provided by the Building Contractor Performance Bond Provider to ProjectCo in form and substance satisfactory to the Lender.

"**Building Contractor Performance Bond Provider**" means the provider of any Building Contractor Performance Bond pursuant to clause 4 of the Building Contract and any replacement provider replaced in accordance with clause 4.2 of the Building Contract.

"**Business Day**" means a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London.

"**Calculation Date**" means: (a) a Scheduled Calculation Date; and (b) an Additional Calculation Date.

"**Calculation Period**" means the period from (and excluding) a Scheduled Calculation Date to (and including) the next Scheduled Calculation Date.

"**CDM Coordinator**" means Urban Vision Partnership Limited, a company incorporated and registered in England and Wales (company number 05292634) whose registered office is at Emerson House, Albert Street, Eccles, Manchester, M30 0TE and/or such other CDM coordinator as the Company may appoint.

"**Chevin**" means Chevin Housing Association Limited, an industrial and provident society with registered number No IP28687R whose registered office is at Bull Green House, Bull Green, Halifax, HX1 2EB.

"**Class A Notes**" means £71,710,000 5.414 per cent Class A Secured Notes due 2042 to be issued by the Lender on or about the Utilisation Date.

"**Class B Notes**" means £10,891,000 8.35 per cent Class B Secured Notes due 2042 to be issued by the Lender on or about the Utilisation Date.

"**Collateral Warranties**" means: (a) a duty of care deed provided by the Building Contractor in favour of the Authority; (b) a duty of care deed provided by the RRCMR Contractor in favour of the Authority; (c) a duty of care deed provided by the Housing Management Contractor in favour of the Authority; (d) a duty of care deed provided by each Specialist Sub-Contractor in favour of the Authority; (e) a duty of care deed provided by each Specialist Sub-Contractor in favour of ProjectCo; (f) a duty of care deed provided by each Specialist Sub-Contractor in favour of the Lender; (g) a duty of care deed provided by each member of the Professional Team in favour of ProjectCo; (h) a duty of care deed provided by each member of the Professional Team in favour of the Authority; (i) a duty of care deed provided by the CDM Coordinator in favour of the Lender; and (j) any other duty of care deed required from time to time in connection with the Project, and "**Collateral Warranty**" means any of them.

"**Company Debenture**" means the security agreement dated on or about the date of the Credit Agreement between ProjectCo and the Security Trustee.

"**Company Loan Note**" means each of the subordinated loan notes issued by ProjectCo pursuant to the Company Loan Note Instrument.

"**Company Loan Note Instrument**" means the loan note deed poll made by ProjectCo on or around the date of the Credit Agreement.

"**Company Loan Note Subscription Agreement**" means the agreement dated on or about the date of the Credit Agreement between ProjectCo, ProjectCo Holdco, the Sponsors, the Security Trustee and the Lender in relation to, *inter alia*, the Company Loan Notes.

"**Computer Model**" means the computer model in relation to the Project prepared for the purposes of the Credit Agreement and audited by Operis Group plc as amended from time to time in accordance with the Credit Agreement.

"**Construction Budget**" means the initial project budget contained in the worksheet "CONSTRUCTION BUDGET" of the Computer Model, as may be revised from time to time in accordance with the terms of the Credit Agreement.

"**Construction Direct Agreement**" means the direct agreement in relation to the Building Contract dated on or about the date of the Credit Agreement between ProjectCo, the Lender, the Security Trustee, the Building Contractor and the Construction Guarantors.

"**Construction Document**" means the Building Contract, the Construction Guarantee, the Building Contractor Performance Bond, the Letter of Credit, the Independent Certifier's Deed of Appointment, the Specialist Subcontracts, any Professional Team Appointment, any collateral warranty or direct agreement (other than any Direct Agreement or any Collateral Warranty) entered into in favour of the Security Trustee in connection with any of the above or sub-contract thereto, and the Building Contractor Parallel Loan Agreement.

"**Construction Guarantees**" means the guarantees dated on or about the date of the Credit Agreement from each of the Construction Guarantors to ProjectCo on a joint and several basis in respect of the Building Contractor's obligations under the Building Contract.

"**Construction Guarantor**" means: (a) Keepmoat Limited a company incorporated in England and Wales with registered no. 01998780 whose registered office is at The Waterfront, Lakeside Boulevard, Doncaster DN4 5PL; (b) Keepmoat Regeneration Limited a company incorporated in England and Wales with registered number 01738371 whose registered office is at Keepmoat, Lakeside Boulevard, Doncaster DN4 SPL; (c) any person at any time acting as parent company guarantor of the Building Contractor; and (d) in the event that all or part of the Building Contract is terminated, the guarantor of any additional or replacement contractor(s).

"**Contractor Default**" means a default by ProjectCo under the Project Agreement.

"**Debt Service**" means, in relation to any period, an amount equal to the aggregate of: (a) Financing Costs (other than any agency fees payable to the Lender under the Fee Letter and Ongoing Lender Costs); and (b) Financing Principal payable (other than as a result of a prepayment obligation), in that period.

"**Direct Agreement**" means the Authority Direct Agreement, the Construction Direct Agreement, the RRCMR Direct Agreement, the Housing Management Direct Agreement and any other document designated as such by the Lender and ProjectCo.

"**DSCR Period**" means, on any Calculation Date, the next two consecutive complete Calculation Periods commencing after that Calculation Date or, if there are not two complete Calculation Periods commencing after that Calculation Date, the Calculation Period commencing after that Calculation Date.

"**Economic Assumptions**" means the assumptions set out in Schedule 8 Part 1 (*Economic Assumptions*) of the Credit Agreement.

"**Environmental Law**" means any applicable law, regulation or EU directive in any jurisdiction in which ProjectCo or ProjectCo Holdco conducts business concerning (i) health and safety, (ii) the protection of human health or the environment, or (iii) any emission or substance which is capable of causing harm to any living organism or the environment.

"**Equity Document**" means the Company Loan Note Instrument, each Company Loan Note, the Company Loan Note Subscription Agreement, the Memorandum and Articles of Association of ProjectCo HoldCo and of ProjectCo, the Shareholders' Agreement, and any other document designated as such by the Lender and ProjectCo.

"**Equity Party**" means ProjectCo Holdco and each Sponsor.

"**Event of Default**" means an event specified as such in Clause 17 (*Default*) of the Credit Agreement.

"**Fee Letter**" means the letter entered into by reference to the Credit Agreement between the Lender and ProjectCo setting out the amount of certain fees referred to in the Credit Agreement.

"**Final Full Services Commencement Date (Actual)**" means the latest date on which any of the Full Services Commencement Dates occurs.

"**Final Full Services Commencement Date (Planned)**" means the latest date on which any of the planned commencement dates is shown in column 3 of Schedule 18 (Start on Site Dates and Planned Full Services Commencement Dates) of the Project Agreement at the date of the Credit Agreement.

"**Final Maturity Date**" means 15 September 2042.

"**Finance Document**" means the Credit Agreement, each Security Document, the Accounts Agreement, each Direct Agreement, each Fee Letter, each Withdrawal Request, each Transfer Certificate and any other document designated as such by the Lender and ProjectCo.

"**Finance Party**" means the Lender, the Security Trustee and any agent appointed by the Lender in accordance with Clause 31 of the Credit Agreement.

"**Financing Costs**" means any of the following payable by ProjectCo: interest, fees, Ongoing Lender Costs and any other costs or expenses payable under the Finance Documents and any Tax in respect of any of the above (for the avoidance of doubt excluding Financing Principal).

"**Financing Principal**" means principal amounts payable by ProjectCo under the Credit Agreement.

"**Forecast**" means the results of running the Computer Model on the basis of values for the Forecast Assumptions determined in accordance with the Credit Agreement.

"**Forecast Assumptions**" means the Economic Assumptions, the Tax Assumptions and the Technical Assumptions.

"**Full Services Commencement Date**" has the meaning given to it in the Project Agreement.

"**Government Entity**" means the Authority, the government of the United Kingdom, any authority, agency or department established by the government of the United Kingdom, and any public corporation or other entity of which the government of the United Kingdom has direct or indirect control and control for this purpose means the power to direct the management and the policies of the entity whether through the ownership of share capital, contract or otherwise.

"**HoldCo Debenture**" means the security agreement dated on or about the date of the Credit Agreement between ProjectCo Holdco and the Security Trustee.

"**Holding Company**" means in relation to any person incorporated in England and Wales, a holding company within the meaning of section 1159 of the Companies Act 2006.

"**Housing Management**" has the meaning given to it in the Housing Management Agreement.

"**Housing Management Agreement**" means the agreement between ProjectCo and the Housing Management Contractor relating to Housing Management.

"**Housing Management Contractor**" means Chevin.

"**Housing Management Direct Agreement**" means the direct agreement in relation to the Housing Management Agreement dated on or about the date of the Credit Agreement between ProjectCo, the Lender, the Security Trustee, the Housing Management Contractor and the Housing Management Guarantor.

"**Housing Management Document**" means the Housing Management Agreement, the Housing Management Guarantee, the PFI Interface Agreement, and any collateral warranty or direct agreement (other than any Direct Agreement or Collateral Warranty) entered into in favour of the Security Trustee in connection with any of the above or sub-contract thereto.

"**Housing Management Guarantor**" means Together or any person at such time acting as parent company guarantor of the Housing Management Contractor under a guarantee replacing that Housing Management Guarantee, and in the event that all or part of the Housing Management Agreement is terminated, the guarantor of any additional or replacement contractor(s).

"**Independent Certifier**" means the person appointed jointly by the Authority, ProjectCo and the Security Trustee to act as independent certifier to the Project in accordance with the Independent Certifier's Deed of Appointment.

"**Independent Certifier's Deed of Appointment**" means the deed of appointment of the Independent Certifier in the form set out in Schedule 27 of the Project Agreement.

"**Interest Period**" means the period from and including the Utilisation Date and to but excluding 31 March 2014 and thereafter each subsequent period from and including 31 March or 30 September in any year to but excluding the following 30 September or 31 March respectively and the period from and including 31 March 2042 to but excluding the day two Business Days after the Final Maturity Date.

"**Letter of Credit**" has the meaning given to it in the Building Contract.

"**Letter of Credit Provider**" means Lloyds Bank Plc and any replacement letter of credit provider replaced in accordance with clause 4.3 of the Building Contract.

"**Loan**" means the principal amount advanced under the Credit Agreement.

"**Major Project Party**" means the Building Contractor (until the 12th anniversary of the Final Full Services Commencement Date (Actual)), the RRCMR Contractor, each Construction Guarantor, in its capacity as a guarantor of the Building Contract (for so long as it has any outstanding obligations under or as guarantor of the Building Contract), each RRCMR Guarantor, in its capacity as a guarantor of the RRCMR Agreement (for so long as it has any outstanding obligations under or as guarantor of the RRCMR Agreement), the Housing Management Contractor, the Housing Management Guarantor, in its capacity as a guarantor of the Housing Management Agreement (for so long as it has any outstanding obligations under or as guarantor of the Housing Management Agreement) and any Sponsor.

"**Material Adverse Effect**" means a material adverse effect on: (a) the business, assets, financial condition or operations of an Obligor; (b) the Project or a material part of the Project; (c) the ability of an Obligor or a Major Project Party to perform and comply with its obligations under any Transaction Document; (d) the legality, validity or enforceability of any Transaction Document; (e) any right or remedy of a Finance Party in respect of a Finance Document; or (f) the perfected nature, legality, validity, enforceability or priority of any mortgage, pledge, lien, charge, assignment, hypothecation or security interest or any other arrangement having a similar effect over any rights and/or assets created or expressed to be created under the Security Documents.

"**Moody's**" means Moody's Investors Services Limited or any successor to its rating agency function.

"**Notes**" means the Class A Notes and the Class B Notes.

"**Obligor**" means ProjectCo and ProjectCo Holdco.

"**Ongoing Lender Costs**" means costs, fees and expenses and other amounts owing in respect of (i) maintaining the corporate existence of the Lender and its affiliates, (ii) the fees and expenses of any agent appointed by the Lender in accordance with clause 31 of the Credit Agreement, (iii) any listing of bonds or other securities issued by the Lender in connection with the funding or maintenance of advances under the Credit Agreement (including, without limitation, the Class B Notes and the Class A Notes), and/or (iv) the fees and costs of any bond trustee, security trustee, paying agent, administrative services provider, account bank, senior loan surveillance manager, cash manager or other trustee or agent appointed in connection with such bonds or other securities, and (v) any other costs, fees, expenses and other amounts incurred in connection with the ongoing management of the Issuer and the fees and costs of the Issuer's professional advisers.

"**Operating Budget**" means the Construction Budget and each subsequent project budget in the form set out in Schedule 10 (Form of Operating Budget) of the Credit Agreement, itemising (amongst other things) the operating expenditures forecast for a financial year of ProjectCo and delivered and agreed or determined in accordance with the Credit Agreement, as may be revised from time to time in accordance with the terms of the Credit Agreement.

"**Payment Date**" means, relative to any Interest Period, the second Business Day before the final day of such Interest Period.

"**Pennine**" means Pennine Housing 2000 Limited an industrial and provident society with registered number 31859R whose registered office is at Bull Green House, Bull Green, Halifax, HX1 2EB.

"**Performance Deduction**" has the meaning given to it in the Project Agreement.

"**Permitted Budget Variance**" means expenditure on items contained in the then current Operating Budget which exceeds the amount budgeted for such items, provided that the aggregate amount of such additional expenditure in any financial year shall not exceed £35,000.

"**PFI Interface Agreement**" means the interface agreement dated on or about the date hereof between, amongst others, ProjectCo, the RRCMR Contractor, the Building Contractor and the Housing Management Contractor.

"**Preference Shares**" means the preference shares to be issued by ProjectCo HoldCo on or before the Utilisation Date in accordance with the Shareholders Agreement.

"**Principal Project Party**" means an Obligor or a Major Project Party.

"**Proceeds Withdrawal Date**" means: (a) in relation to any calendar month in which a Payment Date falls, the second Business Day prior to such Payment Date; and (b) in relation to any other calendar month, the fifth Business Day prior to the last day of such month.

"**Professional Team**" means (a) Michael Hyde and Associates Ltd (company number 01178091) whose registered office is at 51 Barton Arcade, Deansgate, Manchester, M3 2BJ; (b) Engineering Design Partnership Ltd (company number 07186131) whose registered office is at Caidan House, Park Road, Altrincham, Cheshire, WA14 1TD; (c) Sutcliffe Projects Ltd (company number 04287238) whose registered office is at 18-20 Harrington Street, Liverpool, Merseyside, L2 9QA and (d) Elluc Projects Ltd (company number 05582230) whose registered office is at 262 Manchester Road, Warrington, Cheshire, WA1 3RB.

"**Professional Team Appointment**" means any document governing the appointment of a member of the Professional Team.

"**Project Agreement**" means the project agreement dated on or about the date of the Credit Agreement between ProjectCo and the Authority.

"**Project Document**" means the Project Agreement, each Construction Document, each RRCMR Document, each Housing Management Document, each Equity Document, the Collateral Warranties, any guarantee given by any person or any letters of credit issued in respect of any obligations of any person (other than ProjectCo) under any agreement listed above, any collateral warranty or direct agreement (other than any Direct Agreement or any Collateral Warranty) entered into in relation to any agreement listed above, or any other agreement designated as a Project Document by ProjectCo and the Lender.

"**Rating Agencies**" means S&P, Moody's and Fitch Ratings Ltd. and in each case includes any successors to its respective rating business.

"**Replaceable Document**" means any Project Document other than the Project Agreement, any Equity Document, the Building Contractor Performance Bond and the Letter of Credit.

"**Replaceable Party**" means the RRCMR Contractor, the Housing Management Contractor, the Building Contractor, each RRCMR Guarantor, each Housing Management Guarantor and each Construction Guarantor and the members of the Professional Team.

"**Required DSRA Balance**" means in relation to the Debt Service Reserve Account, the amount calculated by reference to the Computer Model (as updated from time to time in accordance with the Credit Agreement) as of 31 May 2017 and then in relation to each Scheduled Calculation Date as equal to the Debt Service payable on the next Payment Date.

"**RRCMR Agreement**" means the responsive repairs and cyclical maintenance and renewal agreement dated on or about the date of the Credit Agreement between ProjectCo and the RRCMR Contractor.

"**RRCMR Contractor**" means Chevin.

"**RRCMR Contractor Parallel Loan Agreement**" means the Parallel Loan Agreement as defined in the RRCMR Agreement;

"**RRCMR Direct Agreement**" means the direct agreement in relation to the RRCMR Agreement dated on or about the date of the Credit Agreement between ProjectCo, the Lender, the Security Trustee the RRCMR Contractor and the RRCMR Guarantor;

"**RRCMR Documents**" means the RRCMR Agreement, the RRCMR Guarantee, the PFI Interface Agreement, the RRCMR Contractor Parallel Loan Agreement, and any collateral warranty or direct agreement (other than any Direct Agreement or any Collateral Warranty) entered into in favour of the Security Trustee in connection with any of the above or sub-contract thereto.

"**RRCMR Guarantee**" means the guarantee dated on or about the date of the Credit Agreement provided by the RRCMR Guarantor to ProjectCo in respect of the RRCMR Contractor's obligations under the RRCMR Agreement.

"**RRCMR Guarantor**" means Together or any person at such time acting as parent company guarantor of the RRCMR Contractor under a guarantee replacing that RRCMR Guarantee, and in the event that all or part of the RRCMR Agreement is terminated, the guarantor of any additional or replacement contractor(s).

"**S&P**" means Standard and Poor's Rating Services, a division of Standard and Poor's Credit Market Services Europe Limited, or any successor to its rating agency function.

"**Scheduled Calculation Date**" means 31st March and 30th September of each year from and including 31st March 2014 until the Final Maturity Date.

"**Secured Finance Party**" means each Senior Creditor.

"**Security Agreements**" means the Company Debenture and the HoldCo Debenture.

"**Security Documents**" means each Security Agreement, the Security Trust and Intercreditor Deed, any deed of accession entered into in respect of any document referred to above, and any other document evidencing or creating security over any asset of ProjectCo or ProjectCo Holdco to secure any obligation of the Obligors to a Secured Finance Party under the Finance Documents.

"**Security Interest**" means any mortgage, pledge, lien, charge, assignment, hypothecation or security interest or any other agreement or arrangement having a similar effect.

"**Security Trust and Intercreditor Deed**" means the security trust and intercreditor deed dated on or about the date of the Credit Agreement between (among others) the Security Trustee, the Lender, the Sponsors and ProjectCo.

"**Senior Creditor**" means the Finance Parties and any administrative receiver, a receiver and manager or a receiver, in each case appointed under the Security Agreements.

"**Services**" means those services to be performed by ProjectCo pursuant to the Project Agreement.

"**Site**" has the meaning given to it in the Project Agreement.

"**Shareholders' Agreement**" means the shareholders agreement relating to shareholdings in ProjectCo Holdco dated on or about the date hereof between, *inter alios*, ProjectCo, ProjectCo Holdco and each of the Sponsors.

"**Specialist Sub-Contractors**" means those sub-contractors providing works, materials and services in respect of:

(a) mechanical and engineering sub-contractor design;

(b) external cladding and design; and

(c) lift supplier and installer design.

"**Specialist Subcontracts**" means those sub-contractors to the Building Contractor providing works, materials and services in respect of: (a) M&E contractor sub-contractor design; (b) external cladding design; and (c) lift supplier and installer design.

"**Sponsor**" means the "Sponsors" as defined in the Security Trust and Intercreditor Deed from time to time, being at the date of the Credit Agreement Chevin and Pennine.

"**Subsidiary**" means: (a) a subsidiary within the meaning of Section 1159 of the Companies Act 2006; and (b) unless the context otherwise requires, a subsidiary undertaking within the meaning of Sections 1161 and 1162 of the Companies Act 2006.

"**Tax**" means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any related penalty or interest).

"**Tax Assumptions**" means the assumptions set out in Schedule 8 Part 2 (Tax Assumptions) of the Credit Agreement.

"**Technical Assumptions**" means the assumptions set out in Schedule 8 Part 3 (Technical Assumptions) of the Credit Agreement.

"**Together**" means Together Housing Group Limited (a company incorporated in England and Wales with registered number 05697708 whose registered office is at Bull Green House, Bull Green, Halifax, HX1 2EB).

"**Transaction Authorisation**" means any authorisation, easement, permit, licence, consent or approval required to be held by any person for the entry into, performance, validity and enforceability of, and the transactions contemplated by, the Transaction Documents or to otherwise implement the Project.

"**Transaction Document**" means a Finance Document or a Project Document.

"**Transfer Certificate**" means a certificate, substantially in the form of Schedule 5 (Form of Transfer Certificate) of the Credit Agreement, with such amendments as the Security Trustee may approve or require or any other form agreed between the Security Trustee and ProjectCo.

"**Unavailability Deduction**" has the meaning given to it in the Project Agreement.

"**Unitary Charge**" has the meaning given to it in the Project Agreement.

"**Utilisation Date**" means 17 September 2013 or such other date as the Lender and ProjectCo may agree.

"**Withdrawal Request**" means a request for a withdrawal from the Construction Account (as further described below).

"**Works**" has the meaning given to it in the Project Agreement.

2 SECURITY ARRANGEMENTS

The Notes will have the benefit of the security arrangements summarised below. However, attention is drawn to the section entitled "**Security Trust and Intercreditor Deed**" below. The ability of the Security Trustee to exercise rights in respect of such security arrangements will be restricted by the Security Trust and Intercreditor Deed and Noteholders will have no independent entitlement to exercise such rights.

3 PROJECTCO DEBENTURE

3.1 Pursuant to a debenture to be granted by ProjectCo in favour of the Security Trustee on or before the Issue Date, the obligations of ProjectCo to the beneficiaries under the Security Trust and Intercreditor Deed will be secured by charges and assignments in favour of the Security Trustee over all the assets of ProjectCo which will be expressed to include (inter alia):

(a) fixed charges over certain assets of ProjectCo;

(b) assignments by way of security of all rights of ProjectCo under, inter alia, the Project Documents to which it is a party and all rights to which ProjectCo may be entitled from time to time in relation to the proceeds of any insurance policies; and

(c) a floating charge over all assets of ProjectCo which have not been effectively secured by way of fixed charge or assignment.

4 HOLDCO DEBENTURE

4.1 Pursuant to a debenture to be granted by ProjectCo Holdco in favour of the Security Trustee on or before the Issue Date, the obligations of ProjectCo Holdco to the beneficiaries under the Security Trust and Intercreditor Deed will be secured by charges and assignments in favour of the Security Trustee over all the assets of ProjectCo Holdco which will be expressed to include (inter alia):

(a) fixed charges over, *inter alia*, the issued shares in ProjectCo;

(b) assignments by way of security of all rights of ProjectCo Holdco under, inter alia, the Project Documents to which it is a party and all rights to which ProjectCo Holdco may be entitled from time to time in relation to the proceeds of any insurance policies; and

(c) a floating charge over all assets of ProjectCo Holdco which have not been effectively secured by way of fixed charge or assignment.

5 **SECURITY TRUST AND INTERCREDITOR DEED**

The following is an overview of certain provisions of the Security Trust and Intercreditor Deed. It is not exhaustive and is subject to the detailed provisions of the Security Trust and Intercreditor Deed.

The Obligors, the Sponsors, the Issuer and the Security Trustee will on or before the Closing Date enter into a security trust and intercreditor deed (the **"Security Trust and Intercreditor Deed"**) pursuant to which the claims of the Finance Parties and the Sponsors under the Finance Documents will be regulated and under which the Security Trustee will hold the security (the **"Security"**) constituted by the Security Documents.

The claims of the Sponsor Creditors will be subordinated to the claims of the Finance Parties.

Each of the Senior Creditors will irrevocably appoint the Security Trustee to act as its agent and trustee in connection with the Security. In such capacity the Security Trustee will agree in the Security Trust and Intercreditor Deed that it may refrain from exercising any right which it may have in respect of the Security Documents unless and until directed by the Lender and shall not be bound to take any action in relation to Enforcement unless first indemnified and/or secured and/or prefunded to its satisfaction.

If the Authority issues a notice to the Security Trustee to suspend or terminate the performance of its obligations under the Project Agreement (a **"Termination Notice"**), then the Security Trustee shall, upon the instructions of any one or more of the Step-In Creditors (given in accordance with the provisions of this Deed) be bound to issue a step-in notice under the Authority Direct Agreement (a **"Step-In Notice"**).

Upon and after the issue of any Step-In Notice in respect of the Authority Direct Agreement:

(a) the relevant Step-In Creditor(s) and any relevant appointed representative shall, respectively, be entitled to procure the exercise of and to exercise, all rights conferred upon them (or the Security Trustee) pursuant to the Authority Direct Agreement;

(b) each Senior Creditor shall give or make (and to the extent possible shall be deemed to have given or made), at the same time, a consent, release, approval, determination or waiver of their respective entitlement to exercise rights to accelerate payment (whether by early redemption, prepayment or otherwise) contemplated under any of the Finance Documents which may be in existence at such time or which may occur as a result of the taking of such action by the relevant Step-In Creditor(s) or relevant appointed representatives; and

(c) each Senior Creditor shall use its reasonable endeavours to do all such things and execute or procure the execution of all such documents as may be reasonably required to give effect to the terms of clause 9.3 of the Security Trust and Intercreditor Deed.

Each Step-In Creditor in respect of a Direct Agreement (jointly and severally where there is more than one party acting as a Step-In Creditor) shall indemnify the Security Trustee in respect of any loss, liability, claim, demand or expense ("**Loss**") of the Security Trustee arising in connection with or as a result of the step-in under that Direct Agreement which would not have arisen other than as a result of such step-in, unless such Loss arises as a result of the gross negligence, fraud or wilful default of the Security Trustee.

The Security Trustee may resign and appoint any of its Affiliates as successor Security Trustee by giving notice to the other Senior Creditors, ProjectCo and ProjectCo HoldCo. Alternatively, the Security Trustee may resign by giving notice to the Senior Creditors and ProjectCo and ProjectCo HoldCo, in which case the Lender may appoint a successor Security Trustee. If no successor Security Trustee has been appointed by the Lender within 60 days after notice of resignation was given, the Security Trustee may appoint a successor Security Trustee. The person(s) appointing a successor Security Trustee must consult with ProjectCo prior to the appointment and any successor Security Trustee must have an office in the U.K. The resignation of the Security Trustee and the appointment of any successor Security Trustee will both become effective only when the successor Security Trustee notifies all the parties to the Credit Agreement that it accepts its appointment and executes and delivers to the old Security Trustee an accession deed, substantially in the form at Schedule 1 of the Security Trust and Intercreditor Deed. In addition, the Lender may, by notice to the Security Trustee, require it to resign.

Definitions

See the sub-section entitled "*Credit Agreement*", above, for definitions used in this section. In addition:

"**Step-In Creditor**" means any person exercising any Step-In Rights or who is appointed as an Appointed Representative;

"**Step-In Rights**" means the exercise of any step-in rights pursuant to a Direct Agreement including the giving of any Step-In Notice or the appointment of an appointed representative pursuant to the Authority Direct Agreement;

"**Sponsor Creditors**" means HoldCo, each Sponsor, any person (other than a Finance Party) who acquires any Company Loan Note at any time, any person (other than a Finance Party) who acquires any Preference Shares at any time, any guarantor of any of ProjectCo's obligations, and, in each case, any successor or assignee of any of them.

6 ACCOUNTS AGREEMENT

The Company, the Lender, the Security Trustee, and Elavon Financial Services Limited, U.K. Branch as account bank (the "**Account Bank**") will enter into an accounts agreement (the "**Accounts Agreement**") on or before the Closing Date which will regulate the setting up and operation of the Accounts (as defined and described in the section above entitled "**Credit Agreement**").

Sums standing to the credit of certain of the Accounts may be invested (subject to certain restrictions) in certain approved authorised investments in accordance with the provisions of the Accounts Agreement.

For further information relating to the operation of the Accounts, please see the paragraph entitled "Accounts" the section above entitled "Credit Agreement".

If: (i) ProjectCo requests and the Lender and the Security Trustee consent; (ii) the Account Bank resigns on not less than 60 days' notice; (iii) the Account Bank fails to meet the criteria of an Acceptable Bank and the Lender gives notice to the

Account Bank that its appointment is to be terminated; (iv) the Account Bank's appointment as account bank to the Lender is terminated or otherwise ceases and the Lender gives notice to the Account Bank that its appointment is to be terminated; (v) the Account Bank breaches any of its obligations under the Accounts Agreement (other than an obligation which in the Lender's opinion is not material and is capable of remedy and is remedied within 30 days' of notice requiring the same to be remedied) and the Lender gives notice to the Account Bank that its appointment is to be terminated; (vi) certain events classed as Events of Default under the Credit Agreement in relation to insolvency, insolvency proceedings or creditors' process occur in relation to the Account Bank (as if references to the Principal Project Parties in such clauses were to the Account Bank) and the Lender gives notice to the Account Bank that its appointment is to be terminated; (vii) the Account Bank indicates an intention to cease to carry out services of the type referred to in the Accounts Agreement and the Lender gives notice to the Account Bank that its appointment is to be terminated; or (viii) the Lender (acting reasonably) otherwise requires, then the Account Bank will, be changed to another bank, provided that such other bank agrees to such appointment, such other bank is an Acceptable Bank and the Lender approves the release of the existing Account Bank and the appointment of the new Account Bank.

ProjectCo will do all such things as the Lender may reasonably request in order to facilitate any change to in Account Bank (including, without limitation, the execution of bank mandate forms and further security over its interest in the Accounts).

Pursuant to the Accounts Agreement, the Account Bank represents to the other parties that it is an Acceptable Bank and undertakes to notify the other parties if it ceases to be an Acceptable Bank at any time.

Definitions

See the sub-section entitled "*Credit Agreement*", above, for definitions used in this section. In addition:

"**Acceptable Bank**" means a bank which is an authorised institution (for the purpose of the Financial Services and Markets Act 2000) and whose short-term debt is rated at least A-1 by S&P and P-1 by Moody's and whose long-term debt is rated at least A by S&P and A2 by Moody's or, in the case of a bank whose long-term debt is not so rated, a bank of equivalent standing approved by the Lender.

SUMMARY OF ISSUER TRANSACTION DOCUMENTS

The following is a summary of certain provisions of the principal documents relating to the transaction described herein and is qualified in its entirety by reference to the detailed provisions of the Issuer Transaction Documents.

This section describes the Note Trust Deed, the Managing Agent Agreement, the Issuer Account Bank Agreement, the Cash Management Agreement, the Corporate Services Agreement, the Issuer Deed of Charge and the Paying Agency Agreement (and together with the Subscription Agreement and the Master Definitions Schedule, the "**Issuer Transaction Documents**").

NOTE TRUST DEED

Introduction

The Issuer, the Managing Agent and the Note Trustee will enter into a trust deed (the "**Note Trust Deed**") on the Closing Date. The Note Trust Deed will contain the forms of the Notes. Under the Note Trust Deed, the Issuer will covenant to the Note Trustee to pay all amounts due under the Notes. The Note Trustee will hold the benefit of the Issuer's covenant to pay on trust for the Noteholders.

Conflicts / Relationship with Noteholders

The Note Trust Deed will provide that, except where expressly provided otherwise, the Note Trustee is required to have regard to the interests of the Noteholders only. The Note Trustee shall have regard to the interests of all the Noteholders equally as a class, provided that to the extent of any conflict between the interests of the Class A Noteholders and the Class B Noteholders, the Note Trustee shall give priority to the interests of the Class A Noteholders whose interests shall prevail while they remain outstanding.

The Note Trust Deed contains provisions limiting the powers of the Class B Noteholders to request or direct the Note Trustee to take any action or to pass any Extraordinary Resolution according to the effect thereof on the interests of the Class A Noteholders.

Except in certain circumstances, the Note Trust Deed contains no such limitation on the powers of the Class A Noteholders, the exercise of which will be binding on the Class B Noteholders, irrespective of the effect thereof on their interests.

In respect of the delivery of a Note Enforcement Notice, the Note Trustee shall not be bound to take any action unless it has been directed to do so either by an Extraordinary Resolution of the Most Senior Class Outstanding or in writing by the holders of more than 25 per cent. of the Principal Amount Outstanding of the Most Senior Class Outstanding.

The Note Trustee is not obliged to take any action unless it shall have been indemnified and/or secured and/or prefunded to its satisfaction against all liabilities to which it may thereby become liable or which it may be incur by it in connection therewith.

Modification and waiver

The Note Trust Deed provides that, without the consent or sanction of the Noteholders or any other Issuer Secured Creditors, the Note Trustee may at any time and from time to time:

(a) agree with the Issuer and any other relevant parties in making any modification (other than in the case of sub-clause (i) below in respect of any Basic Terms

Modification) to the Conditions or the Issuer Transaction Documents in relation to which its consent is required:

(i) which, in the opinion of the Note Trustee, is not materially prejudicial to the interests of the Noteholders; or

(ii) which, in the opinion of the Note Trustee, is to correct a manifest error or an error in respect of which an English court could reasonably be expected to make a rectification order or is of a formal, minor or technical nature;

(b) in its sole discretion waive or authorise any breach or proposed breach, of the Conditions or any of the Issuer Transaction Documents (other than relating to a Basic Terms Modification) which, in the opinion of the Note Trustee, is not materially prejudicial to the interests of the Noteholders; and

(c) in its sole discretion determine that a Note Event of Default or potential note event of default (meaning any event which would become a Note Event of Default ("**Potential Note Event of Default**")) shall not, or shall not subject to specified conditions, be treated as such, provided that the Note Trustee is satisfied that the interests of the holders of the Noteholders would not be materially prejudiced,

provided always that the Note Trustee shall not exercise any powers under paragraphs (a), (b) or (c) in contravention of any express direction given by Extraordinary Resolution or by a direction in writing of the holders of more than 25 per cent. in aggregate Principal Amount Outstanding of the Most Senior Class Outstanding given pursuant to Condition 8 (*Note Events of Default*) or under a modification of waiver which is the subject of a Managing Agent Right.

In addition, the Note Trust Deed provides for the sanctioning of a Basic Terms Modification by Extraordinary Resolution which, if passed by the holders of one Class of Notes, shall not be effective unless it is sanctioned by an Extraordinary Resolution of the holders of each of the other Classes of Notes then outstanding.

Unless the Note Trustee otherwise agrees, the Issuer shall cause any such modification, waiver, authorisation or determination to be notified to the Noteholders in accordance with Condition 13 (*Notices*) as soon as practicable thereafter.

Role of the Managing Agent

The Managing Agent shall exercise all decisions on the Issuer's behalf relating to the rights and discretions of the Issuer as lender under the ProjectCo Transaction Documents (excluding, for the avoidance of doubt, the rights of the Issuer to sell or otherwise transfer its interest in the Credit Agreement or any other ProjectCo Transaction Document) (the "**Managing Agent Rights**") in accordance with the terms of the Note Trust Deed and the terms of the Managing Agent Agreement. The Managing Agent Rights are categorised as a Level 1 Right, Level 2 Right, Level 3 Right or Level 4 Right (each as defined below).

Decisions in respect of Level 1 Rights, Level 2 Rights and Level 3 Rights, respectively, will be conducted at a single meeting of Class A Noteholders and Class B Noteholders together in accordance with the provisions set out in Condition 12 (b) and as follows:

(a) in relation to the exercise of a Level 1 Right, the consent of the Noteholders is required exercisable by way of a resolution passed at a meeting of the Noteholders by a voting majority consisting of not less than 95% of the votes cast thereat (where the quorum for the meeting is 75% of the aggregate principal amount then outstanding of the Notes or 25% of the aggregate principal amount then outstanding of the Notes in the case of an adjourned meeting); and

(b) in relation to the exercise of a Level 2 Right, the consent of the Noteholders is required exercisable by way of a resolution passed at a meeting of the Noteholders by a voting majority consisting of at least the majority of the votes cast thereat (where the quorum for the meeting will be one or more persons holding or representing at least 75% of the aggregate principal amount then outstanding of the Notes or at an adjourned meeting one or more Noteholders holding at least 25% of the aggregate principal amount then outstanding of the Notes).

In relation to the exercise of a Level 3 Right, the Managing Agent may exercise such rights without Noteholder consent subject to the proviso that the Managing Agent shall notify the Noteholders of its intention to exercise such right and shall specify the relevant decision in such notice ("**Level 3 Rights Managing Agent Notice**"). The Noteholders may, at a meeting of Noteholders (where the quorum for the meeting will be one or more persons holding or representing at least $33^1/_3$% of the aggregate principal amount then outstanding of the Notes) passed within 30 days of receipt of such notice, instruct the Managing Agent, by way of Extraordinary Resolution, to refrain from exercising such right, provided that Noteholders holding or representing the majority of the votes cast at the meeting pass such resolution. In circumstances where the Noteholders exercise such power, the Managing Agent shall refrain exercising such right in the manner proposed and may propose an alternative decision or the same decision as proposed previously for approval by the Noteholders by way of Extraordinary Resolution. This process may be repeated by the Managing Agent until a decision is approved.

In relation to the exercise of Level 4 rights, the Managing Agent may (in its sole discretion), without the consent of the Noteholders or the Note Trustee, give its consent.

Fees and expenses

The Issuer will reimburse the Note Trustee for all costs and expenses incurred in acting as Note Trustee. In addition, the Issuer shall pay to the Note Trustee a fee of such amount and on such dates as determined in accordance with a fee letter with the Note Trustee.

Retirement and removal

The Note Trustee may retire after giving not less than 90 calendar days' notice in writing to the Issuer. The Most Senior Class Outstanding may by an Extraordinary Resolution remove the Note Trustee (being a voting majority of 75% of Noteholders ("**Extraordinary Resolution**")) where the quorum for the meeting is a majority of the Principal Amount outstanding of the Class A Notes or, at an adjourned meeting, any one or more Noteholders whatever of the Principal Amount Outstanding of the Class A Notes.

The retirement or removal of the Note Trustee shall not become effective unless there remains at least one trustee under the Note Trust Deed and the Issuer will covenant in the Note Trust Deed to use its reasonable endeavours to procure the appointment of a new Note Trustee as soon as reasonably practicable after the resignation or removal of the existing Note Trustee. If the Issuer has failed to appoint a replacement Note Trustee prior to the date (30) calendar days before the expiry of the notice period given by the Note Trustee, the outgoing Note Trustee will be entitled to nominate a successor which shall be approved by an Extraordinary Resolution of the Most Senior Class then outstanding.

Governing Law

The Note Trust Deed and any non-contractual obligations arising out of or in relation to the Note Trust Deed will be governed by English law.

MANAGING AGENT AGREEMENT

Introduction

On the Closing Date, the Issuer will appoint FHW Dalmore Limited as the Managing Agent to provide information services to the Issuer pursuant to the Managing Agent Agreement. FHW Dalmore Limited intends to appoint FHW Capital LLP as its delegate to perform all of its obligations under the Managing Agent Agreement.

The primary obligation of the Managing Agent under the Managing Agent Agreement is to prepare information for dissemination by the Cash Manager in its periodic reports to Noteholders. This is in addition to the Managing Agent's obligation under the Note Trust Deed to exercise the Managing Agent Rights.

The Managing Agent will be paid a fee by the Issuer.

Information Services

The Managing Agent shall provide the Information Services comprising the Construction Period Services and the Operating Period Services. The Managing Agent shall provide information required the Construction Period Investor Report from (and including) the Closing Date until (and including) the end of the month in which the Final Full Services Commencement Date (Actual) (as defined in the Credit Agreement) occurs. The Managing Agent shall provide for the Operating Period Investor Report from (and including) 30 September 2017 until (and including) the Final Maturity Date (or, if earlier, the date of redemption of the Notes in full).

Construction Period Services

The Managing Agent will provide to the Cash Manager within 10 Business Days of the last Business Day of each month a partially completed Construction Period Investor Report in respect of the performance of the Project during the construction period (or, in the case of the first report, from the Closing Date to 31 October 2013).

Operating Period Services

The Managing Agent will provide to the Cash Manager a partially completed semi-annual Operating Period Investor Report with respect to the previous six month period within 10 Business Days of each Note Payment Date (commencing on the Note Payment Date on 30 September 2017).

Level 1-4 Rights

The Managing Agent Rights are categorised as a Level 1 Right, Level 2 Right, Level 3 Right or Level 4 Right. The Managing Agent has the sole responsibility to determine (in good faith) which category of Managing Agent Right is applicable to any right or discretion exercisable by the Issuer as a Managing Agent Right. The Managing Agent shall notify the Issuer and the Note Trustee of any Managing Agent Right to be exercised and the category applicable to such right as determined by the Managing Agent. Upon such notification being given, the categorisation of such right shall become binding on the Issuer, the Note Trustee and the Noteholders (in the absence of fraud and/or wilful default on the part of the Managing Agent).

A "**Level 1 Right**" is defined as decisions in respect of matters including (amongst other things): (i) any change in the interest, commitment amount or currency under the Credit Agreement, (ii) any change in the date on which principal or interest is due and payable or the amount of principal or interest due and payable under the Credit Agreement, (iii) any amendment to the calculation of financial ratios set out in the Credit Agreement and (iv) any transfer by ProjectCo of its rights and obligations under the Project Finance Documents.

A "**Level 2 Right**" is defined as decisions in respect of matters including (amongst other things): (i) step-in rights under the Project Agreement or Direct Agreements (other than those rights which are defined as a Level 3 Right or a Level 4 Right), (ii) any acceleration of outstanding amounts or demands made under the Credit Agreement or other Project Finance Documents for any additional amounts following an Event of Default or waiver of any Event of Default, (iii) any enforcement of the Project Security Documents following an Event of Default under the Credit Agreement (other than those enforcement rights which are defined as a Level 1 Right, Level 3 Right or Level 4 Right) and (iv) any other decisions (not otherwise listed as a Level 1 Right, Level 2 Right or Level 3 Right) that the Managing Agent believes (in its absolute discretion) to be so material as to require it to be treated as a Level 2 Right.

A "**Level 3 Right**" is defined as decisions in respect of matters including (amongst other things): (i) the appointment of a replacement Housing Management Contractor or RRCMR Contractor (and exercising ancillary rights under the Direct Agreements), (ii) the appointment of a replacement Building Contractor (and exercising ancillary rights under the Direct Agreements), (iii) any amendment to or waiver of the Project Finance Documents (other than those rights which are defined as a Level 1 Right, Level 2 Right or Level 4 Right), (iv) any amendment to or waiver of any provision of the Project Documents (other than rights which are defined as a Level 1 Right, Level 2 Right or Level 4 Right) and (v) any other decisions (not otherwise listed as a Level 1 Right, Level 2 Right or Level 3 Right) that the Managing Agent believes (in its absolute discretion) to be so material as to require it to be treated as a Level 3 Right.

A "**Level 4 Right**" is defined as decisions in respect of matters including (amongst other things): (i) to determine the satisfaction and/or waiver of conditions precedent under the Credit Agreement on the Closing Date or otherwise and determine the satisfaction of withdrawal conditions from controlled accounts and to consent to any administrative procedures in relation to accounts or Authorised Investments or the replacement of the Account Bank, (ii) the approval of (a) annual operating budgets (and any variations thereto, including upon the occurrence of unforeseen operating or maintenance expenditure) and (b) any additional costs and expenses, including those constituting Capital Costs, Operating Costs and Permitted Payments under the Credit Agreement or fees payable to agents or service providers of ProjectCo, (iii) the ability to request (from ProjectCo or any experts and advisers) and to propose and approve remedial plans and actions following a trigger event under the Credit Agreement which does not constitute a Level 1 Right, a Level 2 Right or Level 3 Right, (iv) the determination of the occurrence of any Default, Event of Default or trigger event under the Credit Agreement and whether such event is continuing and (v) any other discretion of the Issuer under the ProjectCo Transaction Documents which is not defined as a Level 1 Right, a Level 2 Right or a Level 3 Right.

Termination and Resignation

The Managing Agent may resign on giving not less than 60 days' notice in writing to the Note Trustee and the Issuer (with a copy to the Cash Manager) provided that a substitute Managing Agent approved by the Note Trustee in accordance with an Extraordinary Resolution of the Most Senior Class Outstanding has been appointed (except in the case of resignation in favour of Dalmore Capital Limited or any affiliate thereof, which does not require consent of the Note Trustee or Noteholders) and a new managing agent agreement is entered into on substantially the same terms as the Managing Agent Agreement or on such terms as are satisfactory to the Issuer or, following the delivery of a Note Enforcement Notice, the Note Trustee.

The Issuer or the Note Trustee may, acting in accordance with an Extraordinary Resolution of the Most Senior Class Outstanding, by 10 days' prior notice in writing to the Managing Agent (with a copy to the Issuer and the Cash Manager), terminate the appointment of the Managing Agent only if any of the following events shall occur:

(a) the Managing Agent fails to perform or comply with its obligations as Managing Agent under the Managing Agent Agreement (other than, for the avoidance of doubt, any failure by the Managing Agent to report any of the information required under the Managing Agent Agreement which the Managing Agent has not itself received) or the Note Trust Deed in each case in any material respect and where such breach is capable of remedy such breach is not remedied within 10 Business Days following receipt of notice of such breach by the Note Trustee or (if earlier) the date on which the Managing Agent became aware of such default;

(b) the continuation of a Subordinated Bond Lock-Up Event resulting in interest and principal payable in respect of the Class B Notes being paid into the Subordinated Bond Lock-Up Account for three consecutive Note Interest Periods;

(c) the occurrence of an event entitling the exercise of rights under paragraph (i), (ii) or (iii) of the Level 2 Rights; or

(d) an insolvency event occurs in relation to the Managing Agent,

Any termination of the appointment of the Managing Agent is subject to the prior appointment of a substitute Managing Agent which has been approved in writing by the Note Trustee acting in accordance with an Extraordinary Resolution of the Most Senior Class Outstanding and a new managing agent agreement being entered into on substantially the same terms as the Managing Agent Agreement or on such terms as are satisfactory to the Issuer or, following the delivery of a Note Enforcement Notice, the Note Trustee.

If the appointment of the Managing Agent is terminated or the Managing Agent resigns, the Managing Agent must deliver its books of account, papers, records, registers, correspondence, computer stored data and documents relating to the affairs of the Issuer to the Managing Agent. The Managing Agent Agreement will terminate automatically on the Final Maturity Date.

Governing Law

The Managing Agent Agreement and any non-contractual obligations arising out of or in relation to the Managing Agent Agreement will be governed by English law.

ISSUER ACCOUNT BANK AGREEMENT

Introduction

The Issuer, the Cash Manager, the Issuer Account Bank and the Issuer Security Trustee will enter into an agreement on or about the Closing Date (the "**Issuer Account Bank Agreement**") pursuant to which the Issuer will appoint Elavon Financial Services Limited as the Issuer Account Bank (the "**Issuer Account Bank**") and will establish and maintain the following bank accounts:

(a) an account in the name of the Issuer held with the Issuer Account Bank called the "issuer transaction account" (the "**Issuer Transaction Account**");

(b) an account in the name of the Issuer held with the Issuer Account Bank called the "retained profit account" (the "**Retained Profit Account**"); and

(c) an account in the name of the Issuer held with the Issuer Account Bank called the "subordinated bond lock-up account" (the "**Subordinated Bond Lock-Up Account**"),

(together referred to as the "**Issuer Accounts**").

Withdrawals from the Issuer Accounts will be made only in accordance with the provisions of the Issuer Account Bank Agreement, the Cash Management Agreement and the Issuer Deed of Charge. In accordance with the terms of the Issuer Account Bank Agreement, the Issuer Account Bank has agreed to comply with all directions of the Cash Manager on behalf of the Issuer and, following the delivery of a Note Enforcement Notice, the Issuer Security Trustee to effect payments to and from the relevant Issuer Accounts in accordance with the terms of the Issuer Account Bank Agreement and the relevant account mandates.

The Issuer Account Bank will operate the Issuer Accounts in accordance with the Issuer Account Bank Agreement and the Cash Management Agreement for so long as it maintains a rating of at least P-1 by Moody's, A-1 by S&P and F1 by Fitch in respect of its short-term, unsecured, unsubordinated and unguaranteed debt obligations and a rating of at least A2 by Moody's, A by S&P and A by Fitch in respect of its long-term, unsecured, unsubordinated and unguaranteed debt obligations (the "**Requisite Rating**").

Issuer Transaction Account

Pursuant to the Cash Management Agreement, the Cash Manager will ensure that amounts received by the Issuer from ProjectCo under the Credit Agreement are paid into the Issuer Transaction Account. The Issuer may, with the prior written consent of the Issuer Security Trustee, open additional or replacement bank accounts on terms as agreed between the parties at the time.

Interest shall accrue on the daily credit balance of the Issuer Transaction Account at the rate agreed between the Issuer and the Issuer Account Bank. All interest accrued to the Issuer Transaction Account from time to time will be credited to the Issuer Transaction Account.

Retained Profit Account

Pursuant to the Cash Management Agreement, the Cash Manager will debit an amount of £5,000 on each Note Payment Date (the "**Issuer Retained Profit**") (or on the first Note Payment Date, £5,000) from the Issuer Transaction Account and credit such amount to the Retained Profit Account to be retained as profit during each accounting period of the Issuer. The Cash Manager will pay from the Retained Profit Account any amounts due by the Issuer in respect of corporation tax, and any dividends declared by the Issuer to its shareholders.

Interest shall accrue on the daily credit balance of the Retained Profit Account at the rate agreed between the Issuer and the Issuer Account Bank. All interest accrued to the Retained Profit Account from time to time will be credited to the Issuer Transaction Account.

Amounts available in the Retained Profit Account will not be available to Noteholders or other Issuer Secured Creditors.

Subordinated Bond Lock-Up Account

On the occurrence of Subordinated Bond Lock-Up Events set out in Condition 4(e) (*Subordinated bond lock-up*), any amounts of interest and principal due in respect of the Class B Notes shall on the relevant Note Payment Date be paid into the Subordinated Bond Lock-Up Account until the earlier of (x) the Final Maturity Date, (y) the date on which the Class A Notes have been redeemed in full and (z) the Subordinated Bond Lock-Up Event Cure Date.

Interest shall accrue on the daily credit balance of the Subordinated Bond Lock-Up Account at the rate agreed between the Issuer and the Issuer Account Bank. All interest accrued to the Subordinated Bond Lock-Up Account from time to time will be credited to the Subordinated Bond Lock-Up Account.

Amounts standing to the credit of the Subordinated Bond Lock-Up Account may be invested by the Cash Manager (on behalf of the Issuer) in Permitted Investments.

"**Permitted Investments**" means (a) sterling gilt-edged securities and (b) sterling demand or time deposits, certificates of deposit and short-term debt obligations (including commercial paper) provided that in all cases (i) such investments have a maturity date on or before the next Note Payment Date, (ii) the short-term unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised bank under the Financial Services and Markets Act 2000 or an authorised institution under the Building Societies Act 1986) are rated F-1 by Fitch, A-1 by S&P and P-1 by Moody's or higher and the long-term, unsecured, unguaranteed and unsubordinated debt obligations of which are rated at least A by S&P and Fitch and A2 by Moody's, and (iii) (save as a result of a change of law after the date of such investments) all amounts paid in respect of such investments are payable without withholding for or on account of tax.

Termination and Resignation

If the Issuer Account Bank ceases to have the Requisite Rating, the Cash Manager (on behalf of the Issuer) is obliged to use all commercially reasonable efforts to appoint a successor Issuer Account Bank within 30 days of receiving notice from the Issuer Account Bank of it ceasing to have the Requisite Rating.

If the Issuer Account Bank ceases to be a bank for the purposes of section 879 of the Income Tax Act 2007 acting in the ordinary course of its business with payments (other than deposits) made under the Issuer Account Bank Agreement forming part of its income for UK tax purposes (a "**Qualifying Bank**"), the Issuer Account Bank shall give written notice thereof to the Issuer, the Cash Manager and the Note Trustee and the Issuer shall within 30 days, or the outstanding Issuer Account Bank may, appoint a successor Issuer Account Bank being a Qualifying Bank.

The Issuer Account Bank Agreement provides that the Issuer Account Bank may resign its appointment upon not less than 60 days' notice to the Issuer (with a copy to the Cash Manager and the Note Trustee) provided that if such resignation would take effect less than 60 days before the Final Maturity Date or any other date for redemption of the Notes or a Note Payment Date, it shall not take effect until the sixtieth day following such date.

The appointment of the Issuer Account Bank will terminate immediately on the occurrence of certain insolvency events as set out in the Issuer Account Bank Agreement.

Any termination of the appointment of the Issuer Account Bank (other than on the occurrence of specified insolvency events) and any resignation of the Issuer Account Bank shall only become effective upon the appointment in accordance with the Issuer Account Bank Agreement of a bank which possesses the Requisite Rating and is a Qualifying Bank and all necessary regulatory consents to perform the services contemplated by the Issuer Account Bank Agreement as a replacement Issuer Account Bank. If no replacement Issuer Account Bank is appointed by the Issuer by the tenth day before the expiry of notice of the Issuer Account Bank's resignation or (as applicable) notice of termination by the Issuer, then the Issuer Account Bank may itself (following consultation with the Issuer and the Cash Manager as is practicable in the circumstances and with the prior written approval of the Issuer Security Trustee) appoint a suitable replacement Issuer Account Bank which is a Qualifying

Bank and which possesses the Requisite Rating and all necessary regulatory consents to perform the services contemplated by the Issuer Account Bank Agreement.

Costs and Expenses of the Issuer Account Bank

On each Note Payment Date, the Issuer will, in accordance with the Issuer Priorities of Payments, pay the Issuer Account Bank any fees owed to it under the terms of the Issuer Account Bank Agreement and, in accordance with the terms of the Issuer Account Bank Agreement, reimburse it for all out-of-pocket costs and expenses reasonably incurred in the performance of its obligations on behalf of the Issuer and will be payable in priority to the Notes.

Governing Law

The Issuer Account Bank Agreement and any non-contractual obligations arising out of or in relation to the Issuer Account Bank Agreement will be governed by English law.

CASH MANAGEMENT AGREEMENT

Introduction

On the Closing Date, the Issuer will appoint Elavon Financial Services Limited as the Cash Manager (the "**Cash Manager**") to provide cash management services to the Issuer pursuant to the Cash Management Agreement.

The primary obligation of the Cash Manager is to effect the transfer of monies between the relevant parties and accounts. The Cash Manager's duties will include, but are not limited to, (a) determining on the Calculation Date the amount of the Issuer Available Revenue and the amounts to be paid in respect of each item in the applicable Issuer Priorities of Payments; (b) applying Issuer Available Revenue in accordance with the order of payments set forth in the relevant Issuer Priorities of Payments; (c) maintaining the Available Revenue Ledger, the Issuer Profit Ledger, Share Capital Ledger and the Lock-Up Ledger; (d) publishing the investor reports in accordance with the Cash Management Agreement (the "**Investor Report**"); (e) determining the Interest Amount applicable to each Class of Notes; and (f) if applicable, purchasing Permitted Investments from amounts standing to the credit of the Subordinated Bond Lock-Up Account.

The Cash Manager will be paid a fee as agreed between the Cash Manager and the Issuer from time to time.

Investor Reports

The Investor Report will consist of a monthly construction period investor report in respect of the period from the Closing Date to 31 October 2013 and then each month until the end of the month in which the Final Full Services Commencement Date (Actual) (as defined in the Credit Agreement) occurs and an operating period investor report (from the six month period ending on 30 September 2017 and thereafter in respect of each subsequent six months).

The Investor Report will contain the available funds applied in accordance with the priorities of payments in the Security and Intercreditor Deed (payable by ProjectCo) and the Issuer Deed of Charge (payable by the Issuer) and also include any determination made in relation to any Managing Agent Rights.

Also, during the construction period, the Investor Report will include (amongst other things) items relating to the progress of the construction works, notice of any claims made against the Building Contractor for liquidated damages or completion charges, details of any force majeure event or other emergency occurring since construction commencement and details of any anticipated deviation from the construction programme including in respect of commissioning of any phase and the occurrence of any Compensation Event with a value of greater than £50,000 or any Excusing Event and/or any Relief Event which has been continuing for a period longer than seven days and the occurrence of any dispute to be resolved in accordance with clause 62 of the Project Agreement.

During the operations period, the Investor Report will include (amongst other things) the applicable financial ratios under the Credit Agreement for the preceding and forward twelve month periods (from the first scheduled principal repayment date) and the assumptions made in calculating those ratios, the current operating budget and performance against that budget, the occurrence of any Compensation Event with a value of greater than £50,000 or any Excusing Event and/or any Relief Event which has been continuing for period longer than seven days and the occurrence of any material dispute to be resolved in accordance with clause 62 of the Project Agreement, the project reserve account balances, the amount of any unavailability deductions and performance deductions and the amount, if any, not passed down under the sub-contracts and warning notices under the Project Agreement (a description shall be provided of any event leading to a warning notice or to a payment deduction of more than £50,000) and any claims with a value of greater than £50,000 made under the operating period insurance policies.

Please see Appendix 1 (*Form of Investor Report*) for the proposed form of Investor Report.

Ledgers

The Cash Manager shall maintain the following ledgers in respect of amounts standing to the credit of the Issuer Accounts:

(a) the "**Available Revenue Ledger**" - amounts credited to this ledger during a Calculation Period will be available on the following Note Payment Date for application in accordance with the Issuer Pre-Enforcement Priorities of Payments ("**Issuer Available Revenue**");

(b) a ledger called the "**Issuer Profit Ledger**" - amounts credited to this ledger represent the balance of the Retained Profit Amount;

(c) the "**Lock-Up Ledger**" - amounts credited to this ledger on Note Payment Dates will represent amounts retained by the Issuer in accordance with Condition 4(e) (*Subordinated bond lock-up*) in the Subordinated Bond Lock-Up Account; and

(d) the "**Share Capital Ledger**" – £50,000 will be credited to this ledger on the Closing Date and any fees, costs and expenses of the Corporate Services Provider following the Final Discharge Date in conjunction with the liquidation of the Issuer and termination of the transaction shall be paid from such amount.

Termination and Resignation

The Cash Manager may resign only on giving not less than 60 days' notice in writing to the Note Trustee and the Issuer (with a copy to the Issuer Account Bank) provided that a successor cash manager acceptable to the Issuer, or following the delivery of a Note Enforcement Notice, the Issuer Security Trustee, has been appointed and a new cash management agreement is entered into on substantially the same terms as the Cash Management Agreement or on such terms as are satisfactory to the Issuer or, following the delivery of a Note Enforcement Notice, the Issuer Security Trustee.

The Issuer may, with the written consent of the Note Trustee, or the Note Trustee may itself upon written notice to the Cash Manager with a copy to the Issuer Account Bank, the Issuer and the Note Trustee (as applicable), terminate the Cash Manager's rights and obligations with effect from the date specified in the notice if any of the following events occur:

(a) either (i) default is made by the Cash Manager in ensuring the payment on the due date of any payment required to be made under the Cash Management Agreement (other than a payment required to be made on the relevant Note Payment Date in accordance with the applicable Issuer Priorities of Payments) and such default continues unremedied for a period of two Business Days after the earlier of the Cash Manager becoming aware of the default and receipt by the Cash Manager of written notice from the Issuer or (following delivery of a Note Enforcement Notice) the Issuer Security Trustee requiring the default to be remedied or (ii) any default is made by the Cash Manager in the performance of its obligations to effect payments on the relevant Note Payment Date in accordance with the applicable Issuer Priorities of Payments;

(b) without prejudice to paragraph (a) above: (i) default is made by the Cash Manager in the performance or observance of any of its other covenants and obligations under the Cash Management Agreement; (ii) any representation or warranty made by the Cash Manager pursuant to Clause 25 (*Representations and Warranties of the Cash Manager*) of the Cash Management Agreement proves to be untrue, incomplete or inaccurate; or (iii) any certification or statement made by the Cash Manager in any certificate or other document delivered pursuant to the Cash Management Agreement proves to be untrue, incomplete or inaccurate, and (if such default is capable of remedy) such default continues unremedied for a period of ten Business Days after the earlier of the Cash Manager becoming aware of such default and receipt by the Cash Manager of written notice from the Issuer or (following delivery of a Note Enforcement Notice) the Issuer Security Trustee requiring the same to be remedied;

(c) it is or will become unlawful for the Cash Manager to perform or comply with any of its obligations under the Cash Management Agreement; or

(d) an insolvency event as set out in the Cash Management Agreement occurs in relation to the Cash Manager.

In addition to the foregoing, the Issuer (with the prior written consent of the Issuer Security Trustee) may at any time terminate the appointment of the Cash Manager on giving the Cash Manager 60 days' notice in writing.

Any termination or resignation of the Cash Manager is subject to the prior appointment by the Issuer (approved following delivery of a Note Enforcement Notice by the Issuer Security Trustee) of a substitute cash manager on substantially the same terms as those set out in the Cash Management Agreement or on such terms as are satisfactory to the Issuer or (following delivery of a Note Enforcement Notice) the Issuer Security Trustee, as applicable.

If the appointment of the Cash Manager is terminated or the Cash Manager resigns, the Cash Manager must deliver its books of account relating to the Issuer Accounts to or at the direction of the Issuer or, following the delivery of a Note Enforcement Notice, at the direction of the Issuer Security Trustee. The Cash Management Agreement will terminate automatically on the Final Maturity Date.

Governing Law

The Cash Management Agreement and any non-contractual obligations arising out of or in relation to the Cash Management Agreement will be governed by English law.

CORPORATE SERVICES AGREEMENT

Introduction

The Issuer, Structured Finance Management Limited (the "**Corporate Services Provider**"), the Managing Agent and the Issuer Security Trustee will enter into an agreement (the "**Corporate Service Agreement**") on or about the Closing Date pursuant to which the Corporate Service Provider will agree to provide certain administrative, accounting and tax services and provide directors to the board of the Issuer. The Corporate Services Provider will be entitled to receive an annual fee from the Issuer at rates agreed from time to time for the provision of such services.

Termination and Resignation

Pursuant to the terms of the Corporate Services Agreement, the Issuer (with the prior written consent of the Issuer Security Trustee) may, upon an event of default by the Corporate Services Provider under the Corporate Services Agreement, at any time by notice in writing to the Corporate Services Provider, with effect from a date not earlier than 30 days from the date of such notice, terminate the Corporate Services Provider's appointment.

Events of default in respect of the Corporate Services Provider include, among other things: (i) a default in the performance of any of the Corporate Services Provider's covenants or obligations pursuant to the terms of the Corporate Services Agreement which is not capable of remedy or which is capable of remedy but not remedied within the relevant grace period; and (ii) the occurrence of certain insolvency related events in relation to the Corporate Services Provider.

In addition, the Corporate Services Provider may resign by giving at least three months' notice to the Issuer and the Issuer Security Trustee.

Regardless of the reason, the termination of the appointment of the Corporate Services Provider will not take effect until a successor corporate services provider has been appointed in its place.

On or after termination or resignation of its appointment, the Corporate Services Provider is required to deliver books of account, records, registers, correspondence and all documents relating to the affairs of, or belonging to, the Issuer held by the Corporate Services Provider in relation to its appointment to the successor corporate services provider.

In no circumstances shall the Issuer Security Trustee be obliged to assume the obligations of the Corporate Services Provider.

Governing Law

The Corporate Services Agreement and any non-contractual obligations arising out of or in relation to the Corporate Services Agreement will be governed by English law.

ISSUER DEED OF CHARGE

Issuer Security

The Issuer and the Issuer Security Trustee, amongst others, will, on the Closing Date, enter into a deed of charge (the "**Issuer Deed of Charge**") pursuant to which the Notes and certain other obligations of the Issuer (including the amounts owing to the Issuer Security Trustee (for itself and on trust for the Issuer Secured Creditors), the ProjectCo Security Trustee, the Note Trustee (for itself and on behalf of the Noteholders), the Cash Manager, the Issuer Account Bank, the Principal Paying Agent and any other Paying Agents, the

Corporate Services Provider, the Managing Agent, any receiver appointed under the Issuer Deed of Charge and such other creditor who may be a party to, or accede to, the terms of the Issuer Deed of Charge from time to time in accordance with the terms thereof and is designated an Issuer Secured Creditor) are secured by or will be secured by, as the case may be, inter alia, the following security interests:

(a) a first fixed charge over all the Issuer Accounts (which may take effect as a floating charge), all of its book debts and all other monies due and payable to it and the benefit of all rights, securities and guarantees;

(b) an assignment by way of first fixed security of the interest of the Issuer under each Issuer Transaction Document (other than the Note Trust Deed, Issuer Deed of Charge and the Subscription Agreement);

(c) an assignment by way of first fixed security of the rights of the Issuer under the ProjectCo Transaction Documents to which it is a party; and

(d) a first floating charge over the whole of the Issuer's undertaking, assets, property and rights whatsoever and wheresoever, present and future,

all as more particularly set out in the Issuer Deed of Charge.

Issuer Pre-Enforcement Priority of Payments

Prior to the delivery of a Note Enforcement Notice, amounts standing to the credit of the Available Revenue Ledger relating to the Issuer Transaction Account will be applied by the Issuer in accordance with the following priority of payments (the "**Issuer Pre-Enforcement Priority of Payments**") on each Note Payment Date or applicable business day confirmed by the Issuer as being the date of redemption in making payment of or provision for any amounts then due and payable (provided that payments may be made out of amounts standing to the credit of the Available Revenue Ledger relating to the Issuer Transaction Account other than on a Note Payment Date or applicable business day to satisfy liabilities in paragraph (b)):

(a) *first*, in or towards satisfaction, *pari passu* and *pro rata*, of the amounts due in respect of:

  (i) the fees and other remuneration and indemnity payments (if any) payable to the Issuer Security Trustee and other appointees (if any) appointed by the Issuer Security Trustee under the Issuer Deed of Charge and any costs, charges, Liabilities and expenses incurred by the Issuer Security Trustee and the appointees (if any) (as the case may be) under the Issuer Deed of Charge and any other amounts payable to the Issuer Security Trustee and any such entity or entities under the Issuer Deed of Charge, together with interest thereon as provided for therein;

  (ii) the fees and other remuneration and indemnity payments (if any) payable to the Note Trustee and other appointees (if any) appointed by the Note Trustee under the Note Trust Deed and any costs, charges, Liabilities and expenses incurred by the Note Trustee and (as the case may be) the appointees (if any) appointed by the Note Trustee under the Note Trust Deed and any other amounts payable to the Note Trustee under the Note Trust Deed and any such entity or entities under the Note Trust Deed, together with interest thereon as provided for therein;

  (iii) the indemnity payments (if any) payable to the ProjectCo Security Trustee under the Security Trust and Intercreditor Deed;

(b) *second*, in or towards satisfaction, *pari passu* and *pro rata*, of the amounts due and owing by the Issuer in respect of:

(i) third parties that have become payable under obligations incurred in the course of the Issuer's business other than as provided elsewhere in this priority of payments; and

(ii) to the extent that the amount credited to the Retained Profit Account is insufficient to pay (or provide for) the same, all United Kingdom corporation tax and other Tax for which the Issuer is primarily liable under the laws of any jurisdiction;

(c) *third*, in or towards satisfaction, *pari passu* and *pro rata*, of the amounts due and owing by the Issuer in respect of:

(i) the fees, other remuneration, indemnity payments, costs, charges and expenses of the Paying Agents incurred under the Paying Agency Agreement;

(ii) the fees, other remuneration, indemnity payments, costs, charges and expenses of the Corporate Services Provider under the Corporate Services Agreement;

(iii) the fees, other remuneration, indemnity payments, costs, charges and expenses of the Managing Agent under the Managing Agent Agreement;

(iv) the fees, other remuneration, indemnity payments, costs, charges and expenses of the Issuer Account Bank under the Issuer Account Bank Agreement; and

(v) the fees, other remuneration, indemnity payments, costs, charges and expenses of the Cash Manager under the Cash Management Agreement;

(d) *fourth*, to credit an amount to the Retained Profit Account equal to the Issuer Retained Profit;

(e) *fifth*, in or towards satisfaction, *pari passu* and *pro rata*, of the amounts due in respect of interest due but unpaid under the Class A Notes;

(f) *sixth*, in or towards satisfaction, *pari passu* and *pro rata*, of the amounts due in respect of principal and all other amounts then due under the Class A Notes;

(g) *seventh*, in or towards satisfaction, *pari passu* and *pro rata*, of the amounts due in respect of interest due but unpaid under the Class B Notes; and

(h) *eighth*, in or towards satisfaction, *pari passu* and *pro rata*, of the amounts due in respect of principal and all other amounts then due under the Class B Notes.

See also Condition 4(e) (*Subordinated bond lock-up*) which deals with amounts standing to the credit of the Subordinated Bond Lock-Up Account.

Issuer Post-Enforcement Priority of Payments

All monies received or recovered by the Issuer Security Trustee or any receiver appointed under the Issuer Deed of Charge following the enforcement of the Issuer Security (other than any amounts in the Retained Profit Account, amounts credited to the Share Capital Ledger and amounts credited to the Subordinated Bond Lock-Up Account (where not required to be applied under the Issuer Post-Enforcement Priority of Payments under Condition 4(e) (*Subordinated bond lock-up*) which shall be applied in accordance with Condition 4(e)) will be applied in accordance with the following priority of payments (the "**Issuer Post-Enforcement Priority of Payments**" and together with the Issuer Pre-Enforcement Priority of payments, the "**Issuer Priorities of Payments**"):

(a) *first*, in or towards satisfaction, *pari passu* and *pro rata*, of the amounts due in respect of:

(i) the fees and other remuneration and indemnity payments (if any) payable to the Issuer Security Trustee and any Receiver and other appointees (if any) appointed by the Issuer Security Trustee under the Issuer Deed of Charge and any costs, charges, Liabilities and expenses incurred by the Issuer Security Trustee, any Receiver and other appointees (if any) (as the case may be) under the provisions of the Issuer Deed of Charge and any other amounts payable to the Issuer Security Trustee and any such entity or entities under the Issuer Deed of Charge, together with interest thereon as provided for therein;

(ii) the fees and other remuneration and indemnity payments (if any) payable to the Note Trustee and other appointees (if any) appointed by the Note Trustee under the Note Trust Deed and any costs, charges, Liabilities and expenses incurred by the Note Trustee (as the case may be) and other appointees (if any) appointed by the Note Trustee under the Note Trust Deed and any other amounts payable to the Note Trustee under the Note Trust Deed and any such entity or entities under the Note Trust Deed, together with interest thereon as provided for therein; and

(iii) the indemnity payments (if any) payable to the ProjectCo Security Trustee under the Security Trust and Intercreditor Deed;

(b) *second*, in or towards satisfaction, *pari passu* and *pro rata*, of the amounts due and owing by the Issuer in respect of:

(i) the fees, other remuneration, indemnity payments, costs, charges and expenses of the Paying Agents incurred under the Paying Agency Agreement;

(ii) the fees, other remuneration, indemnity payments, costs, charges and expenses of the Corporate Services Provider under the Corporate Services Agreement;

(iii) the fees, other remuneration, indemnity payments, costs, charges and expenses of the Managing Agent under the Managing Agent Agreement;

(iv) the fees, other remuneration, indemnity payments, costs, charges and expenses of the Issuer Account Bank under the Issuer Account Bank Agreement; and

(v) the fees, other remuneration, indemnity payments, costs, charges and expenses of the Cash Manager under the Cash Management Agreement;

(c) *third*, to credit an amount to the Retained Profit Account on each Note Payment Date equal to the Issuer Retained Profit;

(d) *fourth*, in or towards satisfaction, *pari passu* and *pro rata*, of all amounts of interest due but unpaid under the Class A Notes;

(e) *fifth*, in or towards satisfaction, *pari passu* and *pro rata*, of all amounts of principal and all other amounts then due under the Class A Notes;

(f) *sixth*, in or towards satisfaction, *pari passu* and *pro rata*, of all amounts of interest due but unpaid under the Class B Notes; and

(g) *seventh*, in or towards satisfaction, *pari passu* and *pro rata*, of all amounts of principal and other amounts then due under the Class B Notes; and

(h) *eighth*, the surplus (if any) to the Issuer or any other person entitled thereto.

Governing Law

The Issuer Deed of Charge and any non-contractual obligations arising out of or in relation to the Issuer Deed of Charge will be governed by English law.

PAYING AGENCY AGREEMENT

Introduction

Pursuant to an agreement entered into on or about the Closing Date (the "**Paying Agency Agreement**"), Elevon Financial Services Limited will be appointed by the Issuer as Principal Paying Agent and will act as agent of the Issuer to effect payments in respect of the Notes. The functions, rights and duties of the Principal Paying Agent are set out in the Terms and Conditions. See the section of this document entitled "*Terms and Conditions of the Notes*".

Withholding Tax

If a Paying Agent is obliged by law or pursuant to FATCA or the US-UK IGA to make a deduction or withholding from any payment which it makes under or pursuant to the Paying Agency Agreement for or on account of any present or future taxes, duties or assessments or for any withholding or deduction required pursuant to an agreement described in Section 1471(a) of the Internal Revenue Code of 1986 (the "**Code**") or any withholding or deduction otherwise imposed by FATCA and any regulations or agreements thereunder or official interpretations thereof, or law implementing an intergovernmental approach thereto ("**FATCA Withholding Tax**") in respect of any payment due on the Notes the Paying Agent shall make such payment after such withholding or deduction has been made and shall deal with the amount of deduction or withholdings as required by applicable law or pursuant to FATCA or the US-UK IGA and shall notify the Issuer of the same and the Paying Agent shall have no obligation to gross-up any such payment or to pay any additional amount as a result of a FATCA Withholding Tax.

If, for any reason, a Paying Agent fails to become, or ceases to be, either (i) a "foreign financial institution" that is a "participating foreign financial institution" as from the effective date of withholding on "passthrough payments" (as such terms are defined pursuant to the provisions of FATCA) ("**Participating FFI**") or (ii) exempt from FATCA Withholding Tax under the US-UK IGA or another similar intergovernmental agreement then the Paying Agent shall give notice to the Issuer and the Note Trustee as soon as reasonably practicable after becoming aware of such matters. If, as a result of such notice, the Issuer considers that it may be required to withhold FATCA Withholding Tax in respect of any payments on any of the Notes, then the Issuer will be entitled but not obliged to to re-direct or reorganise any such payment in any way that it sees fit in order that the payment may be made without imposition of a FATCA Withholding Tax, provided that (a) the Issuer shall give notice to the Paying Agent and the Note Trustee of such re-direction or reorganisation as soon as reasonably practicable and (b) any such re-direction or reorganisation of any payment is made through a recognised institution of international standing and such payment is otherwise made in accordance with the Paying Agency Agreement, the Note Trust Deed and the Issuer Deed of Charge.

Termination

The Paying Agency Agreement provides that the Issuer may terminate the appointment of any Paying Agent with regard to some or all of its functions with the prior written consent of the Note Trustee upon giving such Paying Agent not less than 30 calendar days' prior notice. Any Paying Agent may at any time resign from its office by giving the Issuer and the Note Trustee not less than 30 calendar days' prior notice, provided that at all times there shall be a Principal Paying Agent and a Required Paying Agent appointed. Any termination of the appointment of any Paying Agent and any resignation of such Paying Agent shall only become effective upon the appointment in accordance with the Paying Agency Agreement of one or more banks or financial institutions as replacement agent(s) in the required capacity. The right to termination or resignation for good cause will remain unaffected. If no replacement agent is appointed within 20 calendar days of any Paying Agent's resignation, then such Paying Agent may itself, subject to certain requirements, appoint such replacement agent in the name of the Issuer.

Governing Law

The Paying Agent Agreement and any non-contractual obligations arising out of or in relation to the Paying Agent Agreement will be governed by English law.

TERMS AND CONDITIONS OF THE NOTES

*The following are the terms and conditions of the Notes (*the *"**Conditions**") and any reference to a "Condition" shall be construed accordingly) in the form (subject to completion and amendment) in which they will be set out in the Note Trust Deed. The Conditions will apply to the Notes whether they are in definitive or in global form.*

The issue of the £71,710,000 5.414 per cent. Class A Secured Notes due 2042 (the "**Class A Notes**" and the £10,891,000 8.35 per cent. Class B Secured Notes due 2042 (the "**Class B Notes**" and together with the Class A Notes (the "**Notes**")) of FHW Dalmore (Salford Pendleton Housing) plc (the "**Issuer**") are constituted by a note trust deed to be dated 17 September 2013 (the "**Closing Date**") (as amended, supplemented and/or restated from time to time, the "**Note Trust Deed**") between the Issuer, FHW Dalmore Limited as Managing Agent (as defined below) and U.S. Bank Trustees Limited as note trustee (the "**Note Trustee**", which expression includes its successors or any additional or other trustee appointed under the Note Trust Deed) as trustee for the Noteholders (as defined below).

Payments in respect of the Notes will be made pursuant to a paying agency agreement to be dated 17 September 2013 (as amended, supplemented and/or restated from time to time, the "**Paying Agency Agreement**") between the Issuer, the Note Trustee and Elavon Financial Services Limited as principal paying agent (the "**Principal Paying Agent**", which expression includes any successor principal paying agent appointed under the Paying Agency Agreement and together with any additional paying agents, if any, appointed from time to time in respect of the Notes pursuant to the Paying Agency Agreement, the "**Paying Agents**").

The security for the Notes is created pursuant to, and on the terms set out in, a deed of charge to be dated 17 September 2013 (the "**Issuer Deed of Charge**", which expression includes such deed of charge as from time to time modified or supplemented in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified) and made between, *inter alios*, the Issuer and U.S. Bank Trustees Limited as security trustee (the "**Issuer Security Trustee**").

The holders of the Class A Notes (the "**Class A Noteholders**") and the holders of the Class B Notes (the "**Class B Noteholders**" and together with the Class A Noteholders, the "**Noteholders**" or "**holders**") and the holders of the related principal and interest coupons (the "**Couponholders**" and the "**Coupons**", respectively) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Note Trust Deed, the Paying Agency Agreement, the Issuer Deed of Charge and the other Issuer Transaction Documents. The statements in these terms and conditions include summaries of the detailed provisions of the Note Trust Deed. Copies of (amongst other documents) the Note Trust Deed, the Paying Agency Agreement, the Issuer Deed of Charge and the other Issuer Transaction Documents are available for inspection by Noteholders during normal business hours at the registered office for the time being of the Issuer, being at the date hereof 35 Great St. Helen's, London EC3A 6AP.

In these Conditions, "**business day**" means any day (other than a Saturday or Sunday) on which banks are open for general business in London and (where applicable) any place where any Coupon, Receipt or Note is presented for payment.

Unless otherwise defined in these Conditions, words and expressions used in these Conditions have the meanings and constructions ascribed to them in the master definitions schedule dated the Closing Date and signed by amongst others, the Issuer and Note Trustee (the "**Master Definitions Schedule**").

1 **Form, Denomination and Title**

(a) Form and Denomination

Each Class of the Notes is initially represented by a Temporary Global Note in bearer form, without Coupons or Receipts (as defined below), in the initial principal amount of £71,710,000 for the Class A Notes and £10,891,000 for the Class B Notes. Each Temporary Global Note will be delivered on or prior to the issue date of the Notes to a common safekeeper for Euroclear Bank S.A./N.V. ("**Euroclear**") and/or Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"). Upon deposit of the Temporary Global Notes, Clearstream, Luxembourg or Euroclear (as the case may be) will credit each subscriber of the Notes with the principal amount of Notes of the relevant Class equal to the aggregate principal amount thereof for which it had subscribed and paid. Interests in each Temporary Global Note are exchangeable 40 days after the Closing Date (each such day an "**Exchange Date**"), provided certification of non-U.S. beneficial ownership by the relevant Noteholders has been received, for interests in a Permanent Global Note in bearer form (which will also be deposited with the common safekeeper) representing the same Class of Notes, without Coupons or Receipts. The expressions "**Global Notes**" and "**Global Note**" mean, respectively (i) all the Temporary Global Notes and the Permanent Global Notes or the Temporary Global Note and the Permanent Global Note of a particular Class or (ii) any Temporary Global Notes or Permanent Global Notes, as the context may require. The Permanent Global Notes will only be exchangeable for "**Definitive Notes**" in certain limited circumstances described below.

For so long as any Notes are represented by a Global Note, interests in such Notes will be transferable in accordance with the rules and procedures for the time being of Clearstream, Luxembourg or Euroclear, as appropriate.

If, while any of the Notes are represented by a Permanent Global Note, (i) either Clearstream, Luxembourg or Euroclear is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no other clearing system acceptable to the Note Trustee is then in existence, or (ii) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political sub-division thereof) or of any authority therein or thereof having power to tax or in the interpretation or administration of such laws or regulations which change becomes effective on or after the Closing Date, the Issuer or any Paying Agent is or will on the next Note Payment Date (as defined below) be required to make any deduction or withholding from any payment in respect of such Notes which would not be required were such Notes in definitive form, then the Issuer will issue Definitive Notes in respect of the Notes in exchange for the whole outstanding interest in the Permanent Global Note of each Class on the later of the Exchange Date and the day falling 30 days after the occurrence of the relevant event, subject in each case to certification of non-U.S. beneficial ownership.

Definitive Notes of each Class (which, if issued, will be in the denomination of £100,000 and integral multiples of £1,000 in excess thereof) will be serially numbered and will be issued in bearer form with (at the date of issue), interest coupons ("**Coupons**"), receipts for payments of principal

("**Receipts**") and talons for further Coupons and Receipts (each a "**Talon**") attached at the time of issue.

References to "**Notes**" include the Global Notes and the Definitive Notes, references to "**Temporary Global Note**" means any temporary global note representing the Class A Notes or (as applicable) the Class B Notes substantially in the form set out in Schedule 1 of the Note Trust Deed and references to a "**Permanent Global Note"** means any permanent global note representing the Class A Notes or (as applicable) the Class B Notes substantially in the form set out in Schedule 2 of the Note Trust Deed.

(b) Title and Ownership

Title to the Notes, the Coupons, the Receipts and the Talons will pass by delivery. The holder of any Note, Coupon, Receipts or Talon shall (except as otherwise required by law) be deemed and treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such holder.

2 **Status, Security and Priority**

(a) Status and relationship among the Notes

(i) The Notes constitute direct and (subject as provided in Condition 15 (*Subordination and Deferral*)) unconditional obligations of the Issuer and are secured by the Issuer Security (as defined below).

(ii) The Note Trust Deed contains provisions requiring the Note Trustee to have regard to the interests of the Class A Noteholders and the Class B Noteholders equally as regards all rights, powers, trusts, authorities, duties and discretions of the Note Trustee (except where expressly provided otherwise), but requiring the Note Trustee in any such case to have regard only to the interests of the Class A Noteholders (for so long as there are any Class A Notes outstanding) if, in the Note Trustee's opinion, there is or may be a conflict between the interests of:

(A) the Class A Noteholders; and

(B) the Class B Noteholders.

(iii) The Note Trust Deed contains provisions limiting the powers of the Class B Noteholders to request or direct the Note Trustee to take any action or to pass an effective Resolution according to the effect thereof on the interests of the Class A Noteholders. Except in certain circumstances, the Note Trust Deed contains no such limitation on the powers of the Class A Noteholders, the exercise of which will be binding on the Class B Noteholders, irrespective of the effect thereof on their interests.

(b) Priority

(i) The Notes of each Class rank *pari passu* and without preference or priority among the Notes of the same Class. The Class B Notes rank junior to the Class A Notes as provided in these Conditions and the Issuer Transaction Documents.

(ii) Prior to the service of a Note Enforcement Notice, the Issuer is required to apply amounts standing to the credit of the Available Revenue Ledger relating to the Issuer Transaction Account in accordance with the Issuer Pre-Enforcement Priority of Payments;

(iii) Following the service of a Note Enforcement Notice, the Issuer is required to apply, inter alia, amounts standing to the credit of the Available Revenue Ledger relating to the Issuer Transaction Account in accordance with the Issuer Post-Enforcement Priority of Payments.

(c) Security

(i) The security constituted by the Issuer Deed of Charge is granted to the Issuer Security Trustee, on trust for the Noteholders and certain other creditors of the Issuer, upon and subject to the terms and conditions of the Issuer Deed of Charge (the "**Issuer Security**"). The Noteholders will share in the benefit of the Issuer Security, upon and subject to the terms and conditions of the Issuer Deed of Charge.

(ii) The Issuer Security will become enforceable upon the delivery by the Note Trustee of a Note Enforcement Notice in accordance with Condition 8 (*Note Events of Default*).

3 **Covenants**

Save with the prior written consent of the Note Trustee or as provided in, or envisaged by, any of the Issuer Transaction Documents or these Conditions, the Issuer shall not, so long as any Note remains outstanding:

(a) Negative pledge

create or permit to subsist any security interest (unless arising by operation of law) over any of its assets or its undertaking, present or future (including any uncalled capital),

(b) Restrictions on activities

(i) engage in any activity whatsoever which is not incidental to or necessary in connection with any of the activities in which the Transaction Documents provide or envisage that the Issuer will engage;

(ii) have any subsidiaries, any subsidiary undertaking (as defined in the Companies Act 2006) or any employees or premises;

(iii) amend, supplement or otherwise modify its constitutive documents; and

(iv) acquire any leasehold, freehold or heritable property,

(c) Disposal of assets

use, invest, transfer, convey, assign, sell, lend, part with or otherwise dispose of, or deal with, or grant any option or present or future right to acquire any of its assets or undertakings or any interest, estate, right, title or benefit therein, present or future,

(d) Dividends or distributions

pay any dividend or make any other distribution to its shareholders or issue any further shares, other than in accordance with the Issuer Deed of Charge or from amounts in the Retained Profit Account,

(e) Borrowings

incur or permit to subsist any indebtedness in respect of borrowed money whatsoever or give any guarantee or indemnities in respect of indebtedness or of any other obligation of any person,

(f) Merger

consolidate or merge with any other person or convey, transfer or assign its properties or assets substantially as an entirety to any other person,

(g) No variation or waiver

do any act or thing, with the effect that the validity or effectiveness of any of the Issuer Transaction Documents or the priority of the security interests created or evidenced thereby, would be amended, terminated, postponed or discharged, or consent to any variation of, or exercise, any powers of consent or waiver pursuant to the terms of, these Conditions or any of the Issuer Transaction Documents, or permit any party to any of the Issuer Transaction Documents or the Issuer Security or any other person whose obligations form part of the Issuer Security to be released from such obligations, or dispose of any part of the Issuer Security,

(h) Bank accounts

have an interest in any bank account other than the Issuer Accounts unless such account or interest therein is charged to the Issuer Security Trustee on terms acceptable to it,

(i) VAT

apply to form or become part of any group of companies for VAT purposes (including any group of companies for the purposes of section 43 of the Value Added Tax Act 1994) with any other company or group of companies unless required to do so by applicable law or regulations, or

(j) Tax residence

do any act or thing, the effect of which would be to make the Issuer resident for tax purposes in any jurisdiction other than the United Kingdom.

4 Interest

(a) Interest Rate and Note Payment Dates

The Class A Notes bear interest from (and including) the Closing Date at the rate of 5.414 per cent. per annum (the "**Class A Rate of Interest**") and (subject to Condition 4(e) (*Subordinated bond lock-up*)) the Class B Notes bear interest from (and including) the Closing Date at the rate of 8.35 per cent. per annum (the "**Class B Rate of Interest**" and together with the Class A Rate of Interest, the "**Note Rates**", in each case on their Principal Amount Outstanding, payable semi-annually in arrear on 31 March and 30 September in each year (or, if such day is not a business day, the next succeeding business day) (each a "**Note Payment Date**"), commencing on 31 March 2014.

The period from (and including) the Closing Date to (but excluding) the first Note Payment Date and each successive period from (and including) a Note Payment Date to (but excluding) the next succeeding Note Payment Date is called a "**Note Interest Period**".

"**Principal Amount Outstanding**" means in respect of a Note on any date its original principal amount less the aggregate amount of scheduled amortisation and principal prepayments on the relevant Note which shall have become due and payable and which, in each case, have been paid.

(b) Interest accrual

Each Note will cease to bear interest from (and including) its due date for redemption unless, upon due presentation, payment of the principal in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment in which event interest shall continue to accrue thereon at the rate applicable to such Note up to (but excluding) the date on which, on presentation of such Note, payment in full of the relevant amount of principal is made or (if earlier) the seventh day after notice is duly given by the Principal Paying Agent to the holder thereof (in accordance with Condition 13 (*Notices*)) that upon presentation thereof, such payment will be made, provided that upon such presentation, such payment is in fact made.

(c) Calculation of broken interest

When interest is required to be calculated in respect of a period which does not end on (but excluding) a Note Payment Date, it shall be calculated on the basis of (a) the actual number of days in the period from (and including) the date from which interest begins to accrue (the "**Accrual Date**") to (but excluding) the date on which it falls due divided by (b) the actual number of days from and including the Accrual Date to, but excluding, the next following Note Payment Date multiplied by 2, and multiplying this by the rate of interest specified in Condition 4(a) above and the relevant Principal Amount Outstanding of the Notes and rounding the resultant figure to the nearest penny.

(d) Notification of interest amount

As soon as practicable after each Note Payment Date or in the case of the first Note Interest Period, the Closing Date, the Cash Manager will calculate the amount of interest in respect of each Class of Notes for the related Note Interest Period applicable under Condition 4(a) by, in the case of each Class of Notes, multiplying (a) the Principal Amount Outstanding of the Notes of such Class on the related Note Payment Date or, in the case of the first Note Interest Period, the Closing Date by (b) the relevant Note

Rate and (other than in the case of the first Note Interest Period) dividing such amount by two and rounding the resultant figure to the nearest penny (the "**Interest Amount**"). In respect of the first Note Interest Period, the interest in respect of each Class of Notes shall be calculated by applying the relevant rate of interest specified in Condition 4(a) to the Principal Amount Outstanding of each Class of Notes as at the Closing Date and multiplying such sum on the basis of (a) the actual number of days in the period from (and including) the Closing Date to (but excluding) the first Note Payment Date divided by (b) 365 and, in each case, rounding the resultant figure to the nearest penny (the "**First Interest Amount**"). The Cash Manager shall notify the Interest Amount (and the First Interest Amount) to the Issuer, the Principal Paying Agent and the Irish Stock Exchange, as soon as practicable after its determination, and the Issuer shall cause notice thereof to be given to the Noteholders in accordance with Condition 13 (*Notices*).

(e) Subordinated bond lock-up

From and including the Note Payment Date immediately following notification to the Issuer by the Managing Agent of the occurrence of a Subordinated Bond Lock-Up Event to (but excluding) the date which is the earlier of (x) the Final Maturity Date, (y) the date on which the Class A Notes have been redeemed in full and (z) the Subordinated Bond Lock-Up Event Cure Date (the "**Subordinated Bond Lock-Up Release Date**"), (i) interest and principal payable in respect of the Class B Notes shall not be paid to the Class B Noteholders and shall instead be deposited by the Issuer in the Subordinated Bond Lock-Up Account on the relevant Note Payment Date; (ii) interest in respect of the Class B Notes shall cease to accrue at the Class B Rate of Interest on such amount of principal in respect of the Class B Notes which has been deposited in the Subordinated Bond Lock-Up Account (the "**Cash Collateralised B Note Principal Amount Outstanding**") and instead the rate of interest applicable to the portion of the Principal Amount Outstanding of the Class B Notes equal to the Cash Collateralised B Note Principal Amount Outstanding will be the rate of interest earned by the Issuer from amounts deposited in the Subordinated Bond Lock-Up Account (including pursuant to any Permitted Investments); and (iii) any amounts standing to the credit of the Subordinated Bond Lock-Up Account (which, for the avoidance of doubt, include the Cash Collateralised B Note Principal Amount Outstanding, amounts in respect of interest (including interest payable under Condition 15 (*Subordination and Deferral*)) paid into the Subordinated Bond Lock-Up Account and any interest earned by the Issuer on amounts deposited in the Subordinated Bond Lock-Up Account (including pursuant to any Permitted Investments) shall, in circumstances where there are insufficient funds standing to the credit of the Issuer Transaction Account on any Note Payment Date to satisfy all amounts due and payable under paragraph (f) of the Issuer Pre-Enforcement Priority of Payments or paragraph (e) of the Issuer Post-Enforcement Priority of Payments, as applicable, be applied by the Issuer in accordance with the applicable Issuer Priority of Payment). The Cash Manager shall promptly apply all funds standing to the credit of the Subordinated Bond Lock-Up Account towards payment of interest and principal due and payable to Class B Noteholders following the Subordinated Bond Lock-Up Release Date.

"**Subordinated Bond Lock-Up Cure Date**" means, (i) where the relevant Subordinated Bond Lock-Up Event is paragraph (i) of the definition of Subordinated Bond Lock-Up Event, the date on which the such event ceases to exist or (as applicable) is remedied or waived or, if earlier (and other than in the case where (a) amounts outstanding under the Credit Agreement have been accelerated or (b) the relevant Event of Default (as defined in the Credit Agreement) relates to a termination notice being served under the Project Agreement), the second Note Payment Date after the date of occurrence of the applicable Event of Default and (ii) where the relevant Subordinated Bond Lock-Up Event is paragraph (ii) of the definition of Subordinated Bond Lock-Up Event, the Historic Class A Bond Service Cover Ratio (as finally determined under the Credit Agreement) for the most recent Scheduled Calculation Date is more than 1.30:1 and the Projected Class A Bond Cover Ratio (as finally determined under the Credit Agreement) for the most recent Scheduled Calculation Date is more than 1.30:1 (as such terms are defined and calculated in accordance with the Credit Agreement), and (iii) where the relevant Subordinated Bond Lock-Up Event is paragraph (iii) of the definition of Subordinated Bond Lock-Up Event, the date which is the earlier of (x) the successful achievement of a subsequent Milestone and (y) Final Full Services Commencement Date (Actual) (as such term is defined in the Credit Agreement).

"**Subordinated Bond Lock-Up Event**" means:

(i) the occurrence of an Event of Default (as such term is defined in the Credit Agreement) which is continuing (and not remedied or waived);

(ii) the Historic Class A Bond Service Cover Ratio (as finally determined under the Credit Agreement) for the most recent Scheduled Calculation Date is less than 1.30:1 or the Projected Class A Bond Cover Ratio (as finally determined under the Credit Agreement) for the most recent Scheduled Calculation Date is less than 1.30:1 (as such terms are defined and calculated in accordance with the Credit Agreement); or

(iii) the Building Contractor fails to achieve (i) Completion of 113 Dwellings in 12 months, (ii) Completion of 244 Dwellings in 18 months, (iii) Completion of 540 Dwellings in 24 months, (iv) Completion of 856 Dwellings in 30 months (v) Completion of 1,095 Dwellings in 36 months or (vi) Completion of 1270 Dwellings before the Building Contract Longstop Date (each of (i) to (vi) above being a "**Milestone**" for the purpose of determining the Subordinated Bond Lock-Up Cure Date) (as such terms are defined in the Building Contract or Project Agreement).

5 Redemption, Purchase and Cancellation

(a) Final Redemption

Unless previously redeemed in full as provided in this Condition 5, the Issuer shall redeem:

(i) the Class A Notes at their Principal Amount Outstanding on 17 September 2042 (the "**Class A Final Maturity Date**"); and

(ii) the Class B Notes at their Principal Amount Outstanding on 17 September 2042 (the "**Class B Final Maturity Date**" and together with the Class A Final Maturity Date, the "**Final Maturity Date**"),

together with accrued but unpaid interest on the Principal Amount Outstanding of such Notes up to and including the date on which such redemption occurs.

(b) Scheduled redemption

Subject to Condition 4(e) (*Subordinated Bond Lock-Up*), unless previously redeemed, or purchased and cancelled and prior to the service of a Note Enforcement Notice, the Issuer will redeem each Class of the Notes by the payment of principal ("**Scheduled Principal**") in respect of each £1,000 in original principal amount of each Note on the Note Payment Dates as set out opposite each Note Payment Date below (save that, to the extent that payments of principal on the relevant Class of Notes are payable on the relevant Note Payment Date pursuant to Condition 5(c) (*Mandatory early redemption*) below, the amount of Scheduled Principal payable on such Note Payment Date and all following Note Payment Dates will be reduced *pro rata*).

Note Payment Date Falling In	Class A Note Outstanding Principal Amount (£)	Class A Note Scheduled Principal (£)	Class B Note Outstanding Principal Amount (£)	Class B Note Scheduled Principal (£)
Sep-13	1,000.00	0.00	1,000.00	0.00
Mar-14	1,000.00	0.00	1,000.00	0.00
Sep-14	1,000.00	0.00	1,000.00	0.00
Mar-15	1,000.00	0.00	1,000.00	0.00
Sep-15	1,000.00	0.00	1,000.00	0.00
Mar-16	1,000.00	0.00	1,000.00	0.00
Sep-16	1,000.00	0.00	1,000.00	0.00
Mar-17	1,000.00	0.00	1,000.00	0.00
Sep-17	1,000.00	0.00	1,000.00	0.00
Mar-18	989.74	10.26	992.59	7.41
Sep-18	981.63	8.11	988.07	4.51
Mar-19	973.46	8.17	983.57	4.50
Sep-19	964.66	8.80	978.34	5.23
Mar-20	955.92	8.74	973.29	5.05
Sep-20	946.49	9.42	967.44	5.85
Mar-21	937.13	9.37	961.75	5.69
Sep-21	927.05	10.08	955.23	6.52
Mar-22	917.02	10.03	948.85	6.38
Sep-22	906.26	10.76	941.61	7.24
Mar-23	895.84	10.41	934.90	6.71
Sep-23	884.81	11.04	927.47	7.43
Mar-24	873.03	11.78	919.13	8.33
Sep-24	860.56	12.47	909.97	9.17
Mar-25	847.87	12.69	900.58	9.39
Sep-25	834.50	13.38	890.34	10.24

Note Payment Date Falling In	Class A Note Outstanding Principal Amount (£)	Class A Note Scheduled Principal (£)	Class B Note Outstanding Principal Amount (£)	Class B Note Scheduled Principal (£)
Mar-26	821.02	13.48	880.01	10.32
Sep-26	806.72	14.30	868.65	11.36
Mar-27	792.63	14.09	857.61	11.05
Sep-27	777.33	15.30	845.01	12.60
Mar-28	760.85	16.47	830.88	14.12
Sep-28	744.60	16.26	817.04	13.84
Mar-29	728.09	16.51	802.87	14.17
Sep-29	710.97	17.12	787.89	14.98
Mar-30	693.38	17.59	772.28	15.61
Sep-30	675.45	17.94	756.19	16.10
Mar-31	657.57	17.88	740.14	16.05
Sep-31	638.84	18.73	722.93	17.21
Mar-32	620.33	18.51	705.97	16.97
Sep-32	600.77	19.56	687.57	18.39
Mar-33	581.34	19.43	669.28	18.29
Sep-33	560.92	20.43	649.60	19.68
Mar-34	540.77	20.15	630.19	19.41
Sep-34	519.42	21.35	609.11	21.08
Mar-35	499.58	19.84	589.90	19.22
Sep-35	477.45	22.13	567.58	22.32
Mar-36	454.73	22.72	544.33	23.25
Sep-36	430.88	23.85	519.44	24.89
Mar-37	406.89	24.00	494.17	25.27
Sep-37	376.88	30.00	460.79	33.38
Mar-38	347.17	29.71	427.47	33.32
Sep-38	311.39	35.78	385.82	41.64
Mar-39	276.06	35.33	344.30	41.52
Sep-39	238.42	37.65	299.26	45.04
Mar-40	200.29	38.12	253.06	46.21
Sep-40	160.60	39.70	204.21	48.85
Mar-41	120.41	40.19	154.09	50.12
Sep-41	78.56	41.86	101.11	52.98
Mar-42	36.12	42.44	46.65	54.46
Sep-42	0.00	36.12	0.00	46.65

(c) Mandatory early redemption

The Issuer shall redeem the Notes subject to and in accordance with the following provisions:

(i) If the Authority serves a notice to terminate the Project Agreement under its voluntary right under clause 37.1 (*Voluntary Termination by Authority*) of the Project Agreement (a "**Council Voluntary Termination Notice**") on ProjectCo but does not serve a notice electing to pay compensation amounts in instalments in accordance with clause 49.2 (*Instalments*) of the Project Agreement (a "**Payment over Time Notice**") or if ProjectCo serves a notice to terminate the Project Agreement under clause 78.3 (*Failure to Issue Certificate*) of the Project Agreement and the Authority does not serve a Payment over Time Notice, the Issuer shall, as soon as practicable, notify the Noteholders (in accordance with Condition 13 (*Notices*)), the Note Trustee, the Principal Paying Agent, the Cash Manager and the Issuer Security Trustee that the Notes are to be redeemed at the Redemption Amount together with accrued but unpaid interest on their Principal Amount Outstanding up to and including the date on which such redemption occurs and shall subsequently notify such persons of the date of redemption (which shall be on a business day following the date on which the Note Trustee is advised in writing by the Issuer that the Issuer has received from ProjectCo (or, where applicable, directly from the Authority) sufficient monies for redemption of the Notes in accordance with this Condition 5(c) and to meet its payment obligations of a higher priority under the Issuer Priority of Payments) and of the amount of the Redemption Amount.

(ii) If ProjectCo exercises its right to terminate the Project Agreement (an "**Authority Default Termination**") following a default on the part of the Authority under the Project Agreement by serving a notice on the Authority in accordance with clause 37.3 (*Termination Authority Default*) of the Project Agreement, the Issuer shall, as soon as practicable, notify the Noteholders (in accordance with Condition 13 (*Notices*)), the Note Trustee, the Principal Paying Agent, the Cash Manager and the Issuer Security Trustee that the Notes are to be redeemed at the Redemption Amount together with accrued but unpaid interest on their Principal Amount Outstanding up to and including the date on which such redemption occurs and shall subsequently notify such persons of the date of redemption (which shall be a business day following the date on which the Note Trustee is advised in writing by the Issuer that the Issuer has received from ProjectCo sufficient monies for redemption of the Notes in accordance with this Condition 5(c) and to meet its payment obligations of a higher priority under the Issuer Priority of Payments) and of the amount of the Redemption Amount.

(iii) If ProjectCo serves notice to make a voluntary prepayment of the senior facility in whole under clause 5.6 (*Voluntary Payment*) of the Credit Agreement, the Issuer shall, as soon as practicable, notify the Noteholders (in accordance with Condition 13 (*Notices*)), the Note Trustee, the Principal Paying Agent, the Cash Manager and the Issuer Security Trustee that the Notes are to be redeemed on the immediately following Note Payment Date at the Redemption Amount together with accrued but unpaid interest on their Principal Amount Outstanding up to and including the date on which such redemption occurs.

(iv) Upon the occurrence of (A) a Contractor Default (as defined in the Project Agreement) and service of a termination notice by the Authority (following a failure to rectify the same) under the Project Agreement or (B) an event of default under the Credit Agreement that has not been remedied within the relevant grace period and acceleration of amounts payable thereunder (and, in each case, other than where the Authority has served a Payment over Time Notice where the Adjusted Estimated Fair Value of the Contract (as such term is defined in the Project Agreement) is payable following termination of the Project Agreement following a Contractor Default (as such term is defined in the Project Agreement)), the Issuer shall, as soon as practicable, notify the Noteholders (in accordance with Condition 13 (*Notices*)), the Note Trustee, the Principal Paying Agent, the Cash Manager and the Issuer Security Trustee that the Notes are to be redeemed in an amount equal to the aggregate Principal Amount Outstanding of the Notes (or, if higher, the Redemption Amount) together with accrued interest thereon, payable on the following Note Payment Dates subject to and to the extent of sufficient funds for redemption of the Notes in accordance herewith and to meet its payment obligations of a higher priority under the Issuer Priority of Payments being held by the Issuer following acceleration of the amounts under the Credit Agreement.

(v) If the Authority serves a notice of termination on ProjectCo for reasons of *force majeure* under clause 39 (*Termination on Force Majeure*) of the Project Agreement or for reason of corrupt gifts, bribery or fraud under clause 37.7 (*Termination for Corrupt Gifts and Fraud*) of the Project Agreement or for failure to obtain the Authority's consent under clause 37.6 (*Termination for Breach of Refinancing Provisions*) of the Project Agreement (and in each case has not served a Payment over Time Notice) or ProjectCo or the Authority serves a notice to terminate the Project Agreement following failure to secure approval from the Secretary of State of a replacement contractor exercising the Authority's housing management functions pursuant to clause 28.2(j) (*Management Agreement*) of the Project Agreement (and the Authority does not serve a Payment over Time Notice), the Issuer shall, as soon as practicable, notify the Noteholders (in accordance with Condition 13 (*Notices*)), the Note Trustee, the Principal Paying Agent, the Cash Manager and the Issuer Security Trustee that the Notes are to be redeemed in an amount equal to the aggregate Principal Amount Outstanding of the Notes together with accrued interest thereon up to and including the date on which such redemption occurs and shall subsequently notify such persons of the date upon which the Notes will be redeemed (which shall be a business day following the date on which the Note Trustee is advised in writing by the Issuer that the Issuer has received from ProjectCo sufficient monies for redemption of the Notes in accordance with this Condition 5(c) and to meet its payment obligations of a higher priority under the Issuer Priority of Payments) and of the amounts to be paid on such date.

(vi) If, in conjunction with the termination of the Project Agreement, the Authority is entitled to and elects to serve a Payment over Time Notice, the Redemption Amount will not be payable in respect of each Class of Notes (subject to the below) and principal will be payable in respect of each Class of Notes as follows:

(A) principal will be payable in respect of each Class of Notes on each Note Payment Date in amounts in accordance with Condition 5(b) *(Scheduled Redemption)* (where applicable, to the extent that sufficient proceeds are received by the Issuer following a Contractor Default and the Adjusted Estimated Fair Value of the Contract (as such terms are defined in the Project Agreement) is payable); and

(B) where applicable, following a Contractor Default and the Adjusted Estimated Fair Value of the Contract (as such terms are defined in the Project Agreement) is payable, the amount of principal payable in respect of each Class will be the higher of (1) the Principal Amount Outstanding of such Class and (2) the Available Default Redemption Funds available to be paid in respect of such Class in accordance with the Issuer Priorities of Payments (and, in the case of (2), the amount of the Adjusted Estimated Fair Value of the Contract in excess of the Principal Amount Outstanding of the Class A Notes and the Class B Notes (if any) will be payable in equal instalments (together with any interest paid by the Authority on such excess under clause 49.3 *(Interest)* of the Project Agreement) on each Note Payment Date (until the Final Maturity Date) following the date on which the Authority commences payment in instalments under the Project Agreement.

(C) If, however, the Authority subsequently elects to prepay or (as the case may be) defaults in payment of instalments following service of a Payment over Time Notice, the Issuer shall, as soon as practicable, notify the Noteholders (in accordance with Condition 13 (*Notices*)), the Note Trustee, the Principal Paying Agent, the Cash Manager and the Issuer Security Trustee that the Notes are to be redeemed on a date (which shall be a business day following the date on which the Note Trustee is advised in writing by the Issuer that the Issuer has received from ProjectCo or (as applicable) the Authority sufficient monies for redemption of the Notes in accordance with this Condition 5(c) and to meet its payment obligations of a higher priority under the Issuer Priority of Payments) at a price equal to their Principal Amount Outstanding (or, if greater (x) where the Authority had previously served a Council Voluntary Termination Notice or if ProjectCo had previously served a notice to terminate the Project Agreement under clause 78.3 (*Failure to Issue Certificate*) of the Project Agreement, the Modified Bond Make-Whole Amount or (y) where termination of the Project Agreement followed a Contractor Default (as defined in the Project Agreement), the lower of (a) the Bond Make-Whole Amount and (b) the Available Default Redemption Funds) together with accrued but unpaid interest on their Principal Amount Outstanding up to and including the date on which such redemption occurs.

(d) Early redemption at the option of the Issuer

Subject to the below, the Issuer may, at any time prior to the Final Maturity Date, having given not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 13 (*Notices*) and the Note Trustee and the Principal Paying Agent (which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all (but not some only) of the Notes at the Redemption Amount, together with any interest accrued but unpaid on their Principal Amount Outstanding up to and including the date on which such redemption occurs.

Prior to giving any such notice to the Noteholders pursuant to this Condition 5(d), the Issuer shall have provided to the Note Trustee a certificate signed on behalf of the Issuer to the effect, *inter alia*, that it will have funds on the relevant Note Payment Date, not subject to the interest of any other person, required to redeem the Notes pursuant to this Condition 5(d) and meet its payment obligations of a higher priority under the Issuer Pre-Enforcement Priority of Payments.

(e) Definitions

"**Available Default Redemption Funds**" means, in conjunction with a Contractor Default (as such term is defined in the Project Agreement), compensation paid by the Authority on termination of the Project Agreement (if applicable) and any other sums recovered by the Issuer from ProjectCo plus amounts in the Subordinated Bond Lock-Up Account which are available for redemption of the relevant Class of Notes in accordance with the Issuer Priorities of Payments (if applicable as regards the amounts in the Subordinated Bond Lock-Up Account in accordance with Condition 4(e)), subject to Default Redemption Surplus (if any) being payable to the Class A Noteholders and the Class B Noteholders (under paragraphs (f) and (h) respectively of the Issuer Pre-Enforcement Priority of Payments or paragraphs (e) and (g) respectively of the Issuer Post-Enforcement Priority of Payments) in the proportion that (a) the Principal Amount Outstanding of the applicable Notes held by such Noteholder bears to (b) the aggregate Principal Amount Outstanding of all of the Notes.

"**Bond Make-Whole Amount**" means in respect of the Class A Notes or the Class B Notes, whichever is the higher of (i) the Principal Amount Outstanding of the Class A Notes or (as applicable) the Class B Notes and (ii) the price (as reported in writing to the Issuer and the Note Trustee by the Financial Adviser) at which the Gross Redemption Yield on the relevant Class A Notes or Class B Notes (if they were to remain outstanding to their original maturities) on the Relevant Date is equal to the Gross Redemption Yield at close of business (London time) on that Relevant Date as published by the Debt Management Office of the Reference Gilt.

"**Default Redemption Surplus**" means, at the time of determination and ignoring the proviso relating to Default Redemption Surplus in the definition of "Available Default Redemption Funds", the amount by which the Available Default Redemption Funds available for redemption of the Class A Note and Class B Notes in accordance with the Issuer Priority of Payments exceeds the aggregate of the Principal Amount Outstanding of the Class A Notes and Class B Notes.

"**Financial Adviser**" means a leading fixed rate gilt-edged securities market maker or other adviser selected and appointed by the Issuer and approved in writing by the Note Trustee.

"Gross Redemption Yield" means a yield calculated on the basis set out in the United Kingdom Debt Management Office in the paper "Formulae for

Calculating Gilt Prices from Yields" page 5, Section One: Price/Yield Formulae; ("Conventional Gilts; Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date") (published 8 June 1998 as supplemented, amended, updated or replaced from time to time (the "**DMO Notice**")).

"**Modified Bond Make-Whole Amount**" means in respect of the Class A Notes or the Class B Notes, whichever is the higher of (i) the Principal Amount Outstanding of the Class A Notes or (as applicable) the Class B Notes and (ii) the price (as reported in writing to the Issuer and the Note Trustee by the Financial Adviser) at which the Gross Redemption Yield on the relevant Class A Notes or Class B Notes (if they were to remain outstanding to their original maturities) on the Relevant Date is equal to the Gross Redemption Yield at close of business (London time) on that Relevant Date as published by the Debt Management Office of the Reference Gilt plus 0.25 per cent. (in the case of the Class A Notes) or 0.65 per cent. (in the case of the Class B Notes).

"**Redemption Amount**" means: (a) in the case of redemption pursuant to Condition 5(c)(ii), 5(c)(iii) or 5(d), the Bond Make-Whole Amount or (b) in the case of redemption pursuant to Condition 5(c)(i), the Modified Bond Make-Whole Amount or (c) in the case of redemption pursuant to Condition 5(c)(iv), the lower of (i) the Bond Make-Whole Amount and (ii) the Available Default Redemption Funds.

"**Reference Gilt**" means the sterling denominated obligation of the United Kingdom Government listed on the London Stock Exchange or any other recognised exchange whose duration most closely matches that of the Class A Notes and the Class B Notes on the Relevant Date, as determined to be appropriate by the Financial Adviser.

"**Relevant Date**" means the date which is the Termination Date (as such term is defined in the Project Agreement) or in the case of redemption pursuant to Condition 5(d) the date which is the second dealing day in the London gilt-edged market prior to the date of despatch of the notice notifying the date of redemption referred to in this Condition 5 or in the case of redemption pursuant to Condition 5(c)(iii) the date on which ProjectCo serves the notice of voluntary prepayment or in the case of redemption pursuant to Condition 5(c)(vi)(C) the date on which the Authority or ProjectCo (as applicable) serves notice to prepay (in the case of the Authority) or to accelerate amounts payable (in the case of ProjectCo) under the Project Agreement.

(f) Optional redemption due to change of tax law and illegality

If the Issuer satisfies the Note Trustee (by such means as the Note Trustee may require, including, where appropriate, the delivery of such legal opinion in form and substance satisfactory to it):

(i) by reason of a change in Tax law (or the application or official interpretation thereof), which change becomes effective on or after the Closing Date, the Issuer would, on the next Note Payment Date, be required to withhold or deduct an amount for or on account of any Taxes imposed, levied, collected, withheld or assessed by any Tax Authority from any payment of principal or interest in respect of any Note; or

(ii) ProjectCo is obliged to increase any sum payable by it to the Issuer under or in connection with the Credit Agreement as a result of ProjectCo being required by a change in Tax law or the application or official interpretation thereof) which change becomes effective on or after the Closing Date to make a withholding or deduction from that payment;

(iii) by reason of a change in law which change becomes effective on or after the Closing Date, it would be unlawful for the Issuer to make, fund or allow to remain outstanding, advances made or to be made under the Credit Agreement; or

(iv) by reason of an agreement entered into by the Issuer or any Paying Agent under FATCA, the provisions of the FATCA U.S.-UK IGA or otherwise pursuant to the provisions of FATCA on or after the Closing Date, the Issuer or any Paying Agent would be required to deduct or withhold any amount from any payment in respect of the Notes,

then the Issuer shall, where relevant to the Issuer, use its reasonable endeavours (but at no material cost (taking into account amounts recoverable from ProjectCo)) to mitigate the effects of the occurrence of the relevant event described in (i), (ii), (iii) or (iv) above, including, without limitation and where appropriate, by way of arranging for the substitution of another company (approved in writing by the Note Trustee) as principal debtor under the Notes and as lender under the Credit Agreement if such substitution would avoid all the applicable events outlined in paragraphs (i), (ii), (iii) and (iv) above.

The Note Trustee shall agree and shall direct the Issuer Security Trustee to agree to the substitution of another company in place of the Issuer subject to and in accordance with the terms of the Note Trust Deed. No Noteholder shall, in connection with any such substitution, be entitled to claim from the Issuer and the Note Trustee any indemnification or payment in respect of any tax consequences of any such substitution upon individual Noteholders.

If the Issuer is unable to arrange a substitution as described above or otherwise to mitigate the effects of the occurrence of the relevant event in each case at a cost which is not material, or to do so would not avoid the relevant event described in (i), (ii), (iii) or (iv) above, then the Issuer may, on any Note Payment Date on which the relevant event described in (i), (ii), (iii) or (iv) above, is continuing, and having given not more than 40 days' nor less than 20 days' notice to the Note Trustee and to the Noteholders in accordance with Condition 13 (*Notices*), redeem all (but not some only) of the Notes on the immediately following Note Payment Date at their Principal Amount Outstanding, together with any accrued but unpaid interest on their Principal Amount Outstanding up to and including such Note Payment Date, provided that, prior to the publication of each notice of redemption the Issuer has provided to the Note Trustee:

(i) evidence satisfactory to the Note Trustee that the optional redemption may be exercised under this Condition 5(f) (including such legal opinions and certificates of the directors or other authorised persons of each relevant entity, if any, as the Note Trustee may require); and

(ii) a certificate signed by two directors of the Issuer to the effect that it has or will have the funds on the relevant Note Payment Date, not subject to the interest of any other person, required to redeem the Notes pursuant to this Condition 5(f) and meet its payment obligations of a higher priority under the Issuer Pre-Enforcement Priority of Payments.

"**FATCA**" means (a) sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended, as of the date of this Offering Circular and any current or future regulations promulgated thereunder or official interpretations thereof (b) any treaty, law, regulation or other official guidance enacted in any other jurisdiction, or relating to an intergovernmental agreement between the U.S. and any other jurisdiction, which (in either case) facilitates the implementation of paragraph (a) above; or (c) any agreement pursuant to the implementation of paragraphs (a) or (b) above with the U.S. Internal Revenue Service, the U.S. government or any governmental or taxation authority in any other jurisdiction.

"**FATCA U.S.-UK IGA**" means the Agreement between the Government of the United States of America and the Government of the United Kingdom of Great Britain and Northern Ireland to Improve International Tax Compliance and to Implement FATCA, signed on 12 September 2012, any future amendments or additions to such agreement and any United Kingdom law implementing the terms of such agreement.

"**Tax**" means any present or future tax, levy, impost, duty or other charge or withholding of any nature whatsoever (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same) imposed or levied by or on behalf of any Tax Authority, and "**Taxes**", "**taxation**", "**taxable**" and comparable expressions shall be construed accordingly.

"**Tax Authority**" means any government, state, municipal, local, federal or other fiscal, revenue, customs or excise authority, body or official anywhere in the world including HM Revenue & Customs.

(g) No other redemption

Without prejudice to Condition 8 (*Note Events of Default*), the Issuer shall not be entitled to redeem the Notes in whole or in part otherwise than as provided in this Condition 5.

(h) Purchase

The Issuer may at any time purchase Notes in the open market or otherwise and at any price, provided that all unmatured Coupons and unexchanged Talons appertaining thereto are purchased therewith.

(i) Cancellation

All Notes so redeemed or purchased by the Issuer, and any unmatured Coupons or unexchanged Talons attached to or surrendered with them, shall be cancelled and may not be reissued or resold.

Any certificate, advice in writing and legal opinion given by or on behalf of the Issuer or relevant entity pursuant to Condition 5(c) (*Redemption and*

Purchase – Mandatory Early Redemption), Condition 5(d) (*Redemption and Purchase – Early redemption at the option of the Issuer*) and Condition 5(f) (*Redemption and Purchase – Optional redemption due to change of tax law and illegality*) may be relied on by the Note Trustee without further investigation and shall be conclusive and binding on the Noteholders and on the other Issuer Secured Creditors.

6 **Payments**

(a) Payments of interest and principal

Payments of interest in respect of the Definitive Notes will (subject as provided in Conditions 6(c) (*Payments - Deductions for unmatured Coupons for fixed rate Notes*) and 6(e) (*Payments - Payments of interest on improperly withheld or refused Notes*) below) be made only against presentation and surrender of the relevant Coupons at the Specified Office of any Paying Agent. Payments of principal in respect of the Definitive Notes will be made against presentation and surrender of the relevant Receipts (except where, after such presentation and surrender, the unpaid principal amount of a Definitive Note would be reduced to zero (including as a result of any other payment of principal due in respect of such Definitive Note) in which case each payment of principal will be made against presentation and surrender of such Definitive Note) at the Specified Office of any Paying Agent. Each such payment will be made in sterling at the Specified Office of any Paying Agent by sterling cheque drawn on, or, at the option of the holder, by transfer to a sterling account maintained by the payee with, a bank in London.

(b) Payments subject to fiscal laws

Payments of principal and interest in respect of the Notes are subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provision of Condition 7 (*Taxation*) and (ii) any withholding or deduction required pursuant to FATCA or the FATCA U.S. UK IGA, and to the provisions of the Paying Agency Agreement and the Issuer Deed of Charge.

(c) Deductions for unmatured coupons for fixed rate Notes

If a Note is presented without all unmatured Coupons and Talons (if any) relating thereto:

(i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment, provided however, that if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment; and

(ii) if the aggregate amount of the missing Coupons is greater than the amount of the principal due for payment:

(A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment, provided however, that where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and

(B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment, provided however, that if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum so deducted shall be paid in the manner provided in Condition 6(a) (*Payments - Payments of Interest and Principal*) above against presentation and surrender of the relevant missing Coupons.

(d) Presentation on non-business days

If any Coupon, Receipt or Note is presented for payment on a day which is not a business day in the place where it is so presented and (in the case of payment by transfer to a sterling account in London as referred to in paragraph (a) above) in London, no further payments of additional amounts by way of interest, principal or otherwise shall be due in respect of such Coupon, Receipt or Note.

(e) Payments of interest on improperly withheld or refused Notes

If any amount of principal or premium (if any) is improperly withheld or refused on or in respect of any Note or part thereof, the interest which continues to accrue in respect of such Note in accordance with Condition 4 (*Interest*) will be paid against presentation of such Note at the Specified Office of any Paying Agent.

(f) Other interest

Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes at the Specified Office of any Paying Agents outside the United States.

(g) Partial payments

If a Paying Agent makes a partial payment in respect of any Note, Coupon or Receipt presented to it for payment, such Paying Agent will endorse on such Note, Coupon or Receipt a statement indicating the amount and date of such payment.

(h) Exchange of Talons

On or after the relevant Note Payment Date on which the final Coupon forming part of a Coupon sheet is surrendered, each Talon forming part of such Coupon sheet may be surrendered at the Specified Office of any Paying Agent for a further Coupon sheet (including a further Talon) but excluding any Coupons in respect of which claims have already become void pursuant to Condition 9 (*Prescription*). Upon the due date for redemption of any Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

(i) Notifications to be final

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 6, whether by the Paying Agents or the Note Trustee shall (in the absence of wilful default, fraud or manifest error) be binding on the Issuer and all Noteholders, Couponholders and holders of the Receipts ("**Receiptholders**") and (in the case of the Paying Agents, in the absence of gross negligence, wilful default or fraud) no liability to the Note Trustee, the Noteholders, the Couponholders and Receiptholders shall attach to the Paying Agents or the Note Trustee in connection with the exercise or non-exercise by them or any of them of their powers, duties and discretions under this Condition 6.

7 **Taxation**

All payments of principal and interest in respect of the Notes by the Issuer or any Paying Agent shall be made free and clear of, and without withholding or deduction for or on account of, any Taxes unless such withholding or deduction is required by law or pursuant to FATCA or the FATCA U.S.-UK IGA. In that event, the Issuer or such Paying Agent (as applicable) shall deal with the amount to be withheld or deducted in accordance with applicable law or pursuant to FATCA or the FATCA U.S.-UK IGA.

The Issuer shall notify the Note Trustee of any such withholding or deduction.

The Issuer and Paying Agents shall not be obliged to make any additional payments to Noteholders or Couponholders in respect of any such withholding or deduction.

Notwithstanding that the Issuer or any Paying Agent is required to make a withholding or deduction as is referred to in this Condition 7, this shall not constitute a Note Event of Default.

8 **Note Events of Default**

(a) The Note Trustee in its absolute discretion may, and if so directed in writing by the holders of not less than 25 per cent. of the Principal Amount Outstanding of the Class A Notes while they remain outstanding and thereafter the Class B Notes while they remain outstanding (the "**Most Senior Class Outstanding**") or if so directed by an Extraordinary Resolution of the Most Senior Class Outstanding (subject, in each case, to being indemnified and/or secured and/or pre-funded to its satisfaction against all liabilities to which it may become liable or which it may incur by so doing), shall give notice (a "**Note Enforcement Notice**") to the Issuer and the Issuer Security Trustee that all Classes of the Notes are immediately due and repayable at their respective Principal Amounts

Outstanding (or if the Redemption Amount is payable pursuant to Condition 5 (*Redemption, Purchase and Cancellation*), the Redemption Amount), together with accrued but unpaid interest as provided in the Note Trust Deed, in any of the following events (each, a "**Note Event of Default**"):

(i) an Insolvency Event (as defined below) occurs with respect to the Issuer;

(ii) the Issuer defaults in the payment of any interest on the Class A Notes or the Class B Notes (subject in the case of the Class B Notes to Condition 15 (*Subordination and Deferral*)) when the same becomes due and payable in accordance with these Conditions, and such default continues for a period of five business days;

(iii) the Issuer defaults in the payment of principal on any Class A Note or (subject to Condition 15 (*Subordination and Deferral*)) any Class B Note when the same becomes due and payable in accordance with these Conditions, and such default continues for a period of five business days; or

(iv) the Issuer fails to perform or observe any of its other obligations under the Conditions or any Issuer Transaction Document to which it is a party (excluding, for the avoidance of doubt, its obligations to make payments of principal or interest on the Notes) and such default is, in the opinion of the Note Trustee, to be certified in writing, materially prejudicial to the interests of the Noteholders of the Most Senior Class Outstanding and is either (i) in the opinion of the Note Trustee, incapable of remedy or (ii) in the opinion of the Note Trustee, capable of remedy, but remains unremedied for a period of thirty days or such longer period as the Note Trustee may agree after the Note Trustee has given written notice of such default to the Issuer.

(b) Acceleration

Upon the service of a Note Enforcement Notice by the Note Trustee in accordance with Condition 8(a) above, all Classes of the Notes then outstanding shall thereby immediately become due and repayable at their respective Principal Amounts Outstanding (or, if the Redemption Amount is payable pursuant to Condition 5 (*Redemption, Purchase and Cancellation*) where applicable, the Redemption Amount), together with accrued but unpaid interest as provided in the Note Trust Deed, and the security constituted by the Issuer Deed of Charge will become immediately enforceable.

(c) Enforcement

The Note Trustee may, at any time, at its discretion and without notice, take such action under or in connection with any of the Issuer Transaction Documents in such a manner as it may think fit to enforce the provisions of the Notes, the Note Trust Deed (including these Conditions) or the Issuer Transaction Documents to which it is a party (including, without limitation, directing the Issuer Security Trustee to take any action under or in connection with any of the Issuer Transaction Documents or, after the service of a Note Enforcement Notice, to take steps to enforce the security constituted by the Issuer Deed of Charge), provided that:

(i) the Note Trustee shall not be bound to take any such action or give any instructions unless it shall have been directed in writing by the holders of not less than 25 per cent. of the Principal Amount Outstanding of the Most Senior Class Outstanding or if so directed by an Extraordinary Resolution of the Most Senior Class Outstanding;

(ii) if the Note Trustee shall take any action described in this Condition 8(c), it may take such action without having regard to the effect of such action on the individual Noteholders or any other Issuer Secured Creditor, provided that the Note Trustee shall not and not be bound to act at the request or direction of the Noteholders of any Class other than the Most Senior Class Outstanding unless:

(A) to do so would not, in its opinion, be materially prejudicial to the interests of the Noteholders of the Most Senior Class Outstanding; or

(B) (if the Note Trustee is not of that opinion) such action is sanctioned by an Extraordinary Resolution of the Noteholders of the Most Senior Class Outstanding.

(iii) The Issuer Security Trustee shall not be bound to, take any action under the Issuer Deed of Charge unless it shall have been so directed in writing by (i) the Note Trustee or (ii) if there are no Notes outstanding, the Issuer Secured Creditor (as defined below) who ranks most senior in the Issuer Post-Enforcement Priority of Payments (other than the Note Trustee, the Issuer Security Trustee or the Agents);

(iv) neither the Note Trustee nor the Issuer Security Trustee shall be bound to take any such action unless it shall have been indemnified and/or secured and/or pre-funded to its satisfaction; and

(v) neither the Note Trustee nor the Issuer Security Trustee shall be entitled to take any steps or proceedings to procure the winding-up, administration or liquidation of the Issuer.

"**Insolvency Event**" means, in respect of the relevant entity:

(i) an order is made or an effective resolution passed for the winding up of the relevant entity, except (in the case of the Issuer) a winding-up for the purposes of or pursuant to an amalgamation or reconstruction the terms of which have previously been approved by the Note Trustee or by the Noteholders by Extraordinary Resolution in accordance with the provisions of the Note Trust Deed; or

(ii) the relevant entity, otherwise than for the purposes of such amalgamation or reconstruction as is referred to in paragraph (i) above, ceases or through an authorised action of its board of directors, threatens to cease to carry on all or substantially all of its business; or

(iii) proceedings, corporate action or other steps shall be initiated against the relevant entity under any applicable liquidation, insolvency, bankruptcy, composition, reorganisation or other similar laws and such proceedings are not, in the opinion of the Note Trustee, being disputed in good faith with a reasonable prospect of success or an administration order shall be granted or the appointment of an administrator takes effect or an administrative receiver or other receiver, liquidator, trustee in sequestration or other similar official shall be appointed in relation to the relevant entity (other than by the Issuer Security Trustee) or in relation to the whole or any substantial part of the undertaking or assets of the relevant entity, or an encumbrancer (other than the Issuer Security Trustee or its appointees) shall take possession of the whole or any substantial part of the undertaking or assets of the relevant entity, or a distress, execution or diligence or other process shall be levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of the relevant entity and such possession or process (as the case may be) shall not be discharged or otherwise ceases to apply within thirty days of its commencement; or

(iv) the relevant entity (or its directors or shareholders) initiates or consents to judicial proceedings relating to itself under applicable liquidation, insolvency, bankruptcy, composition, reorganisation or other similar laws or makes a conveyance or assignment or assignation for the benefit of its creditors generally or takes steps with a view to obtaining a moratorium in respect of any indebtedness; or

(v) any event occurs which, under English law or any applicable law, has an analogous effect to any of the events referred to in paragraphs (i), (ii), (iii) or (iv) above.

"**Issuer Secured Creditors**" means the Issuer Security Trustee (for itself and for and on behalf of the Noteholders and the other Issuer Secured Creditors), the ProjectCo Security Trustee, the Note Trustee, the Cash Manager, the Issuer Account Bank, the Principal Paying Agent and any other Paying Agents, the Corporate Services Provider, the Managing Agent, any Receiver appointed under the Issuer Deed of Charge and any Appointee and such other creditor who may be a party to, or accede to, the terms of the Issuer Deed of Charge from time to time and is designated an Issuer Secured Creditor, and "**Issuer Secured Creditor**" means any one of them.

9 **Prescription**

(a) Principal

Notes and Receipts (which expression shall not in this Condition 9 include Talons) shall become void unless presented for payment within a period of 10 years from the relevant date in respect thereof.

(b) Interest

Coupons shall become void unless presented for payment within a period of five years from the relevant date in respect thereof.

(c) Note, Coupon or Receipt

After the date on which a Note, Coupon or a Receipt becomes void in its entirety, no claim may be made in respect thereof.

(d) Relevant Date

For the purpose of this Condition, the "**relevant date**" in respect of a Note, Coupon or Receipt is the date on which a payment in respect thereof first becomes due or (if the full amount of the monies payable in respect of all the Notes, Coupons or Receipts due on or before the date has not been duly received by the Paying Agents or the Note Trustee on or prior to such date) the date on which notice that the full amount of such monies has not been received is duly given to the Noteholders in accordance with Condition 13 (*Notices*).

10 **Replacement of Notes, Coupons and Talons**

If any Note, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Principal Paying Agent, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer and the Principal Paying Agent may reasonably require. Mutilated or defaced Notes, Receipt, Coupons or Talons must be surrendered before replacements will be issued.

11 **Note Trustee, Issuer Security Trustee, Managing Agent and Paying Agents**

(a) Under the Note Trust Deed, the Note Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the Note Trustee is entitled to enter into business transactions with the Issuer, ProjectCo, the Noteholders, the Couponholders and any entity related to the Issuer and ProjectCo or such other persons without accounting for any profit.

(b) In the exercise of its powers and discretions under these Conditions, the Note Trust Deed and the other Issuer Transaction Documents to which it is a party, the Note Trustee will have regard to the general interests of the Noteholders as a Class but shall not have regard to any interests arising from the circumstances particular to individual Noteholders or Couponholders (whatever their number) and, in particular but without limitation shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of any particular territory or any political sub-division thereof and the Note Trustee shall not be entitled to require from the Issuer, ProjectCo or the Issuer Security Trustee, nor shall any Noteholder or Couponholder be entitled to claim from the Issuer, ProjectCo, the Note Trustee or the Issuer Security Trustee, any indemnification or other payment in respect of any consequence (including without limitation, any tax consequence) for individual Noteholders or Couponholders.

(c) Each of the Issuer Security Trustee and Managing Agent is entitled to be indemnified and relieved from responsibility in certain circumstances and to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the Issuer Security Trustee and Managing Agent is entitled to enter into business transactions with the Issuer, ProjectCo, the Note Trustee, the Noteholders, the Couponholders and any entity related to the Issuer, ProjectCo or the Note Trustee without accounting for any profit.

(d) The Managing Agent shall, under the terms of the Note Trust Deed, have absolute and uncontrolled discretion as to the exercise or non-exercise of its rights, powers and discretions and shall not be responsible for any liabilities that may result from the exercise or non-exercise thereof.

(e) None of the Note Trustee, Managing Agent and the Issuer Security Trustee has investigated nor are they responsible or liable for any loss arising as a result of any failure to investigate the validity, value, sufficiency or enforceability of the security created by the Issuer Transaction Documents or the validity or enforceability of any contracts over which such security is created and each of the Note Trustee, the Issuer Security Trustee and the Managing Agent shall accept without investigation, requisition or objection and without any responsibility or liability for doing so such right and title as the Issuer have to the property, assets and rights over which security is created pursuant to the Issuer Transaction Documents.

Neither the Note Trustee or the Issuer Security Trustee will be responsible for any loss, expense or liability which may be suffered as a result of any assets comprised in the Issuer Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by any person on behalf of the Note Trustee or the Issuer Security Trustee.

Neither the Note Trustee nor the Issuer Security Trustee will be responsible for or liable for loss which results should any deficiency arise between the amount realised in respect of the property, assets and rights over which security is given by the Issuer Transaction Documents and sums due in respect of the Notes because the Issuer Security Trustee or the Note Trustee is liable to tax in respect of the property, assets and rights over which such security is created.

Neither the Issuer Security Trustee nor the Note Trustee shall be responsible for monitoring the obligations of any person to the Issuer and each of them shall, until they have actual knowledge to the contrary, assume that all such persons are duly performing the same.

None of the Issuer Security Trustee, the Note Trustee or the Managing Agent will be obliged to take any action under the Note Trust Deed or the Issuer Deed of Charge including among others, as regards the Issuer Security Trustee and the Note Trustee, taking enforcement proceedings and enforcing the Issuer Security unless either or each is indemnified, secured and/or prefunded to its satisfaction in respect of any personal liability or expense which it may in its opinion incur. Protection and realisation of the security may be prevented or delayed as a result.

(f) In acting under the Paying Agency Agreement and in connection with the Notes and the Coupons, the Paying Agents act solely as agents of the

Issuer and (to the extent provided therein) the Note Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

(g) The Issuer reserves the right (with the prior written approval of the Note Trustee) at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor principal paying agent and additional or successor paying agents; provided, however, that the Issuer shall at all times maintain (i) a Principal Paying Agent and (ii) the Issuer undertakes to maintain a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2009 or any law implementing or complying with, or introduced in order to conform to, such Directive. Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given by the Issuer to the Noteholders.

12 **Meetings of Noteholders, Modification and Waiver**

(a) Meetings of Noteholders

(i) The Note Trust Deed contains provisions for convening meetings of the Noteholders of each Class and, in certain cases, more than one Class to consider any matter affecting their interests, including, without limitation, the sanctioning by Extraordinary Resolution of a Basic Terms Modification (defined below), to remove the Note Trustee and/or the Issuer Security Trustee and to appoint a new Note Trustee and/or Issuer Security Trustee, to discharge or exonerate the Note Trustee and/or the Issuer Security Trustee from any liability in respect of any act or omission for which it may have become or may become responsible under the Note Trust Deed or the Notes or any other Issuer Transaction Document and to waive any breach or authorise any proposed breach by the Issuer or, if relevant, any other Issuer Transaction Party of any obligation under or in respect of the Issuer Transaction Documents or any act or omission which may otherwise constitute a Note Event of Default under the Notes. Decisions may be taken by Noteholders by way of Ordinary Resolution or, to the extent required, Extraordinary Resolution. Such Resolutions can be effected either at a duly convened meeting of the applicable Noteholders or by the applicable Noteholders resolving in writing. A meeting of Noteholders (or any Class thereof) may be convened by the Note Trustee or the Issuer at any time and must be convened by (A) the Note Trustee (subject to its being indemnified and/or secured and/or prefunded to its satisfaction) or the Issuer upon the request in writing of Noteholders of a particular Class holding not less than 10% of the aggregate Principal Amount Outstanding of the outstanding Notes of any Class or (B) the Issuer upon the direction of the Managing Agent where necessary for the purposes of exercising a Managing Agent Right.

(ii) Subject as provided in this Condition 12 below, a Resolution passed at any meeting of the Class A Noteholders shall be binding on the Class B Noteholders irrespective of the effect upon them.

(iii) A Resolution (other than a Resolution referred to below) passed at any meeting of the Class B Noteholders shall not be effective for any purpose unless either the Note Trustee is of the opinion that it would not be materially prejudicial to the interests of the Class A Noteholders or (ii) it is sanctioned by a Resolution of the Class A Noteholders.

(iv) An Extraordinary Resolution relating to a Basic Terms Modification that is passed by the holders of one Class of Notes shall not be effective unless it is sanctioned by an Extraordinary Resolution of the holders of the other Class of Notes then outstanding.

(v) The quorum at any meeting of Noteholders of any Class or Classes for passing an Ordinary Resolution will be one (1) or more persons holding or representing not less than one-tenth of the aggregate Principal Amount Outstanding of such Class or Classes of Notes then outstanding or, at any adjourned meeting, one or more persons being or representing a Noteholder of the relevant Class or Classes, whatever the aggregate Principal Amount Outstanding of the Notes of such Class or Classes then outstanding so held or represented by it or them.

(vi) The quorum at any meeting of Noteholders of any Class or Classes for passing an Extraordinary Resolution other than in respect of a Managing Agent Right or a Basic Term Modification will be one or more persons holding or representing a majority of the aggregate Principal Amount Outstanding of such Class or Classes of Notes then outstanding, or, at any adjourned meeting, one or more persons being or representing a Noteholder of the relevant Class or Classes, whatever the aggregate Principal Amount Outstanding of the Notes of such Class or Classes then outstanding held or represented by it or them.

(vii) The quorum at any meeting of Noteholders of any Class or Classes for passing an Extraordinary Resolution to sanction a proposal:

(A) to change any date fixed for payment of principal or interest in respect of the Notes of any Class, to change the amount of principal or interest due on any date in respect of the Notes of any Class or to alter the method of calculating the amount of any payment in respect of the Notes of any Class on redemption or maturity;

(B) to alter the priority of payments contained in the Issuer Priorities of Payments (excluding, for the avoidance of doubt, any new fee arrangements for any replacement Issuer Secured Creditors);

(C) (except in accordance with clause 18 (*Substitution*) of the Note Trust Deed) to effect the exchange, conversion or substitution of the Notes of any Class for, or the conversion of such Notes into, shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed;

(D) to change the currency in which amounts due in respect of the Notes are payable (other than pursuant to redenomination into euro);

(E) to change the quorum required at any meeting or the majority required to pass a Resolution;

(F) to amend the definition of any of the Managing Agent Rights; or

(G) to amend the definition of Basic Terms Modification,

(each, a "**Basic Terms Modification**") (which must be proposed separately to each Class of Noteholders) shall be one or more persons holding or representing at least 75% or, at any adjourned meeting, at least 25% of the aggregate Principal Amount Outstanding of the Notes then outstanding of such Class or Classes.

The Note Trust Deed provides that, except in the case of an Extraordinary Resolution in respect of a Managing Agent Right or Basic Terms Modification or an Extraordinary Resolution directing the Note Trustee to give a Note Enforcement Notice, as to which the provisions of Condition 8 (*Note Events of Default*) shall apply and subject as provided in Conditions 12(a)(ii) to (iv) (inclusive):

(1) a Resolution which, in the sole opinion of the Note Trustee, affects the interests of the holders of only one Class of Notes shall be deemed to have been duly passed if passed at a separate meeting of the holders of the Notes of that Class;

(2) a Resolution which, in sole the opinion of the Note Trustee, affects the interests of the holders of more than one Class but does not give rise to an actual or potential conflict of interest between the holders of one Class of Notes and the holders of another Class of Notes shall be deemed to have been duly passed if passed at a single meeting of the holders of all the Classes so affected as the Note Trustee shall determine; and

(3) a Resolution which, in the sole opinion of the Note Trustee, affects the interests of more than one Class of Notes and gives or may give rise to an actual or potential conflict of interest between the holders of one Class of Notes and the holders of another Class of Notes shall be deemed to have been duly passed only if passed at separate meetings of the holders of each Class so affected.

(b) Modification and Waiver

(i) The Note Trustee may agree and/or may direct the Issuer Security Trustee to agree, without the consent of the Noteholders or any other Issuer Secured Creditors:

(A) to any modification (except in respect of any Basic Terms Modification) of these Conditions or any of the Issuer Transaction Documents which, in the opinion of the Note Trustee, is not materially prejudicial to the interests of the Noteholders; or

(B) to any modification of the Conditions or any of the Issuer Transaction Documents which, in the opinion of the Note Trustee, is required to correct a manifest error or an error in respect of which an English court could reasonably be expected to make a rectification order or is of a formal, minor or technical nature,

provided that the Note Trustee shall not exercise any powers conferred on it in respect of any modifications in contravention of any express direction given by Extraordinary Resolution or by a direction under Condition 8 (*Note Events of Default*) but that no such direction shall affect any modification or authorisation previously given or made or authorise any modification which is the subject of a Managing Agent Right.

(ii) The Note Trustee may also, without the consent of the Noteholders or any other Issuer Secured Creditors, concur or may direct the Issuer Security Trustee to concur with the Issuer or any other relevant parties in authorising or waiving any proposed breach or breach of the covenants or provisions of any Trust Documents, the Notes or any of the other Issuer Transaction Documents or determine that a Note Event of Default or Potential Note Event of Default shall not or shall not subject to specified conditions, be treated as such, *provided that* the Note Trustee is satisfied that the interests of the Noteholders would not be materially prejudiced thereby *provided further that* the Note Trustee shall not exercise any such powers in contravention of any express direction given by Extraordinary Resolution or by a direction under Condition 8 (*Note Events of Default*) but that no such direction shall affect any waiver or authorisation previously given or made or authorise or waive any such proposed breach or breach which is the subject of a Managing Agent Right or authorise or waive any proposed breach or breach relating to a Basic Terms Modification unless the holders of each Class of Notes then outstanding have by Extraordinary Resolution so authorised its exercise.

(iii) Any such modification, waiver, authorisation or determination shall be binding on the Noteholders and the other Issuer Secured Creditors and, unless the Note Trustee agrees otherwise, any such modification, waiver, authorisation or determination shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 13 (*Notices*).

(iv) If any of the events listed in Condition 5(f) is subsisting, the Note Trustee will agree and shall direct to the Issuer Security Trustee to agree, subject to such amendments of these Conditions and of any of the Issuer Transaction Documents and to such other conditions as the Note Trustee may require and subject to the terms of the Note Trust Deed, but without the consent of the Noteholders or any other Issuer Secured Creditor, to the substitution of another company in place of the Issuer as principal debtor under the Note Trust Deed and the Notes and in respect of the other Issuer Secured Liabilities. In connection with any such substitution of principal debtor referred to in Condition 5(f) *(Optional redemption due to change of tax law or illegality)*, the Note Trustee may also agree (and direct the Issuer Security Trustee to agree to), without the consent of the Noteholders or any other Issuer Secured Creditors, to a change of the laws governing the Notes, these Conditions and/or any other Issuer Transaction Document, *provided that* such change would not, in the opinion of the Note Trustee, be materially prejudicial to the interests of the Noteholders.

(v) Where, in connection with the exercise or performance by it of any right, power, trust, authority, duty or discretion under or in relation to these Conditions or any of the Issuer Transaction Documents (including, without limitation, in relation to any modification, waiver, authorisation, determination or substitution as referred to above), the Note Trustee is required to have regard to the interests of the Noteholders of any Class, it shall have regard to the general interests of the Noteholders of such Class as a Class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise or performance for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Note Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim from the Issuer, the Note Trustee or the Issuer Security Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders.

(vi) Neither the Note Trustee nor the Issuer Security Trustee shall be required to have regard to the interests of any other Issuer Secured Creditors so long as any Note is outstanding other than, in the case of the Issuer Security Trustee, to ensure application of the Issuer's funds in accordance with the Issuer Post-Enforcement Priority of Payments.

(c) Role of the Managing Agent

(i) FHW Dalmore Limited will process decisions on the Issuer's behalf relating to the rights and discretions of the Issuer (as lender) under the ProjectCo Transaction Documents as managing agent under the Managing Agent Agreement (the "**Managing Agent**"). These decisions will be subject to the voting rights of the Noteholders following categorisation of such decision as a Level 1 Right, Level 2 Right, Level 3 Right or Level 4 Right (as such terms are defined in the Note Trust Deed). The Managing Agent will also provide information services under the Managing Agent Agreement.

The Managing Agent will exercise the Level 1 Rights and Level 2 Rights as directed by the Noteholders acting by way of Extraordinary Resolution.

The Managing Agent may exercise any Level 3 Rights without the consent of the Noteholders provided that the Managing Agent shall (A) give the holders of the Class A Notes and the holders of the Class B Notes notice of its intention to exercise such right and shall specify the relevant decision in such notice (the "**Level 3 Rights Managing Agent Notice"**) and (B) direct the Issuer to convene a meeting for the Noteholders to consider and if thought fit pass an Extraordinary Resolution to veto such decision (such Issuer notice of Meeting to be issued simultaneously with the Level 3 Rights Managing Agent Notice). The Noteholders may, by Extraordinary Resolution passed within 30 days of receipt of such Level 3 Rights Managing Agent Notice, instruct the Managing Agent to refrain from exercising such right, in which case the Managing Agent shall refrain from exercising such right and may propose to the Noteholders, for approval by way of Extraordinary Resolution, an alternative decision or the same decision as previously proposed in respect of the exercise of such Level 3 Right. In the event that any proposal(s) is not approved by the Noteholders, the Managing Agent may repeat the proposal and approval process until a decision is approved in respect of the exercise of the Level 3 Right.

The Managing Agent will exercise any Level 4 Rights in its sole discretion without the consent of the Noteholders.

The Note Trustee shall be under no obligation to monitor the performance of the Managing Agent, its exercise of the Managing Agent Rights and its associated discretions (including, without limitation, its determination of which category of Managing Agent Right is applicable to a right or discretion) or duties (including, without limitation, its duty to convene Meetings when required). The Note Trustee shall not be required to identify any replacement Managing Agent, shall not be responsible for carrying out the role of Managing Agent and shall not be required to take any action to find a replacement Managing Agent.

(ii) FHW Dalmore Limited as Managing Agent will be entitled to delegate its role in accordance with the terms of the Managing Agent Agreement.

(iii) The Managing Agent's appointment may be terminated by 10 days' prior written notice from the Issuer or the Note Trustee (in each case, acting in accordance with an Extraordinary Resolution of the Most Senior Class Outstanding) (subject to a replacement being appointed):

(A) upon the occurrence of an event entitling the exercise of rights under paragraphs (i), (ii) or (iii) of Level 2 Rights;

(B) the continuation of a Subordinated Bond Lock-Up Event resulting in interest and principal payable in respect of the Class B Notes being paid into the Subordinated Bond

Lock-Up Account for three consecutive Note Interest Periods;

(C) if the Managing Agent fails to perform or comply with its obligations as Managing Agent under the Note Trust Deed or Managing Agent Agreement in any material respect (other than, for the avoidance of doubt, any failure to report required information which the Managing Agent itself has not received) and where such breach is capable of remedy such breach is not remedied within 10 Business Days following receipt of notice of such breach from the Note Trustee or (if earlier) the date on which the Managing Agent became aware of such default; or

(D) if an Insolvency Event occurs in relation to the Managing Agent.

(iv) All Meetings of Class A Noteholders and Class B Noteholders to consider Level 1 Rights, Level 2 Rights and Level 3 Rights will be conducted at a single meeting of Class A Noteholders and Class B Noteholders together.

(v) The quorum at any Meeting convened to vote on an Extraordinary Resolution in respect of any of the Level 1 Rights will be one or more persons holding or representing at least 75% in Principal Amount Outstanding of the Notes (including both the Class A Notes and Class B Notes in aggregate) then outstanding (or, at an adjourned meeting, at least 25% in Principal Amount Outstanding of the Notes); provided, however, that such an Extraordinary Resolution may only be passed by a majority of at least 95% of the votes cast.

(vi) The quorum at any Meeting convened to vote on an Extraordinary Resolution in respect of any of the Level 2 Rights will be one or more persons holding or representing at least 75% in Principal Amount Outstanding of the Notes (including both the Class A Notes and Class B Notes in aggregate) then outstanding or, at an adjourned meeting, one or more Noteholders holding at least 25% in Principal Amount Outstanding of the Notes provided, however, that such an Extraordinary Resolution may only be passed by a majority of the votes cast.

(vii) The quorum at any Meeting convened to vote on an Extraordinary Resolution relating to the exercise of Level 3 Rights will be one or more persons holding or representing at least $33^1/_3$% of the aggregate Principal Amount Outstanding of the Notes (including both the Class A Notes and Class B Notes in aggregate) then outstanding; provided, however, that such an Extraordinary Resolution may only be passed by a majority of the votes cast.

(viii) A Meeting convened to vote on an Extraordinary Resolution relating to the exercise of Level 3 Rights will be dissolved and not adjourned for want of quorum.

13 Notices

(a) Publication of notices

Any notice to Noteholders shall be validly given if it is published in the Financial Times in the UK, or, if such newspaper shall cease to be published or, if timely publication therein is not practicable, in such other English language newspaper or newspapers as the Note Trustee shall approve in advance having a general circulation in the United Kingdom, provided that if, at any time:

(i) the Issuer procures that the information concerned in such notice shall appear on a page of the Reuters screen, the Bloomberg screen or any other medium for electronic display of data as may be previously approved in writing by the Note Trustee and notified to Noteholders in accordance with this Condition (in each case a "**Relevant Screen**"); or

(ii) paragraph (b) below applies and the Issuer has so elected,

publication in the newspaper set out above or such other newspaper or newspapers shall not be required with respect to such information.

Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication shall have been made in the newspaper or newspapers in which (or on the Relevant Screen) publication is required.

(b) Whilst the Notes are represented by Global Notes, notices to Noteholders will be validly given if published as described above, or, at the option of the Issuer, if submitted to Euroclear and/or Clearstream, Luxembourg for communication by them to Noteholders. Any notice delivered to Euroclear and/or Clearstream, Luxembourg, as aforesaid shall be deemed to have been given on the day of such delivery to Euroclear and/or Clearstream, Luxembourg.

(c) The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange on which the Notes are for the time being listed or any other relevant authority.

(d) Note Trustee's discretion to select alternative method

The Note Trustee shall be at liberty to sanction some other method of giving notice to the Noteholders or category of them if, in its sole opinion, such other method is reasonable having regard to market practice then prevailing and to the requirements of the stock exchanges, competent listing authorities and/or quotation systems on or by which the Notes are then listed, quoted and/or traded and *provided that* notice of such other method is given to the Noteholders and Managing Agent in such manner as the Note Trustee shall require.

(e) Couponholders and Receiptholders will be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with these Conditions.

14 European Economic and Monetary Union

(a) Notice of redenomination

The Issuer may, after the date (if any) on which the United Kingdom adopts the euro as its lawful currency, without the consent of the Noteholders, on giving at least 30 days' prior notice to the Noteholders and the Paying Agents, designate a Note Payment Date as the date on which the currency of the Notes is redenominated to euro (the "**Redenomination Date**").

(b) Redenomination

With effect from the Redenomination Date:

(i) the Notes shall be deemed to be redenominated into euro with the Principal Amount Outstanding of each Note being equal to the Principal Amount Outstanding of that Note in sterling, converted into euro at the rate for conversion of sterling into euro established by the Council of the European Union pursuant to the Treaty establishing the European Community (as amended) (including compliance with rules relating to rounding in accordance with European Union Regulations); and

(ii) notwithstanding this Condition 14, if the Issuer determines, with the agreement of the Note Trustee, that the then market practice in respect of the redenomination into euro of internationally offered securities is different from that specified above, such provision shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders, the Irish Stock Exchange and the Paying Agents of such deemed amendments in accordance with Condition 13 (*Notices*).

(c) Notice of Redenomination Date

The Issuer will notify the Noteholders of the intended Redenomination Date in accordance with Condition 13 (*Notices*).

(d) Effect of redenomination

With effect from the Redenomination Date:

(i) the payment obligations contained in all Notes denominated in sterling will become void, but all other obligations of the Issuer thereunder (including the obligation to exchange such Notes in accordance with this Condition 14) shall remain in full force and effect;

(ii) new Notes denominated in euro will be issued in exchange for Notes denominated in sterling in such manner as the Principal Paying Agent may specify and as shall be notified to the Noteholders in accordance with Condition 13 (*Notices*); and

(iii) all payments in respect of the Notes (other than, unless the Redenomination Date is on or after such date as sterling ceases to be a sub-division of the euro, payments of interest in respect of periods commencing before the Redenomination Date) will be made solely in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) maintained by the payee with a bank in the principal financial centre of a member state of the European Union that has adopted the euro as its lawful currency.

15 **Subordination and Deferral**

(a) Interest Amounts

(i) For so long as the Class A Notes remain outstanding, in the event that on any Note Payment Date all sums standing to the credit of the Available Revenue Ledger on any Note Payment Date (the "**Issuer Available Revenue**"), after deducting all amounts payable in priority to interest on the Class B Notes (each such amount being an "**Interest Residual Amount**"), is not sufficient to satisfy in full the aggregate amount due and, subject to this Condition 15(a) (*Subordination and Deferral-Interest Amounts*) payable in respect of interest on the Class B Notes on such Note Payment Date, then there shall instead be payable in respect of each Class B Note on such Note Payment Date a *pro rata* share of such Interest Residual Amount calculated by dividing such Interest Residual Amount by the Principal Amount Outstanding of the Class B Notes.

(ii) In any such event, the Issuer shall create a provision in its accounts for the shortfall (if any) equal to the amount by which the aggregate amount paid in respect of interest on the Class B Notes is less than the aggregate amount which would be payable (but for the provisions of this Condition 15(a)) in respect of the Class B Notes on that date pursuant to Condition 5 (*Redemption, Purchase and Cancellation*). Such shortfall shall itself accrue interest at the same rate as that payable in respect of the Class B Notes and shall be payable together with such accrued interest on any succeeding Note Payment Date (which shall rank *pari passu* and *pro rata* with any Interest Amount in respect of the Class B Notes payable on such Note Payment Date) only if and to the extent that on such Note Payment Date, the relevant Interest Residual Amount is sufficient to make such payment.

(iii) For the avoidance of doubt, non-payment on any Note Payment Date of any amount which would otherwise be payable under these Conditions but for this Condition 15(a) (*Subordination and Deferral - Interest Amounts*) shall not constitute a Note Event of Default pursuant to Condition 8 (*Note Events of Default)*.

(b) Principal

(i) For so long as the Class A Notes remain outstanding, in the event that, on any Note Payment Date, Issuer Available Revenue, after deducting all amounts payable in priority to principal on the Class B Notes (the "**Principal Residual Amount**") is not sufficient to satisfy in full the aggregate amount of principal (if any) due and, subject to this Condition 15(b) (*Subordination and Deferral-Principal*) payable in respect of each Class B Note on such Note Payment Date, then there shall instead be payable in respect of the Class B Notes on such Note Payment Date a *pro rata* share of the Principal Residual Amount calculated by dividing such Principal Residual Amount by the Principal Amount Outstanding of the Class B Notes.

(ii) In any such event, the Issuer shall create a provision in its accounts for the shortfall (if any) equal to the amount by which the aggregate amount of principal paid on the Class B Notes on any Note Payment Date is less than the aggregate amount of principal payable (but for the provisions of this Condition 15(b)) in respect of the Class B Notes on that date pursuant to Condition 5 (*Redemption, Purchase and Cancellation*). Such shortfall shall accrue interest at the same rate as that payable in respect of the Class B Notes and shall be payable together with such accrued interest on any succeeding Note Payment Date only if and to the extent that on such Note Payment Date, Issuer Available Revenue, after deducting all amounts payable in priority to principal on the Class B Notes, is sufficient to make such payment.

(c) For the avoidance of doubt, the non-payment on a Note Payment Date of any amount which would otherwise be payable under these Conditions but for this Condition 15(c) shall not constitute a Note Event of Default pursuant to Condition 8 (*Note Events of Default*).

(d) General

Any amounts of principal or interest in respect of the Notes otherwise payable under these Conditions which are not paid by virtue of this Condition 15 together with accrued interest thereon shall in any event become payable on the Class B Final Maturity Date.

(e) Notification

As soon as practicable after becoming aware that any part of a payment of interest or principal on the Class B Notes will be deferred or that a payment previously deferred will be made in accordance with this Condition 15 (*Subordination and Deferral*), the Issuer will give notice thereof to the relevant Noteholders in accordance with Condition 13 (*Notices*) and to the Irish Stock Exchange, so long as the Notes are listed on the Irish Stock Exchange.

16 **Restrictions on Disposal of Issuer's Assets**

If a Note Enforcement Notice has been delivered by the Note Trustee, the Issuer Security Trustee will not be entitled to dispose of the Issuer Charged Assets or any part thereof unless either:

(a) a sufficient amount would be realised to allow payment in full of all amounts owing to the Noteholders of each Class after payment of all other claims ranking in priority to the Notes in accordance with the Issuer Post-Enforcement Priority of Payments; or

(b) the Note Trustee is of the opinion, which shall be binding on the Noteholders and the other Issuer Secured Creditors, reached after considering at any time and from time to time the advice of an investment bank or other financial adviser (which may include the Managing Agent) selected by the Note Trustee (and if the Note Trustee is unable to obtain such advice having made reasonable efforts to do so this Condition 16(b) shall not apply) that the cash flow prospectively receivable by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of the Issuer, to discharge in full due course all amounts due in respect of the Notes of each Class after payment of all other claims ranking in priority to the Notes in accordance with the Issuer Post-Enforcement Priority of Payments; and

(c) the Note Trustee shall not be bound to make the determination contained in Condition 16(b) unless the Note Trustee shall have been indemnified and/or secured and/or prefunded to its satisfaction against all liabilities to which it may thereby become liable or which it may incur by doing so.

17 **Limited Recourse**

If at any time following:

(a) the occurrence of either:

(i) the Final Maturity Date or any earlier date upon which all of the Notes of each Class are due and payable; or

(ii) the service of an Note Enforcement Notice; and

(b) Realisation (as defined below) of all of the property, assets and undertakings of the Issuer which is the subject of any security created by the Issuer Deed of Charge (together the "**Issuer Charged Assets**") and application in full of any amounts available to pay amounts due and payable under the Notes in accordance with the applicable Issuer Priority of Payments, and

the proceeds of such Realisation are insufficient, after payment of all other claims ranking in priority in accordance with the applicable Issuer Priority of Payments, to pay in full all amounts then due and payable under any Class of Notes then the amount remaining to be paid (after such application in full of the amounts first referred to in (b) above) under such Class of Notes (and any Class of Notes junior to that Class of Notes) shall, on the day following such application in full of the amounts referred to in (b) above, cease to be due and payable by the Issuer.

For the purpose of this Condition 17, "**Realisation**" means, in relation to any Issuer Charged Assets, the deriving, to the fullest extent practicable, of proceeds from or in respect of such Issuer Charged Assets including (without limitation) through sale or through performance by an obligor in accordance with the provisions of the Issuer Transaction Documents.

As between the Note Trustee and the Noteholders, only the Note Trustee may enforce the provisions of these Conditions (to the extent that it is able to do so). No Noteholder shall be entitled to proceed directly against the Issuer or any other person to enforce the performance of any of the provisions of these Conditions and/or to take any other proceedings (including lodging an appeal in any proceedings) in respect of or concerning the Issuer.

18 **Non Petition**

Only the Issuer Security Trustee may pursue the remedies available under the general law or under the Issuer Transaction Documents to enforce the Issuer Security and no Noteholder or other Issuer Secured Creditor shall be entitled to proceed directly against the Issuer to enforce the Issuer Security. In particular, each Noteholder agrees and acknowledges to each of the Issuer and the Issuer Security Trustee, that:

(a) none of the Noteholders (nor any person on their behalf, other than the Note Trustee where appropriate) are entitled to direct the Issuer Security Trustee to enforce the Issuer Security or take any proceedings or action against the Issuer to enforce or realise the Issuer Security;

(b) none of the Noteholders shall have the right to take or join any person in taking any steps against the Issuer for the purpose of obtaining payment of any amount due from the Issuer to any such Noteholders;

(c) until the date falling two years after the Final Maturity Date none of the Noteholders nor any person on their behalf shall initiate or join any person in initiating an Insolvency Event or the appointment of an Insolvency official in relation to the Issuer other than a receiver or an administrator appointed under the Issuer Deed of Charge by the Issuer Security Trustee; and

(d) none of the Noteholders shall be entitled to take or join in the taking of any corporate action, legal proceedings or other procedure or step which would result in the Priority of Payments not being complied with.

19 Third Party Rights

A person who is not a party to this Note has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note but this does not affect any right or remedy of a third party which exists or is available apart from that Act.

20 Governing Law

The Note Trust Deed, the Notes and all non-contractual obligations arising from or in connection with them are governed by, and shall be construed in accordance with, English law.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

The Class A Notes and the Class B Notes respectively will each initially be represented by a Temporary Global Note without Coupons or Talons, which will be deposited on or around the Closing Date with a common safekeeper for Euroclear and Clearstream, Luxembourg. Each Temporary Global Note will be exchangeable in whole or in part for interests in a Permanent Global Note not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. No payment of principal, interest or other amounts payable in respect of the Notes will be made under the Temporary Global Notes unless exchange for interests in the relevant Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Each Permanent Global Note will become exchangeable in whole, but not in part, for Notes in definitive form ("**Definitive Notes**") in the denomination of £100,000 and integral multiples of £1,000 in excess thereof each at the request of the bearer of the Permanent Global Note against presentation and surrender of the Permanent Global Note to the Principal Paying Agent if either of the following events (each an "**Exchange Event**") occurs:

(a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so and no other clearing system acceptable to the Note Trustee is then in existence; or

(b) As a result of any amendment to, or a change in laws or regulations of the United Kingdom (or of any political sub-division thereof) or of any authority therein or thereof having power to tax or in the interpretation or administration of such laws or regulations which becomes effective on or after the Closing Date, the Issuer or any Paying Agent is or will be required to make any withholding or deduction from any payment in respect of such Notes which would not be required were such Notes in definitive form.

Whenever a Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached, in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note at the Specified Office of the Principal Paying Agent within 30 days of the occurrence of the relevant Exchange Event.

In addition, each Temporary Global Note and each Permanent Global Note will contain provisions which modify the Conditions as they apply to each Temporary Global Note and to each Permanent Global Note. The following is a summary of certain of those provisions.

Payments: All payments in respect of each Temporary Global Note and each Permanent Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Temporary Global Note or (as the case may be) the Permanent Global Note at the Specified Office of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes.

Notices: Notwithstanding Condition 13, while (i) all the Notes are represented by Permanent Global Notes (or by Permanent Global Notes and/or Temporary Global Notes) and the Permanent Global Notes (or each Permanent Global Note and/or each Temporary Global Note) are deposited with a common safekeeper for Clearstream, Luxembourg and/or Euroclear, and (ii) so long as the Notes are listed on the Irish Stock Exchange and the rules of the Irish Stock Exchange so permit, notices to Noteholders may be given by delivery of the relevant notice to Clearstream, Luxembourg and/or Euroclear, rather than by publication in accordance with Note Condition 13. Such notices shall be deemed to have been given to the Noteholders in accordance with Condition 13 on the date of delivery to Clearstream, Luxembourg and/or Euroclear.

Meetings: The holder of a Global Note will be deemed to be two persons for the purpose of forming a quorum at a Meeting of Noteholders.

Purchase and Cancellation: For so long as any Notes are represented by a Global Note, such Notes will be transferable in accordance with the rules and procedures for the time being of Clearstream, Luxembourg or Euroclear, as appropriate.

Note Trustee's Powers: In considering the interests of Noteholders while each Temporary Global Note and/ each the Permanent Global Note is held on behalf of Euroclear and/or Clearstream, Luxembourg, the Note Trustee may have regard to any information provided to it by such clearing system(s) as to the identity (either individually or by category) of its accountholders with entitlement to the relevant Temporary Global Note or the relevant Permanent Global Note and may consider such interests as if such accountholders were the holders of the Notes represented by such Temporary Global Note or such Permanent Global Note (as the case may be).

USE OF PROCEEDS

The net proceeds of the issue of the Notes are expected to amount to approximately £82,401,000.

On the Closing Date, the Issuer will, subject to and in accordance with the Credit Agreement, as described in the section entitled "*Project Finance Documents – Credit Agreement*", apply the proceeds from the issue of the Notes to make an advance under the Credit Agreement to ProjectCo.

The expenses to be paid in relation to the admission of the Notes to trading are estimated to be approximately €5,541.20.

FHW DALMORE (SALFORD PENDLETON HOUSING) PLC (THE ISSUER)

INTRODUCTION

The Issuer was incorporated and registered in England and Wales on 24 July 2013 as a public limited company with registered number 8623329. The registered office of the Issuer is 35 Great St. Helen's, London EC3A 6AP, with telephone number +44 (0)20 7398 6300.

Since its incorporation, the Issuer has not engaged in any material activities other than those incidental to its registration as a public company under the Companies Act 2006, the authorisation and issue of the Notes, the matters contemplated in this Offering Circular, the authorisation of the Issuer Transaction Documents referred to in this Offering Circular or in connection with the issue of the Notes and other matters which are incidental or ancillary to those activities. As at the date of this Offering Circular no financial statements have been prepared by the Issuer.

The Issuer has no employees.

PRINCIPAL ACTIVITIES

The Issuer is a special purpose vehicle established to issue Notes and to enter into the Credit Agreement to fund ProjectCo whose principal purpose is to refurbish the social housing accommodation and to provide housing and facilities management services in respect of the social housing accommodation.

CAPITAL AND SHARES

The authorised share capital of the Issuer is £50,000 divided into 50,000 ordinary shares of £1 each, of which 50,000 ordinary shares are issued and will (on the Closing Date) be fully paid up. Pursuant to a Share Trust Deed dated 6 August 2013 SFM Corporate Services Limited (in such capacity the "**Share Trustee**"), a company incorporated in England and Wales and having its registered office at 35 Great St. Helen's, London EC3A 6AP holds 50,000 shares of the Issuer by way of a discretionary trust.

The Share Trustee will have no beneficial interest in and derive no benefit (other than fees) for acting as Share Trustee from its holding of shares in the Issuer.

CAPITALISATION AND INDEBTEDNESS

The following table sets out the unaudited capitalisation and indebtedness of the Issuer as at the date of this document, adjusted for the issue of the Notes.

	£
Share Capital	
Issued Share Capital	
50,000 issued ordinary shares of £1 each (£50,000 fully paid)...	
	50,000

	£
Borrowings	
Class A Notes	71,710,000
Class B Notes	10,891,000
	82,601,000

As at the date of this Offering Circular, save as disclosed in this Offering Circular, the Issuer has no loan capital outstanding or created but unissued, no term loans outstanding and no other borrowings or indebtedness in the nature of borrowing nor any contingent liabilities or guarantees.

The current financial period of the Issuer will end on 31 March 2014.

Except as indicated above, as at the date hereof, the Issuer has no contingent liabilities or guarantees.

The Issuer will also be responsible for costs associated with the issue of the Notes.

DIRECTORS

The directors of the Issuer, their business address and other principal activities, are as follows:

Name	Business Address	Principal Activities/ Business Occupation
Claudia Wallace	35 Great St. Helen's London EC3A 6AP	Director
SFM Directors Limited	35 Great St. Helen's London EC3A 6AP	Acting as corporate directors of special purpose companies
SFM Directors (No.2) Limited	35 Great St. Helen's London EC3A 6AP	Acting as corporate directors of special purpose companies

The company secretary of the Issuer is:

Name	Business Address
SFM Corporate Services Limited	35 Great St. Helen's London EC3A 6AP

The company secretary of the Issuer is not a director of the Issuer.

In accordance with the Corporate Services Agreement, the Corporate Services Provider will provide directors and other corporate services for the Issuer in consideration for the payment of an annual fee to the Corporate Services Provider.

PENDLETON TOGETHER OPERATING LIMITED (PROJECTCO)

INTRODUCTION

Pendleton Together Operating Limited ("**ProjectCo**") was incorporated and registered in England and Wales on 26 July 2013 as a limited company with registered number 08626238. The registered office of ProjectCo is Bull Green House, Bull Green, Halifax HX1 2EB, telephone number +44 (0)1924 831 006. ProjectCo has not, since its date of incorporation, carried on any business or activities other than those incidental to its registration, and authorisation of entry into the ProjectCo Transaction Documents.

PRINCIPAL ACTIVITIES

ProjectCo is a special purpose vehicle whose principal purpose is to refurbish the social housing accommodation and provide facilities and housing management services in respect of the social housing accommodation. ProjectCo will enter into the ProjectCo Transaction Documents to which it is expressed to be a party and undertake any ancillary matters relating thereto.

As at 29 August 2013, ProjectCo Holdco has subscribed for 1 ordinary share of £1 in ProjectCo. It is anticipated that ProjectCo HoldCo will subscribe for further equity in ProjectCo on or around the Closing Date as follows: ProjectCo HoldCo will subscribe for 999 ordinary shares of £1 each and £12,516,548 subordinated unsecured loan notes. It is anticipated that this will be fully paid up on or around the Closing Date.

CAPITALISATION AND INDEBTEDNESS

The following table sets out the unaudited capitalisation and indebtedness of ProjectCo as at the date of this document, adjusted for drawdown under the Credit Agreement:

	£
Share Capital	
Issued Share Capital	
1,000 issued ordinary shares of £1 each (all fully paid)	1,000
	1,000

	£
Borrowings	
Credit Agreement	82,600,595.01
Loan Notes..	12,516,548
	95,117,143.01

Except as indicated above, as at the date hereof, ProjectCo has no contingent liabilities or guarantees.

DIRECTORS

The directors of ProjectCo, their business address and other principal activities, are as follows:

Name	Business Address	Principal Activities/ Business Occupation
Paul Hayes	Bull Green House Bull Green Halifax HX1 2EB	Director of ProjectCo

Peter Emsden	Bull Green House Bull Green Halifax HX1 2EB	Director of ProjectCo

The company secretary of ProjectCo is:

Name	**Business Address**
Peter Emsden	Bull Green House Bull Green Halifax HX1 2EB

There are no potential conflicts of interest between any duties to ProjectCo of the board members of ProjectCo and their private interests and/or duties.

SHAREHOLDERS

Pendleton Together Holdings Limited ("**ProjectCo HoldCo**") was incorporated and registered in England and Wales on 26/07/2013 as a limited company with registered number 08626006. The registered office of ProjectCo HoldCo is Bull Green House, Bull Green, Halifax HX1 2EB, with telephone number +44 (0)1924 831 006

The business of ProjectCo HoldCo is to hold the share capital of ProjectCo.

As at 29 August 2013 Chevin and Pennine have each subscribed for 1 ordinary share of £1 in the capital of ProjectCo HoldCo.

It is anticipated that Chevin and Pennine will subscribe for further equity in ProjectCo HoldCo on or around the Closing Date as follows: Chevin and Pennine will each subscribe for 499 ordinary shares of £1 each and such number of preference shares of £1 each in equal numbers as is required to match the amount of subordinated unsecured loan notes in ProjectCo. It is anticipated that this will be fully paid up on or around the Closing Date.

DESCRIPTION OF THE KEY SUB-CONTRACTORS

1 KEEPMOAT REGENERATION (BRAMALL) LIMITED

INTRODUCTION

Keepmoat Regeneration (Bramall) Limited (trading as Keepmoat Regeneration) ("**Bramall**") is part of the Keepmoat group of companies. Bramall is the construction subcontractor partner for the Pendleton Housing PFI scheme.

PRINCIPAL ACTIVITIES

Part of the Keepmoat Group of companies, Bramall specialises in the refurbishment of occupied properties and construction of new homes mainly for affordable rent.

The North West operations of Bramall are based at Salford Quays which is just over 1 mile from the Pendleton project.

The majority of work undertaken by Bramall is for Registered Providers (RP's), Arm's Length Management Organisations (ALMO's) and Local Authorities. Bramall also completes energy saving measures work to privately owned properties in partnership with a number of the national energy providers. Bramall has a strong reputation for quality of service delivery and therefore enjoys preferred partner status with a number of clients. Over 80% of Bramall's current workload is secured through partnering agreements, repeat business arrangements or negotiation.

Bramall directly employs the in-house skills and competence to take the role of a one stop shop service provider. This attribute is complemented by a number of service departments including Building Surveying, Design, Call Centre and Aftercare.

Bramall's key business driver is to delight its customers through delivering quality schemes safely, on time and within budget. Bramall delivers on this goal by building on their extensive experience within this sector and effectively managing out risk.

KEY REGIONAL CLIENTS

Bramall is an experienced new build and refurbishment housing contractor that has delivered large regional and national contracts. Examples of key regional contracts and relationship within the North West are:

Chevin – please see below under "*Chevin Housing Association Limited*".

Rochdale Boroughwide Housing – Over £90m of internal and external Decent Homes works has been completed for this client. Works to the 12,000 homes include planned maintenance; disabled adaptations; insulation and external refurbishment to four 20 storey and three 16 storey blocks. At its peak, the annual turnover for this programme of works was £32m.

First Choice Homes Oldham – Over £20m of work has been completed to in excess of 3,000 properties in the Oldham area. Works include a range of Decent Homes and internal improvements, combined with external render schemes to improve the thermal efficiency of the homes

Liverpool Mutual Homes – Completion of over £32m of work across a range of projects, including internal refurbishment and external environmental improvements as well as work to improve the thermal efficiency of the homes.

City West Housing Trust – Over £25m of internal and external improvement works has been completed to approximately 3,500 homes. Works include windows and doors replacement, kitchen and bathroom improvements and the external cladding of non-traditional properties.

Southway Housing Trust – Over £30m of Decent Homes improvement works have been delivered via a strategic partnering arrangement to in excess of 4,000 properties.

Golden Gates Housing Trust – Over £40m of Decent Homes works delivered via a strategic partnering agreement. Works include window and door replacements, new kitchens and bathrooms, aids and adaptations and voids programme to over 7,000 homes. These works are ongoing and over 130 property improvements are being completed per week.

City South Housing Trust – Over £30m of Decent Homes programme for internal works to 4,500 homes under a Strategic Partnership arrangement with Impact Manchester.

One Vision Housing – The £32m Kings Park and Greenfields Regeneration project is ongoing. This refurbishment project reclads five existing tower blocks and improves the flats into stylish, energy efficient homes perfect for modern living.

Customer feedback is key to improving the quality of Keepmoat's service and feedback is monitored using Keepmoat's DataPro system. The system questions customers on all aspect of performance including cleanliness, respect, quality of work, completion on time etc. In the first three months of 2013, the NW office of Keepmoat achieved an 97.3% overall satisfaction rate.

LOCAL WORKFORCE, LOCAL SUPPLY CHAIN, LOCAL EXPERIENCE

Within the North West region Bramall utilises the expertise, experience and knowledge of over 400 staff. The majority of staff has over 7 years' service, with 15% of these being with the company for over 15 years. All staff are selected after a robust selection process. Bramall always look to ensure the staff that they employ are competent and this is partly achieved through affording 4 full days of targeted training & personal development per staff member, per year.

Nationally, Bramall is able to call upon the support of a group with 3,200 employees throughout the UK, providing knowledge and resources for every construction possibility.

Bramall's local office is in the Salford Quays, approximately 1 mile away from Pendleton. In addition to in house technical expertise and skills, Bramall is supported by a range of approved, local supply chain partners. Bramall's approved database of supply chain partners and suppliers ensures that they have partners to fulfil any client requirements. Many of partners have worked with Bramall for over 10 years, providing clients with easy access to specialist knowledge and expertise.

Bramall always works closely with clients and partner agencies to maximise the retention of spend within the local economy.

KEEPMOAT GROUP

Keepmoat is a national market leader in community regeneration and housing solutions. In 2013, the Keepmoat group of companies built, refurbished or repaired over 350,000 properties. This was delivered as part of the groups' £886.5 million turnover.

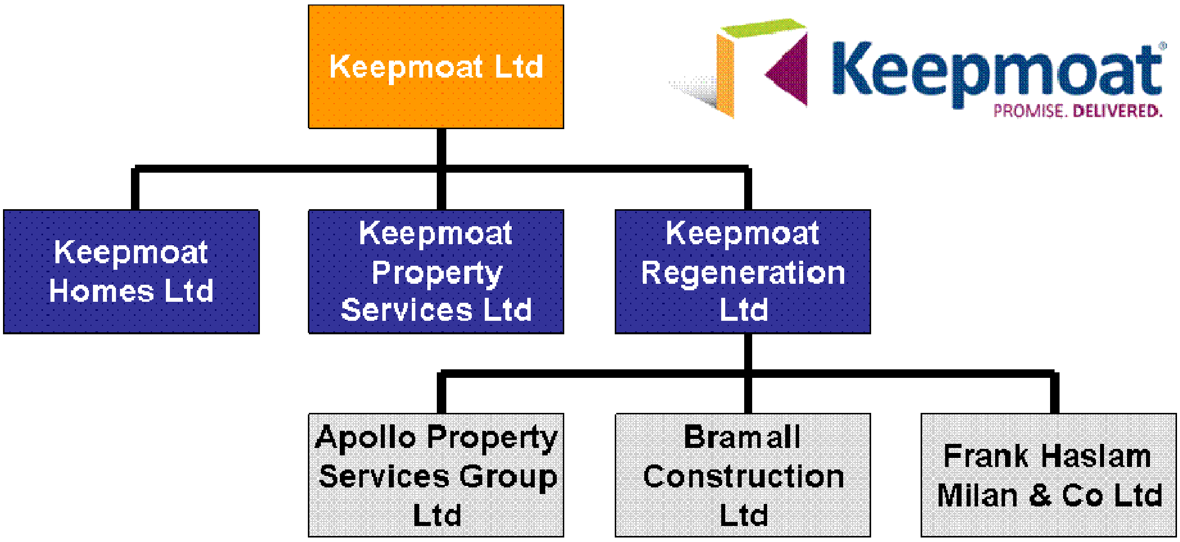
Keepmoat in its current structure was formed by the merger between Apollo and the Keepmoat Group of companies (Bramall Construction, Frank Haslam Milan, Keepmoat Homes and Milnerbuild). The merger was completed in March 2012.

This partnership has brought together the industry's most successful organisations to form a new company with the capabilities to deliver community regeneration schemes on a scale unique within the sector.

Keepmoat has four key focus areas, namely:

- New build Homes
- Community regeneration
- Responsive maintenance
- Sustainability

Keepmoat Corporate Structure



All subsidiaries of Keepmoat Ltd are 100% owned.

Employees and size

Keepmoat brings together more than 100 years of experience in community regeneration and house building, creating a new company with the skills and experience to deliver better value, better quality services, in more areas.

Keepmoat employs approximately 2,900 full-time staff delivering schemes across 22 regional offices throughout the UK.

2 CHEVIN HOUSING ASSOCIATION LIMITED

INTRODUCTION

Chevin Housing Association Limited ("**Chevin**") was incorporated on 16 February 1998 and is registered in England with limited liability under the Industrial and Provident Societies Acts 1965-2003 (with registered number IP28687R) and is registered with the Regulator (with registered number L4160). It is also affiliated to the National Housing Federation. Chevin is a housing association registered provider with charitable status and is an Industrial and Provident Society.

The registered office of Chevin is Bull Green House, Bull Green, Halifax HX1 2EB. The telephone number of its registered office is +44 (0)14 2228 4500.

HISTORY OF CHEVIN

Chevin was formed in 1998 as the parent association for Harewood Housing Society Limited. In 2001 Chantry Housing Association joined the Chevin group and in 2003 transferred its engagements to Chevin. At the same time Harewood Housing Society Limited transferred its rented homes to Chevin.

In 2005 Hallam Housing Society Ltd transferred its engagements to Chevin. Hallam Housing Society Ltd was a non-profit making Industrial and Provident Society also operating under non-charitable rules, founded in 1966 as a "cost rent" society.

When Chevin joined the Together Housing Group on 1 April 2011, Harewood Housing Society Limited became a wholly owned subsidiary of Together Housing Group Limited. Chevin now has two subsidiaries, Synergy and a dormant company, CMS.

PRINCIPAL ACTIVITIES

Chevin's principal activities are the development and management of social housing. Chevin operates throughout Yorkshire, across the northern fringes of the East Midlands and in Lancashire. Chevin has over 160 staff.

Chevin owns and manages approximately 8,500 homes covering a wide range of needs including single people, families, older people and people with support needs. The homes are located across 27 local authorities covering both urban and rural areas working in partnership to provide a development and regeneration role.

Chevin's key business streams are:

- general needs housing for rent, primarily for families and single people who are unable to rent or buy at open market rates;
- supported housing for rent, primarily for people who need additional housing-related support or additional care;
- low-cost home ownership, primarily shared ownership, whereby residents purchase a share in the equity of their homes and pay rent to Chevin on the remainder; and
- the construction and sale of social housing.

The turnover for Chevin in its last audited accounts, 2011/2012, was £36,159,000 resulting in a net profit of £4,215,000.

Chevin's focus remains its social housing activities and these are expected to continue to constitute in excess of 90 per cent. of Chevin's activities by turnover.

Chevin worked in partnership with Keepmoat Regeneration (Bramall) Limited (trading as Keepmoat Regeneration) to successfully deliver over £25,000,000 of refurbishment and Decent Homes improvements to over 3,000 occupied properties over a five year period. Chevin and Bramall Construction Limited have also worked together to develop over 150 new build properties across the North of England. In addition they have worked with other members of the Together Housing Group, delivering over £100,000,000 of refurbishment and development. This includes experience of ex local authority stock and multi storey refurbishments.

DIRECTORS

The board members of Chevin and their principal activities outside Chevin, where these are significant with respect to Chevin, are as follows:

Name	**Principal Activities outside Chevin**
David Green	None
Jenny Clare	None
Naseer Ahmed	None
Jonathan Bemrose	None
Peter Buttree	None
John Charlesworth	None
Caroline Hunter	None
John Longbottom	None
Christopher Wilton	None

The business address of each of the above board members is Bull Green House, Bull Green, Halifax HX1 2EB.

There are no potential conflicts of interest between any duties to Chevin of the board members of Chevin and their private interests and/or duties.

CORPORATE GOVERNANCE

The board of Chevin is responsible for managing the affairs of Chevin. It meets a minimum of six times each year for regular business and annually to discuss strategy, board performance and for board members' training.

The board is responsible for Chevin's strategy and policy framework. Day-to-day management and implementation of the strategy is delegated to the executive directors who meet regularly and attend board meetings.

The board of Chevin is supported by the Group Risk Management and Audit Committee ("**RMAC**"). The RMAC is made up of seven members and meets four times per year. The RMAC has the responsibility for the detailed review of Chevin's financial statements, the review of the effectiveness of the system of internal control and the appointment of its internal and external auditors, including the agreement of the scope of such auditors' work and the review of such auditors' reports.

The board of Chevin also obtains external specialist advice from time to time as necessary.

SHARE CAPITAL AND MAJOR SHAREHOLDERS

The entire issued share capital of Chevin comprises 201 shares of £1 each, all of which are fully paid up. Together Housing Group Limited is the parent of Chevin by virtue of holding a share in it and having rights under the rules of Chevin to appoint and remove all of Chevin's board members. This is in accordance with the requirements of section 15 of the Friendly and Industrial and Provident Societies Act 1968 and section 271 of the Housing and Regeneration Act 2008.

TOGETHER HOUSING GROUP

Chevin became a subsidiary of the Together Housing Group Limited on 1 April 2011.

The Together Housing Group was formed on 1 April 2011, following the merger of three separate housing groups:

- the pre-existing group (comprising the Together Housing Group Limited (the "**Group Parent**"), Pennine Housing 2000 Limited ("**Pennine**"), Green Vale Homes Limited ("**Green Vale**") and Optima Housing Consultants Limited ("**Optima**"));

- Twin Valley Homes Limited ("**Twin Valley**") and Housing Pendle Limited ("**Housing Pendle**") (both formerly subsidiaries of Prospect Homes Limited); and

- Chevin and its three subsidiaries Harewood Housing Society Limited ("**Harewood Housing**"), Synergy Housing Solutions Limited ("**Synergy**") and Chevin Management Services Limited ("**CMS**").

The Group Parent is a not-for-profit company limited by guarantee and is the parent company of the Together Housing Group. Within the Together Housing Group, Chevin, Green Vale, Harewood Housing, Pennine, Housing Pendle and Twin Valley are all Registered Providers of Social Housing and, other than Harewood, Optima and CMS, are exempt charities. Synergy is a non-charitable development company focused on the construction and sale of social housing properties. Optima and CMS are dormant companies.

The Together Housing Group manages over 37,000 homes, affecting over 50,000 people's lives and employing approximately 1,300 staff across the North of England.

The Together Housing Group has a combined turnover of approximately £150,000,000 and has a funding facility across the group of circa £600,000,000 to support its main operating activities.

The Together Housing Group is committed to developing new homes and has allocated funding of circa £50,000,000 per annum for the next three years to supplement monies secured in funding from the Homes and Communities Agency. These resources will be used to build 783 new homes across the Yorkshire, Humber and North west regions by 2015. In addition, the Together Housing Group has secured funding to bring over 600 homes back into use through the Government's Empty Homes Initiative.

Work is on-going for the development of up to 197 new apartments over the next 5 years, under the £25,000,000 three extra care schemes in Derbyshire, which will provide a range of extra care facilities in Chesterfield, Alfreton and Clay Cross.

Over £150,000,000 has been invested in homes to improve energy efficiency, reduce fuel bills and to make tenancies more sustainable as part of the Together Housing Group's fuel poverty remit.

The Together Housing Group was selected as one of the pilot organisations to trial the Government's Tenant Cashback Scheme whereby tenants agreed to carry out basic maintenance to their home and gardens.

The Together Housing Group set up the Together Foundation in which an annual investment of £1,700,000 is used to provide support to neighbourhood projects that help people return to work, improve health and well-being and provide activities for young people.

NO RECOURSE

For the avoidance of doubt, Noteholders themselves will have no direct recourse (under the Notes or the Transaction Documents) to the Group Parent or any other entity within the Together Housing Group.

UNITED KINGDOM TAXATION

The following is a summary of the Issuer's understanding of the law and HM Revenue & Customs' ("**HMRC**")published practice in the United Kingdom as at the date of this document in relation to certain aspects of the United Kingdom taxation of payments in respect of, and of the issue and transfers of, the Notes. It is based on current law and practice of HMRC, which may be subject to change, sometimes with retrospective effect. The comments do not deal with all United Kingdom tax aspects of acquiring, holding or disposing of the Notes and relate only to the position of persons who are absolute beneficial owners of the Notes and may not apply to certain classes of taxpayers (such as dealers). The United Kingdom tax treatment of prospective Noteholders depends on their individual circumstances.

The following is a general guide for information purposes and should be treated with appropriate caution. Noteholders who are in any doubt as to their tax position should consult their own professional advisors. Noteholders who may be liable to taxation in jurisdictions other than the United Kingdom are particularly advised to consult their professional advisors as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the Notes. In particular, Noteholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Notes even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.

1 UNITED KINGDOM WITHHOLDING TAX ON PAYMENTS OF INTEREST ON THE NOTES

1.1 Interest payments on the Notes may be made without deduction of or withholding on account of United Kingdom income tax provided that the Notes continue to be listed on a recognised stock exchange within the meaning of section 1005 of the Income Tax Act 2007. The Irish Stock Exchange is a recognised stock exchange for these purposes. The Notes will satisfy this requirement if they are admitted to trading on that exchange and they are officially listed in Ireland in accordance with provisions corresponding to those generally applicable in European Economic Area States.

1.2 Interest on the Notes may also be paid without withholding or deduction on account of United Kingdom tax where interest on the Notes is paid by a company and, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Notes is paid reasonably believes) that the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest, provided that HMRC has not given a direction (in circumstances where it has reasonable grounds to believe that it is likely that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

1.3 In all other cases, interest on the Notes may fall to be paid under deduction of United Kingdom income tax at the basic rate (currently 20%) subject to such relief as may be available to a Noteholder, including under the provisions of any applicable double taxation treaty.

2 PROVISION OF INFORMATION

Noteholders should note that where any interest on the Notes is paid to them (or to any person acting on their behalf) by any person in the United Kingdom acting on behalf of the Issuer (a "**Paying Agent**"), or is received by any person in the United Kingdom acting on behalf of the relevant Noteholder (other than solely by clearing or arranging the clearing of a cheque) (a "**Collecting Agent**"), then the Paying Agent or the Collecting Agent (as the case may be) may, in certain cases, be required to supply to HMRC details of the payment and certain details relating to the Noteholder (including the Noteholder's name and address). These provisions will apply whether or not the interest has been paid subject to withholding or deduction for or on account of United Kingdom income tax and whether or not the Noteholder is resident in the United Kingdom for United Kingdom taxation purposes. Where the Noteholder is not so resident, the details provided to HMRC may, in certain cases, be passed by HMRC to the tax authorities of the jurisdiction in which the Noteholder is resident for taxation purposes.

3 STAMP DUTY AND STAMP DUTY RESERVE TAX

No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue of the Note or on the transfer of a Note.

4 EU SAVINGS DIRECTIVE

4.1 Under EC Authority Directive 2003/48/EC on the taxation of savings income, member states are required to provide to the tax authorities of another member state details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other member state or to certain limited types of entities established in that other member state. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). Luxembourg has announced that it will no longer apply the withholding tax system as from 1 January 2015 and will provide details of payments of interest (or similar income) as from this date.

4.2 A number of non-EU countries and certain dependent or associated territories of certain member states have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a member state. In addition, the member states have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a member state to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

4.3 The European Commission has proposed certain amendments to the Directive, which may, if implemented, broaden the scope of the requirements described above. Noteholders who are in any doubt as to their position should consult their professional advisers.

5 OTHER RULES RELATING TO UNITED KINGDOM WITHHOLDING TAX

5.1 Where interest has been paid under deduction of United Kingdom income tax, Noteholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.

5.2 The references to "interest" above mean "interest" as understood in United Kingdom tax law. The statements above do not take any account of any different definitions of "interest" or principal" which may prevail under any other law.

5.3 The above description of the United Kingdom withholding tax position assumes that there will be no substitution of the Issuer and does not consider the tax consequences of any such substitution.

SUBSCRIPTION AND SALE

1 SUBSCRIPTION

1.1 Investec Bank plc (the "**Arranger**") has, in a subscription agreement dated 12 September 2013 (the "**Subscription Agreement**") between the Issuer and the Arranger upon the terms and subject to the conditions contained therein, agreed to subscribe and pay for the Class A Notes at their issue price of 100 per cent and the Class B Notes at their issue price of 100 per cent, of their principal amount and less a combined management and underwriting commission. The Issuer has agreed to reimburse the Arranger for certain of its expenses incurred in connection with the management of the issue of the Notes. The Arranger is entitled in certain circumstances to be released and discharged from its obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

1.2 The Subscription Agreement is subject to a number of conditions and may be terminated by the Arranger in certain circumstances prior to payment to the Issuer. The Issuer has agreed to indemnify the Arranger against certain liabilities in connection with the offer and sale of the Notes.

1.3 In the ordinary course of their business activities, the Arranger and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or their affiliates. The Arranger and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

2 UNITED KINGDOM

The Arranger has represented to and agreed with the Issuer that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

3 UNITED STATES

3.1 The Notes have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) except pursuant to an exemption from registration requirements. Accordingly, the Notes are being offered and sold in offshore transactions in reliance on Regulation S under the Securities Act.

3.2 The Arranger will agree that, except as permitted by the relevant subscription agreement, it will not offer or sell the Notes as part of its distribution at any time or otherwise until 40 days after the later of the commencement of the offering of the Notes and the closing date within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each affiliate or other dealer (if any) to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

3.3 Each purchaser of the Notes (which term for the purposes of this section will be deemed to include any interests in the Notes, including Book-Entry Interests) will be deemed to have represented and agreed as follows:

(a) the Notes have not been and will not be registered under the Securities Act and such Notes are being offered only in a transaction that does not require registration under the Securities Act and, if such purchaser decides to resell or otherwise transfer such Notes, then it agrees that it will offer, resell, pledge or transfer such Notes only (i) to a purchaser who is not a U.S. person (as defined in Regulation S under the Securities Act) or an affiliate of the Issuer or a person acting on behalf of such an affiliate, and who is not acquiring the Notes for the account or benefit of a U.S. person and who is acquiring the Notes in an offshore transaction pursuant to an exemption from registration in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act or (ii) pursuant to an effective registration statement under the Securities Act, in each case in accordance with any applicable securities laws of any state or other jurisdiction of the United States, provided that the agreement of such purchaser is subject to any requirement of law that the disposition of the purchaser's property shall at all times be and remain within its control; and

(b) unless the relevant legend set out below has been removed from the Notes such purchaser shall notify each transferee of Notes (as applicable) from it that (i) such Notes have not been registered under the Securities Act, (ii) the holder of such Notes is subject to the restrictions on the resale or other transfer thereof described in paragraph (a) above, (iii) such transferee shall be deemed to have represented that such transferee is acquiring the Notes in an offshore transaction and that such transfer is made pursuant to an exemption from registration in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act and (iv) such transferee shall be deemed to have agreed to notify its subsequent transferees as to the foregoing.

3.4 The Issuer, the Arranger and its affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

3.5 The Notes will bear a legend to the following effect:

"THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND, AS A MATTER OF U.S. LAW, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, A U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) (1) AS PART OF THEIR DISTRIBUTION AT ANY TIME OR (2) OTHERWISE PRIOR TO THE DATE THAT IS 40 DAYS AFTER THE LATER OF THE COMMENCEMENT OF THE OFFERING OF THE NOTES AND THE CLOSING OF THE OFFERING OF THE NOTES, EXCEPT

PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES."

4 **IRELAND**

The Arranger has represented and agreed with the Issuer that:

(a) it will not underwrite the issue of, or place the Notes, otherwise than in conformity with the provisions of the European Communities (Markets in Financial Instruments) Regulation 2007 (Nos. 1 to 3), including, without limitation, Regulations 7 and 152 thereof and any codes of conduct used in connection therewith and the provisions of the Investor Compensation Act 1998;

(b) it will not underwrite the issue of, or place, the Notes, otherwise than in conformity with the provisions of the Central Bank Acts 1942 - 2010 (as amended) and any codes of conduct rules made under Section 117(1) of the Central Bank Act 1989;

(c) it will not underwrite the issue of, or place, or do anything in Ireland with respect to the Notes otherwise than in conformity with the provisions of the Prospectus (Directive 2003/71/EC) Regulations 2005 and any rules issued under Section 51 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005, by the Central Bank; and

(d) it will not underwrite the issue of, place or otherwise act in Ireland with respect to the Notes, otherwise than in conformity with the provisions of the Market Abuse (Directive 2003/6/EC) Regulations 2005 and any rules issued under Section 34 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005 by the Central Bank.

5 **GENERAL**

5.1 Except for the approval of this document as a prospectus by the Central Bank, no action has been or is being taken by the Issuer or the Arranger in any jurisdiction which would or is intended to permit a public offering of the Notes, or the possession, circulation or distribution of this document or any other material relating to the Issuer in any country or jurisdiction where action for that purpose is required.

5.2 This document does not constitute, and may not be used for the purposes of, an offer or solicitation in or from any jurisdiction where such an offer or solicitation is not authorised. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this document nor any other circular, prospectus, form of application, advertisement or other material in connection with the Notes may be distributed in or from or published in any country or jurisdiction, except under circumstances which will result in compliance with applicable laws and regulations of any such country or jurisdiction.

5.3 The Arranger has undertaken to the Issuer that it will not, directly or indirectly, offer or sell any Notes, or distribute this document or any other material relating to the Notes, in or from any country or jurisdiction except in circumstances that will result in compliance with applicable law and regulation.

5.4 Attention is also drawn to the information set out in "Important Notice" on page 2.

GENERAL INFORMATION

1 **Authorisation**

The issue of the Notes has been authorised by resolution of the board of directors of the Issuer passed on 4 September 2013.

2 **Irish Listing**

It is expected that the admission of the Notes to the Irish Stock Exchange's list of securities or units which is published on a daily basis (the "**Official List**") and trading on its regulated market will be granted on or about the Closing Date, subject only to issue of the Global Note. The listing of the Notes will be cancelled if the Global Note is not issued. Transactions will normally be effected for settlement in sterling and for delivery on the third working day after the day of the transaction.

A&L Listing Limited is acting solely in its capacity as listing agent in connection with the Notes and is not itself seeking admission of the Notes to the Official List of the Irish Stock Exchange or to trading on its regulated market for the purposes of the Prospectus Directive.

3 **Clearing Codes**

It is expected that the Notes will be accepted for clearance through Euroclear and Clearstream, Luxembourg. The Common Code and the ISIN for the Notes is as follows:

	ISIN	**Common Code**
Class A Notes	XS0956252075	095625207
Class B Notes	XS0956252406	095625240

4 **Litigation**

None of the Issuer or ProjectCo is or has been involved in any governmental, legal or arbitration proceedings which may have, or have had since the date of its incorporation, a significant effect on its financial position, nor is the Issuer or ProjectCo aware that any such proceedings are pending or threatened against it.

5 **Financial Position of the Issuer**

So long as the Notes are admitted to the Irish Stock Exchange's Official List and trading on its regulated market, the most recently published audited annual accounts of the Issuer from time to time will be available at the specified office of the Principal Paying Agent. The Issuer does not publish interim accounts.

Since the date of their incorporation, none of the Issuer or ProjectCo has commenced operations or prepared any audited accounts.

Save as disclosed in this document, the Issuer has no outstanding loan capital, borrowings, indebtedness or contingent liabilities, nor has the Issuer created any mortgages, charges or given any guarantees.

6 Inspection of Documents

For the purposes of evaluation of the Notes, copies of the following documents listed in paragraphs (a), (b) and (c)(i) below may be inspected in physical form during usual business hours on any week day (excluding Saturdays and Sundays and public holidays) at the registered office of the Issuer from the date of this Offering Circular and for so long as the Notes are admitted to the Irish Stock Exchange's Official List and trading on its regulated market. Upon request to FHW Capital LLP as sub-managing agent (by email to surveillance@fhwcapital.com) the following documents in paragraphs (c), (d), (e) and (f) below may be requested in electronic form from the date of this Offering Circular and for so long as the Notes are admitted to the Irish Stock Exchange's Official List and trading on its regulated market:

(a) the memorandum and articles of association of the Issuer;

(b) the memorandum and articles of association of ProjectCo;

(c) prior to the Closing Date, drafts (subject to modification) and after the Closing Date, copies of the execution versions of the following Issuer Transaction Documents:

  (i) the Note Trust Deed;

  (ii) the Paying Agency Agreement;

  (iii) the Cash Management Agreement;

  (iv) the Managing Agent Agreement;

  (v) the Corporate Services Agreement;

  (vi) the Issuer Deed of Charge;

  (vii) the Subscription Agreement'

  (viii) the Issuer Account Bank Agreement; and

  (ix) the Master Definitions Schedule;

(d) prior to the Closing Date, drafts (subject to modification) and after the Closing Date, copies of the execution versions of the following documents:

  (i) the Project Agreement;

  (ii) the Building Contract;

  (iii) the RRCMR Agreement; and

  (iv) the Housing Management Agreement;

  provided that such drafts and/or execution versions shall only be provided in a redacted form (with certain commercially sensitive information removed) unless the party seeking to inspect the documents signs a non-disclosure agreement with the Issuer in the standard form to be provided by the Issuer to such party;

(e) prior to the Closing Date, drafts (subject to modification) and after the Closing Date, copies of the execution versions of the following documents:

(i) the Credit Agreement;

(ii) the Security Trust and Intercreditor Deed; and

(iii) the Accounts Agreement; and

(f) prior to the Closing Date, a draft (subject to modification) financial model for the Project and after the Closing Date, a copy of the base case financial model for the Project as at the date of request provided that the party seeking to inspect such model has signed a non-disclosure agreement with the Issuer in the standard form to be provided by the Issuer to such party.

7 Post Issuance Reporting

The Issuer will provide post-issuance transaction information to Noteholders in the form of Investor Reports prepared and delivered by the Cash Manager no later than 13 Business Days following each Note Payment Date (or 13 Business Days following the end of each calendar month (after 31 October 2013) during the Construction Period) (see section entitled "Summary of Issuer Transaction Documents – Cash Management Agreement" above). The Investor Reports will be accessible via the Cash Manager's internet website: trustinvestorreporting.usbank.com.

In respect of any information posted on the Cash Manager's internet website, registration may be required for access to the website and disclaimers may be posted with respect to the information posted thereon.

Other than as outlined above and any information provided by the Managing Agent for the purpose of Noteholder meetings relating to Level 1 Rights, Level 2 Rights or Level 3 Rights, the Issuer does not intend to provide post issuance transaction information regarding the Notes.

8 Miscellaneous

No website referred to in this Offering Circular forms part of the document for the purposes of the listing of the Notes on the Irish Stock Exchange.

INDEX OF DEFINED TERMS

APPENDIX 1 (FORM OF INVESTOR REPORT)

Part 1

SALFORD PENDLETON SOCIAL HOUSING PFI – Monthly Construction Period Investor Report

Report Issue Date	
Reporting Period	[from/to]
Ownership	
Service Providers and major Subcontractors	

Debt Summary	Senior Loan	Class A Notes	Class B Notes
Maturity			
Original WAL			
Current WAL			
Original Amount			
Current Amount Outstanding			

CONSTRUCTION PERIOD PROGRESS UPDATE

Dwellings Completed	# completed during month	# planned for completion in month in Base Case	# completed to date	# planned for completion to date in Base Case
Construction Reserve Account drawings	Amount drawn in month	Amount planned to be drawn in month in Base Case	Amount drawn to date	Amount planned to be drawn to date in Base Case
Unitary Charge	Increase in Unitary Charge in month	Planned increase in Unitary Charge in Base Case	Current monthly Unitary Charge	Originally planned monthly Unitary Charge in Base Case

Operating Expenses	[Original Budget]	[Actual Expenditure]
Unavailability Deductions	[▪]	
Performance Deductions	[▪]	
Deductions not passed down to sub-contractors	[▪]	

THE BORROWER AND ISSUER WATERFALLS ON THE [SIX MONTHLY CALCULATION DATE]:

Borrower Waterfall	**Payments Made During Period ([Beginning Period Date] to [End Period Date])**
Borrower Revenues	[▪]
Drawdowns from Reserve Accounts	[▪]
Expenses	[▪]
Senior Loan Interest paid	[▪]
Senior Loan Principal paid	[▪]
Loan Note Interest paid	[▪]
Equity distributions paid	[▪]
Salford Charity Distributions paid	[▪]

STATUS REPORT ON CONSENTS AND WAIVERS IN RESPECT OF WHICH REQUESTS HAVE BEEN ISSUED BY THE BORROWER AND WHICH HAVE NOT PREVIOUSLY BEEN REPORTED AS HAVING BEEN COMPLETED

CONSTRUCTION PERIOD RESERVE ACCOUNT BALANCES

Account	Beginning Balance	Additions/(Withdrawals)	Ending Balance
Equity Reserve Account	[▪]	[▪]	[▪]
Construction Reserve Account	[▪]	[▪]	[▪]
Forward Coverage Reserve Account	[▪]	[▪]	[▪]
Other Reserve Account Balances	[▪]	[▪]	[▪]

The Construction Account is invested in the following instruments:

- [list monetary amount of each asset, institutions and their credit ratings, type and term of investment]

The Borrower certifies that the Construction Account cash balance of £[x] is sufficient to cover scheduled expenses for the next three months of £[y]

BORROWER COMMENTARY

Borrower commentary on the progress of construction, the delivery of services and any material project events.

Further Information to be provided

The Borrower will provide commentary if relevant on the following topics:

- notice of any claims made against the construction contractor for liquidated damages or completion charges;
- any change in the credit rating of deposit banks or the Account Bank notified to the Borrower;
- notice of any claim made upon the construction security or any withdrawal made from the CRA or the ERA;
- material changes to service providers or sub-contractors;
- details of any force majeure event or other emergency occurring since construction commencement and details of any anticipated deviation from the construction programme including in respect of commissioning of any phase;
- the occurrence of any Compensation Event with a value of greater than £50k or any Excusing Event and/or any Relief Event which has been continuing for a period

longer than 7 days and the occurrence of any dispute to be resolved in accordance with clause 62 of the Project Agreement;

- any claims with a value of greater than £50k made under the construction period insurance policies;
- any material regulatory changes;
- any Low Value variations agreed in the reporting period and the total value of Low Value changes in the previous six months;
- any proposed Medium Value or High Value variations and explanation of the reasons for any payment deductions;
- any warning notices received;
- details of any Trigger Event, Potential Default or Event of Default then continuing and the steps being taken to remedy such occurrence.

Report will include information on the technical performance of the Project, lifecycle maintenance and repairs and material and adverse occurrences in relation to operations (replacing the requirements previously contained in Clause 12.4 (c)(iii), (iv) and (vi).

Compliance Certificate

- A compliance certificate from the Borrower covering covenants, representations and warranties, no material litigation, solvency, etc.

Part 2

SALFORD PENDLETON SOCIAL HOUSING PFI – Operations Period Investor Report

Report Issue Date	
Reporting Period	[from/to]
Ownership	
Issuer	
Service Providers and major Subcontractors	

Debt Summary	Senior Loan	Class A Notes	Class B Notes
Maturity			
Original WAL			
Current WAL			
Original Amount			
Current Amount Outstanding			

FINANCIAL RATIOS ON THE [CALCULATION DATE]

Financial Ratios	**Components of Ratio**	**Current Ratio**	**Forecast at Financial Close**	**Trigger Level**	**Default Level**
Senior Loan					
ADSCR – Historic	[CFADS] [Debt Service]	[▪]	[▪]	[▪]	[▪]
ADSCR – Forward-looking	[CFADS] [Debt Service]	[▪]	[▪]	[▪]	[▪]
ADSCR – Historic	[CFADS] [Debt Service]	[▪]	[▪]	[▪]	[▪]
Class A Bonds					
ADSCR –	[CFADS]	[▪]	[▪]	[▪]	[▪]

Forward-looking	[Debt Service]				
LLCR	[PV of CF] [Debt O/S]	[▪]	[▪]	[▪]	[▪]

THE BORROWER AND ISSUER WATERFALLS ON THE [SIX MONTHLY CALCULATION DATE]:

Borrower Waterfall	**Payments Made During Period ([Beginning Period Date] to [End Period Date])**
Borrower Revenues	[▪]
Drawdowns from Reserve Accounts	[▪]
Expenses	[▪]
Senior Loan Interest paid	[▪]
Senior Loan Principal paid	[▪]
Loan Note Interest paid	[▪]
Equity distributions paid	[▪]
Salford Charity Distributions paid	[▪]

OPERATIONS PERIOD RESERVE ACCOUNT BALANCES

Account	Beginning Balance	Additions/(Withdrawals)	Ending Balance
Debt Service Reserve Account	[▪]	[▪]	[▪]
Maintenance Reserve Account	[▪]	[▪]	[▪]
Forward Coverage Reserve Account	[▪]	[▪]	[▪]
Other Reserve Account Balances	[▪]	[▪]	[▪]

OPERATIONS PERIOD PROGRESS UPDATE

Operating Expenses	[Original Budget]	[Actual Expenditure]
o/w Lifecycle Expenditure	[Original Budget]	[Actual Expenditure]
Unavailability Deductions	[▪]	
Performance Deductions	[▪]	
Deductions not passed down to sub-contractors	[▪]	

STATUS REPORT ON CONSENTS OR WAIVERS IN RESPECT OF WHICH REQUESTS HAVE BEEN ISSUED BY THE BORROWER AND WHICH HAVE NOT PREVIOUSLY BEEN REPORTED AS HAVING BEEN COMPLETED

BORROWER COMMENTARY

Borrower commentary on the progress of the project, the delivery of services and any material project events.

Further Information to be provided, if relevant

The Borrower will provide commentary if relevant on the following topics:

- following the construction period, the occurrence of any Compensation Event with a value of greater than £50k or any Excusing Event and/or any Relief Event which has been continuing for period longer than 7 days and the occurrence of any [material] dispute to be resolved in accordance with clause 62 of the Project Agreement;
- a description shall be provided of any event leading to a warning notice or to a payment deduction of more than £[50]k;
- any claims with a value of greater than £50k made under the operating period insurance policies;
- upon receipt, any warning notice or default notice received from the Authority under the Project Agreement;
- any material regulatory changes;
- details of any Trigger Event, Potential Default or Event of Default then continuing and the steps being taken to remedy such occurrence;
- any Low Value variations agreed in the reporting period and the total value of Low Value changes in the previous six months;
- any proposed Medium Value or High Value variations and explanation of the reasons for any payment deductions;
- any warning notices received.

Compliance Certificate

A compliance certificate from the Borrower covering covenants, representations and warranties, no material litigation, solvency, etc.

APPENDIX 2 (2010/2011 FINANCIAL STATEMENTS OF SALFORD CITY COUNCIL)

Salford City Council

Statement of accounts 2010/11

Contents

Part I introductory statements

Foreword by the City Treasurer

1. Introduction

Welcome to the Council's accounts for 2010/11, covering the period from 1 April 2010 to 31 March 2011. Thank you for your interest in our financial affairs. We hope you find the accounts interesting and informative.

These accounts are extremely detailed and technical, so hopefully this foreword will provide an easily understandable guide to the most significant matters reported.

2. Description of the various statements of account

In general, income, expenditure and balances are measured under international financial reporting standards, essentially the same accounting conventions that a large company would use in preparing its audited annual financial statements.

There are two sets of accounts in this document: at Part II the accounts for Salford City Council as a single entity and at Part III the accounts for the Salford City Council group, incorporating the Council's share of its subsidiaries, associates and joint ventures. At the core of each is a set of six financial statements. [Figures below relate to the single entity accounts]

- **Movement in reserves statement (MiRS)**

  This shows how the surplus on the CIES is adjusted to give the true cost to the taxpayer. It shows a headline decrease in the Council's general fund balance of £0.5m to £7.1m.

- **Comprehensive income and expenditure statement (CIES)**

  This shows the make-up of the net surplus on the provision of services during the year of £4.1m, which is adjusted in the MiRS to give the true cost to the taxpayer.

- **Balance sheet (BS)**

  This shows the net worth of the Council at the year end of £166m. It shows the total value of the Council's assets to be £1,057 million and its liabilities to be £892 million including a pension liability of £205 million.

- **Cash flow statement (CF)**

  This shows the movement in cash through the year and that the Council holds £18.2m in cash and cash equivalents at the year end.

- **Notes to the accounts**

  These comprise mandatory disclosures in accordance with proper practice, and additional material items of interest, with the purpose of providing the reader with sufficient information to have a good understanding of the Council's financial activities.

An introductory paragraph on the face of each of the above statements further explains their purpose and the relationship between them.

In addition to the core financial statements, the single entity accounts include two subsidiary statements, both with accompanying notes.

- Housing revenue account (HRA)

  This reflects the statutory requirement for authorities to maintain separate records for the income and expenditure on council housing.

- Collection fund

  This reflects the statutory requirement for a billing authority to maintain a separate fund showing its transactions relating to non-domestic rates and council tax, and illustrates the way in which these have been distributed to precepting authorities and the Council's general fund.

Another key document which is not part of these accounts but is presented alongside them is the **annual governance statement**, illustrating the context in which the accounts have been prepared. This statement reflects the statutory requirement to conduct an annual review of the effectiveness of corporate governance, including the system of internal control.

3. Financial performance 2010/11

We set a 2010/11 net budget in February 2010 at £220.6m.

The budget is revised throughout the year to reflect the latest forecasts. The Council's budget scrutiny committee are updated on a monthly basis with spend against budget, savings monitoring, risk assessment and prudential indicator information. This regular monitoring allows the early identification of spending pressures and a suitable corrective response.

The table below gives a summary of how expenditure compared with the original budget:

	Original Estimate £m	Actual £m	Variance £m
Net Expenditure			
• Council Services	214.7	212.4	(2.3)
• Levies and charges paid to other bodies	27.6	27.4	(0.2)
• Interest payable	18.8	18.0	(0.8)
General government grants within budget requirement			
➢ LABGI	(39.3)	(35.8)	3.5
➢ ABG	(0.5)	0.0	0.5
Contribution to / (from) General Fund Balances	(0.6)	(1.4)	(0.7)
	220.6	220.6	0.0
Funded by			
General Government Grants			
• RSG	(16.5)	(16.5)	0.0
• NNDR	(113.7)	(113.7)	0.0
Local taxpayers	(90.4)	(90.4)	0.0
	(220.6)	(220.6)	0.0

4. Material assets acquired and liabilities incurred

A list of the major capital projects carried out during the year is set out below which includes the significant assets acquired in the year.

Private Housing	**£m**
Lower Broughton	8.2
Disabled Facilities Grants	2.5
Urban Renewal	2.3
Homelessness	1.6
North Irwell	0.6
Public Housing	
New Build	10.2
Ordsall/Langworthy	7.8
Broughton	4.6
City-wide	3.2
Disabled Facilities Grants	1.4
Kersal	1.4
Childrens' Services	
BSF	14.0

Wheatersfield School	7.4
Holy Family School	4.4
Glendinning St	2.4
Capital devolved to schools	2.0
Childrens Centres/Outdoor Play	1.9
School modernisation	1.5
Barton Moss Secure Accommodation	1.1
Culture and Leisure	
Ordsall Hall	2.6
Broughton Pool	0.8
Eccles Library	0.5
Community Health and Social Care	
Higher Broughton Hub	4.9
Burrows House	0.5
Other	
Media City	7.7
Cos Cos Shares	6.7
Investment in the highways	5.2
City of Salford Community Stadium	4.8
Chapel Street	4.3
Transport Block 3	3.0
Metrolink	2.9
VER and redundancy payments	2.5
Exchange/Greengate	1.9
Irwell City Park	0.8
Cornbrook	0.8

In 2010/11 the Council spent £156.7m in total on capital projects (2009/10 £123.0m). The method of financing is described in note 24 to the core statements. The Council's planned capital expenditure for 2011/12 is £152.4m of which £64.3m relates to major contractually committed schemes as at March 2011, referred to in note 12 to the core statements.

Full details of the capital programme are included in the revenue and capital estimates page of the Council's website.

5. Pension liability and the council as a going concern

The pension liability has fallen significantly this year, primarily due to good investment performance, falling long term inflation expectations and a change in measurement from RPI to CPI.

The net pension liability is £204.8m (31 March 10 £473.1m). However, statutory arrangements for funding the deficit through increasing contributions over the remaining working life of employees, as assessed by an independent actuary, mean that the financial position of the Council remains healthy.

Overall, the annual local government finance settlement and the Council's budget process provide the resources required to meet the Council's net service expenditure up to 2010/11. Future settlements, although predicted to fall, accompanied by our budget process driving through efficiency savings, will provide sufficient resources to finance future liabilities. It is therefore appropriate to adopt a going concern basis for the preparation of these financial statements.

6. Material and unusual charges

Our accounts conform to proper practice and contain full and frank disclosures of all material amounts. In 2010/11 there were two material and unusual charges worthy of note.

- The government has announced that future pension increases will be in line with CPI rather than RPI.. The estimated impact is a reduction in present value of future pension payouts and therefore a reduction of the overall scheme liability. The change is treated as a past service credit and, because of its significant value, the pension past service credit of £105.9m is shown separately on the comprehensive income and expenditure statement.

- The government has changed the social adjustment factor used to estimate the value of social housing (council houses). The effect is a valuation impairment of £88.3m which is a cost included within gross expenditure on the local authority housing line of the comprehensive income and expenditure statement. This item is further detailed in the notes to the housing revenue account.

7. Changes in accounting policies

Up until 2009/10, the Council's accounts were prepared primarily on a UK GAAP (generally-accepted accounting practice) basis. From 2010/11, the Code of Practice on Local Authority Accounting in the United Kingdom ("the Code") has adopted international financial reporting standards (IFRS). Some IFRS requirements, notably those for Private finance initiative (PFI) and similar contracts, were implemented in 2009/10 in advance of full IFRS adoption, so there are no changes in respect of these this year. However, there are changes arising from other IFRS requirements. The most significant are mentioned below and detailed in note 52.

- Compensating accumulating absences
- Grant recognition
- Removal of government grant deferred account
- Leases
- Cash and cash equivalents
- Componentisation of assets

8. Changes in statutory functions

There has been no change in statutory functions which might have had an impact on the accounts.

9. Borrowing

Our level of long-term borrowing as at 31 March 2011 was £342.9m (31 March 2010 £294.0m), short-term borrowing stood at £144.0m net of investments (31 March 2010 £175.8m). The underlying need to borrow is measured by the capital financing requirement, or CFR (see note 40), which increased to £502.1m (£461.1m at 31 March 2010). CFR differs from actual borrowing for a number of reasons, including timing differences.

The Council borrows money to finance its non-current assets (where not otherwise financed through asset sales, grants, etc), so the level of borrowing needs to be viewed in the light of a net long term asset value of £921.1m (2009/10 £952.4m).

From a prudency perspective, statutory arrangements for minimum revenue provision ensure that money is set aside for the repayment of debt over an appropriate period, and the Council is statutorily obliged to maintain its borrowing within affordable limits, in particular to ensure that the impact upon its future council tax/rent levels is acceptable.

10. Capital financing

The Council manages a capital programme, spending monies on the creation and acquisition of assets that will give benefit to the area beyond the present. In 2010/11 we spent £156.7m on capital projects (2009/10 123.0m) and the categories and methods of financing are shown in the fixed asset note. The budgeted capital programme for 2011/12 is £152.4m.

The Council has adequate sources to fund its planned capital expenditure including:

- "supported" borrowing, where government grants cover the debt charges
- unsupported (or "prudential") borrowing, where the Council uses its own revenue resources to cover the debt charges within affordable limits
- capital grants
- usable capital receipts arising from the sale of some of the Council's other assets
- such amounts as the Council decides to fund direct from the revenue budget.

Full details of the capital programme are included in the revenue and capital estimates page of our website.

11. Significant provisions or contingencies and material write-offs

The Council sets aside provisions for known liabilities and these are described in note 22.

12. Material events after 31 March

These accounts record the Council's financial position at 31 March. Where significant events occur after that date, they are recorded in Note 6.

13. Effects of the recession

The recession has badly affected people and businesses in the city of Salford. Demands on our services are therefore higher than ever before while the resources available to the Council have fallen through cuts in government grants and a desire to avoid council tax increases. Wherever possible, we are making the necessary savings through efficiency measures to avoid an impact on front-line services, while at the same time trying to safeguard people's jobs.

Stagnation in the real estate sector means that we are unable to generate high levels of income from sales of council houses and other assets. In previous years such capital receipts would have financed the capital programme. Instead we are relying on additional borrowing, within affordable "Prudential" limits to finance new works. When new receipts are generated, they are being used first to repay this additional debt.

The net budget for 2011/12 has been set at £228.6m, which is a 3.6% increase on the comparable 2010/11 budget of £220.6m. The real-terms increase was much larger owing to the effects of inflation, additional service pressures and funding changes, but the Council has made budget reduction and efficiency savings of £39.9m to balance the budget. We have been able to achieve a nil% increase in council tax for the Council's services (2010/11 also nil%), continuing our record of being amongst the lower increases in the country.

Independent auditor's report to the members of Salford City Council

Independent auditor's report to Members of Salford City Council

Opinion on the Council and Group accounting statements

I have audited the Council and Group accounting statements of Salford City Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The Council and Group accounting statements comprise the Council and Group Movement in Reserves Statement, the Council and Group Comprehensive Income and Expenditure Statement, the Council and Group Balance Sheet, the Council and Group Cash Flow Statement, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Salford City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the City Treasurer and auditor

As explained more fully in the Statement of the City Treasurer's Responsibilities, the City Treasurer is responsible for the preparation of the Council and Group's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Council and Group; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of Salford City Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended;
- give a true and fair view of the state of the Group's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Conclusion on Council's arrangements for securing economy, efficiency and effectiveness in the use of resources Council's responsibilities

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor’s responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Council has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Salford City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Delay in certification of completion of the audit

The audit cannot be formally concluded and an audit certificate issued until such time as I am able to consider matters that local authority electors have indicated to me they intend to bring to my attention provided such matters are brought to my attention within a reasonable period.

Mick Waite
Officer of the Audit Commission

Aspinall House
Aspinall Close
Middlebrook, Horwich
Bolton, BL6 6QQ

30 September 2011

Statement of responsibilities

1. The Council's responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. For the Council that officer is the City Treasurer;
- manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets;
- consider and approve the statement of accounts.

2. The City Treasurer's responsibilities

The City Treasurer is responsible for the preparation of the Council's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom 2010/11* [the Code].

In preparing this statement of accounts, the City Treasurer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code.

The City Treasurer has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certification

I certify that the statement of accounts that follows presents a true and fair view of the financial position of the Council as at 31 March 2011 and its income and expenditure for the year to 31 March 2011.

John Spink CPFA
City Treasurer
28 September 2011

Approval of the statement of accounts

In accordance with Regulation 8(3) of the Accounts and Audit Regulations 2011, I certify that the statement of accounts was considered and approved by the Audit and Accounts Committee at its meeting of 28 September 2011.

Councillor Robin Garrido
Chair of Audit and Accounts Committee
28 September 2011

Part II single entity accounts

Movement in reserves statement (MiRS)

This statement shows the movement in the year on the different reserves held by the Council, analysed into usable reserves, ie those that can be applied to fund expenditure or reduce local taxation, and other reserves. The surplus or (deficit) on the provision of services line shows the true economic cost of providing the Council's services, more details of which are shown in the comprehensive income and expenditure statement. These are different from the statutory amounts required to be charged to the general fund balance and the housing revenue account for council tax-setting and dwellings rent-setting purposes. The Net increase/decrease before transfers to earmarked reserves line shows the statutory general fund balance and housing revenue account balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

2010/11	General fund balance £0	Earmarked general fund reserves £0	Housing revenue account £0	Earmarked HRA reserves £0	Capital receipts reserve £0	Major repairs reserve £0	Capital grants unapplied £0	**Total usable reserves** £0	Unusable reserves £0	**Total authority reserves** £0
Balance at 31 March 10	**7,626**	**24,546**	**1,267**	**0**	**0**	**0**	**5,126**	**38,565**	**(85,634)**	**(47,068)**
Movement in reserves during 2010/11										
Surplus or (deficit) on the provision of services	96,101		(92,002)					**4,099**		4,099
Other comprehensive income and expenditure									209,044	209,044
Total comprehensive income and expenditure	**96,101**	**0**	**(92,002)**	**0**	**0**	**0**	**0**	**4,099**	**209,044**	**213,143**
Adjustments between accounting basis and funding basis under regulations (Note 7)	(106,166)	0	92,040	0	0	0	8,408	**(5,718)**	5,718	**0**
Net increase/decrease before transfers to earmarked reserves	**(10,065)**	**0**	**38**	**0**	**0**	**0**	**8,408**	**(1,619)**	**214,762**	**213,143**
Transfers to/from earmarked reserves (note 8)	9,563	(9,563)	0	0	0	0	0	**0**		
Increase/decrease in 2010/11	**(502)**	**(9,563)**	**38**	**0**	**0**	**0**	**8,408**	**(1,619)**	**214,762**	**213,143**
Balance at 31 March 2011	**7,124**	**14,983**	**1,305**	**0**	**0**	**0**	**13,534**	**36,946**	**129,128**	**166,075**

2009/10 comparatives	General fund balance	Earmarked general fund reserves	Housing revenue account	Earmarked HRA reserves	Capital receipts reserve	Major repairs reserve	Capital grants unapplied	**Total usable reserves**	Unusable reserves	**Total authority reserves**
	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Balance at 1 April 2009	**7,611**	**18,626**	**1,218**	**0**	**0**	**0**	**4,141**	**31,596**	**255,220**	**286,816**
Movement in reserves during 2009/10										
Surplus or (deficit) on the provision of services	(34,013)		(8,114)					**(42,127)**		**(42,127)**
Other comprehensive income and expenditure									(291,758)	**(291,758)**
Total Comprehensive Income and Expenditure	**(34,013)**	**0**	**(8,114)**	**0**	**0**	**0**	**0**	**(42,127)**	**(291,758)**	**(333,885)**
Adjustments between accounting basis and funding basis under regulations (Note 7)	39,948		8,163		0	0	985	**49,096**	(49,096)	**0**
Net Increase/Decrease before Transfers to Earmarked Reserves	**5,935**	**0**	**49**	**0**	**0**	**0**	**985**	**6,969**	**(340,854)**	**(333,885)**
Transfers to/from earmarked reserves (note 8)	(5,920)	5,920	0	0		0		0		
Increase/decrease in 2009/10	**15**	**5,920**	**49**	**0**	**0**	**0**	**985**	**6,969**	**(340,854)**	**(333,885)**
Balance at 31 March 10	**7,626**	**24,546**	**1,267**	**0**	**0**	**0**	**5,126**	**38,565**	**(85,634)**	**(47,068)**

The general fund balance receives surpluses from and meets deficits on the general fund revenue account. Earmarked reserves contributions and service underspends and overspends are transferred to and from the account during the year. Within the general fund balance are schools' balances detailed in note 23.

Earmarked reserves are amounts set aside from the general fund to meet a specific future purpose. They are further analysed in note 8.

The housing revenue account balance represents the accumulated surplus or deficit on the HRA.

The capital receipts reserve holds the share of income from the sale of the Council's assets that is available to finance future capital spend.

The major repairs reserve is a discretionary reserve to which a council's major repairs allowance may be transferred, used to finance major repairs to maintain housing stock in its current condition

Capital grants unapplied reserve holds grants which have been recognised in the comprehensive income and expenditure statement but not applied in capital financing.

Unusable reserves are further analysed in note 24.

Comprehensive income and expenditure statement (CIES)

This statement shows the accounting cost in the year of providing services in accordance with generally-accepted accounting practices, rather than the amount to be funded from taxation. Local authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the movement in reserves statement.

2009/10 Gross Expenditure £000	2009/10 Gross Income £000	2009/10 Net Expenditure £000		Note	2010/11 Gross Expenditure £000	2010/11 Gross Income £000	2010/11 Net Expenditure £000
33,655	(30,394)	3,261	Central services to the public		33,596	(31,072)	2,524
154,067	(50,152)	103,915	Cultural, environmental, regulatory and planning services		136,498	(29,193)	107,305
257,263	(198,321)	58,942	Education and children's services	37	290,499	(205,511)	84,988
53,159	(13,746)	39,413	Highways and transport services		47,426	(10,161)	37,265
44,250	(41,256)	2,994	Local authority housing	See HRA note 5	36,022	(35,201)	821
			Exceptional item reduction in social housing factor	See HRA note 6	88,300	0	88,300
143,677	(114,607)	29,070	Other housing services		140,028	(119,545)	20,483
113,180	(44,640)	68,540	Adult social care	33	110,337	(42,576)	67,761
5,513	(563)	4,950	Corporate and democratic core		5,730	(412)	5,318
6,404	0	6,404	Non-distributed costs		8,551	0	8,551
400	0	400	Non-distributed costs: pension past service costs	47	(105,900)	0	(105,900)
811,568	**(493,679)**	**317,889**	**Cost of services**		**791,087**	**(473,671)**	**317,416**
		7,406	Other operating expenditure	9			(688)
		33,878	Financing and investment income and expenditure	10			26,721
			Surplus or deficit of discontinued operations				
		(317,046)	Taxation and non-specific grant income	11			(347,548)
		42,127	**(Surplus) or deficit on provision of services**				**(4,099)**
		20,858	(Surplus) or deficit on revaluation of property, plant and equipment assets	12			(30,844)
		0	(Surplus) or deficit on revaluation of available for sale financial assets				0
		270,900	Actuarial (gains)/losses on pension assets / liabilities	47			(178,200)
		291,758	**Other comprehensive income and expenditure**				**(209,044)**
		333,885	**Total comprehensive income and expenditure**				**(213,143)**

x

Balance sheet (BS)

The balance sheet shows the value at the balance sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves is usable reserves, ie those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use; for example the capital receipts reserve may only be used to fund capital expenditure or repay debt. The second category of reserves is those that the Council is not able to use to provide services. This category includes reserves that hold unrealised gains and losses, for example the revaluation reserve, where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the movement in reserves statement as adjustments between accounting basis and funding basis under regulations.

01 April 09 £000	31 March 10 £000		Notes	31 March 11 £000	31 March 11 £000
949,255	900,815	Property, plant and equipment	12	869,110	
7,556	7,410	Investment property	13	7,914	
281	8	Intangible assets	14	93	
0	0	Assets held for sale	20		
30,382	27,735	Long term investments	15	34,628	
13,991	16,096	Long term debtors	15	19,750	
1,001,465	**952,064**	**Long term assets**			**931,495**
26,551	12,128	Short term investments	15	20,482	
321	334	Assets held for sale	20	790	
736	778	Inventories	16	789	
71,757	78,870	Short term debtors	18	86,037	
18,424	46,025	Cash and cash equivalents	19	18,242	
117,789	**138,135**	**Current assets**			**126,340**
(176,926)	(187,853)	Short term borrowing	15	(175,023)	
(68,415)	(78,778)	Short term creditors	21	(79,454)	
(245,341)	**(266,631)**	**Current liabilities**			**(254,477)**
(73,106)	(71,159)	Long term creditors	15	(66,701)	
(18,533)	(15,858)	Provisions	22	(14,838)	
(296,104)	(293,965)	Long term borrowing	15	(342,861)	
(191,600)	(473,100)	Other long term liabilities	47	(204,800)	
(7,754)	(16,549)	Capital grants receipts in advance		(8,079)	
(587,097)	**(870,631)**	**Long term liabilities**			**(637,279)**
286,816	**(47,063)**	**Net assets**			**166,080**
31,596	38,567	Usable reserves	23		36,944
255,220	(85,631)	Unusable reserves	24		129,136
286,816	**(47,064)**	**Total reserves**			**166,080**

Cash flow statement

The cash flow statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (ie borrowing) to the Council.

2009/10		**2010/11**
£000		**£000**
42,127	Net (surplus) or deficit on the provision of services	(4,099)
(92,198)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	28,717
(2,022)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(3,189)
(52,093)	Net cash flows from Operating Activities (Note 25)	**21,429**
34,069	Investing Activities (Note 26)	45,020
(9,577)	Financing Activities (Note 27)	(38,666)
(27,601)	Net (increase) or decrease in cash and cash equivalents	**27,783**
18,424	Cash and cash equivalents at the beginning of the reporting period	46,025
27,601	Net increase/(decrease) in cash and cash equivalents	**(27,783)**
46,025	Cash and cash equivalents at the end of the reporting period (Note 19)	**18,242**

Notes to the accounts

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1. Accounting policies

i. General principles

The statement of accounts summarises the Council's transactions for the 2010/11 financial year and its position at the year end of 31 March 2011. The Council is required to prepare an annual statement of accounts by the Accounts and Audit Regulations 2003, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the *Code of Practice on Local Authority Accounting in the United Kingdom 2010/11* [the Code] and the *Best Value Accounting Code of Practice 2010/11* [BVACOP], supported by International Financial Reporting Standards [IFRSs] and statutory guidance issued under section 12 of the 2003 Act.

The accounting convention adopted in the statement of accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

Underlying assumptions

The accounts are maintained on an *accruals* basis (see policy below). Rather than focusing on establishing relationships between income and expenditure and determining the year in which they can be matched, the focus is on defining precisely when assets, liabilities, income, expenditure and reserves should be recognised.

The accounts are prepared on a *going concern* basis. That is, the Council will continue in operation for the foreseeable future and has neither the need nor the intention to liquidate or curtail materially the scale of its operations.

Local authorities derive their powers from statute and their financial and accounting framework is closely controlled by primary and secondary legislation. To the extent that treatments are prescribed by law the accounting concepts outlined above may not apply in all cases. It is a fundamental principle of local authority accounting that, where specific legislative requirements and accounting principles conflict, *legislative requirements are primary*. However, such conflicts would usually be dealt with in the Code by showing the position required by following the accounting concepts in the comprehensive income and expenditure account, and showing the effect of the legislative requirements in the movement in reserves statement.

Qualitative characteristics

The accounts are prepared on a basis that is relevant, reliable, comparable and understandable.

- They allow readers to evaluate past, present and future events.
- They are free from material error and reflect the reality or substance of the transactions and activities underlying them rather than their formal legal character.
- Consistent accounting policies are applied both within the year and between years. Where an accounting policy changes, the reason and effect is disclosed.
- They are designed to be understandable by readers with a reasonable knowledge of business, economics and accounting, and a willingness to study the information presented.

Materiality

The concept of materiality has been applied in the process of preparing the accounts, such that insignificant items are excluded and fluctuations under an acceptable level of tolerance are permitted, provided that in aggregate they would not affect the interpretation of the accounts by an informed reader.

Where estimating techniques are required to enable the accounting practices to be applied, then the techniques that have been used are appropriate and consistently applied. Where the effect of a change to an estimation technique is material, a description of the change and, if practicable, the effect on the results for the current period is disclosed.

The majority of figures in this document have been rounded to the nearest £1,000. This means that there may be very minor inconsistencies between tables and notes, due to rounding adjustments.

ii. Accruals of income and expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the balance sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

iii. Acquisitions and discontinued operations

Not applicable in 2010/11.

iv. Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are non-fixed term investments that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the cash flow statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

v. Exceptional items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the comprehensive income and expenditure statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

vi. Prior period adjustments, changes in accounting policies and estimates and errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, ie in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

The adoption of the IFRS-based Code of Practice in 2010/11 has resulted in a number of changes to transactions and balances compared to their treatment under the SORP. These are analysed in note 52.

vii. Charges to revenue for non-current assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the revaluation reserve against which the losses can be written off
- amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement, equal to a minimum revenue provision (MRP) amount calculated on a prudent basis determined by the Council in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the general fund balance (MRP), by way of an adjusting transaction with the capital adjustment account in the movement in reserves statement for the difference between them.

viii. Employee benefits

Benefits payable during employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, eg time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the surplus or deficit on the provision of services, but then reversed out through the movement in reserves statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the comprehensive income and expenditure statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the general fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the movement in reserves statement, appropriations are required to and from the pensions reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-employment benefits

Employees of the Council are members of three separate pension schemes:

- the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE)
- the Local Government Pensions Scheme, administered in the region by Tameside Metropolitan Borough Council as the Greater Manchester Pension Fund.
- the NHS pension scheme, administered by the Department of Health

All these schemes provide defined benefits to members in the form of retirement lump sums and pensions, earned as employees worked for the Council. However, the arrangements for the teachers' scheme and the NHS scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. Those schemes are therefore accounted for as if they were defined contribution schemes and no liability for future payments of benefits is recognised in the balance sheet. The Children's and education services line in the comprehensive income and expenditure statement is charged with the employer's contributions payable to Teachers' Pensions in the year and the Adult social care line is charged with the employer's contributions payable to the NHS pension scheme.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Greater Manchester Pension Fund attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method. That is, an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 5.5% (2009/10 5.5%) based on the indicative rate of return on the iboxx Sterling Corporates index, AA over 15 years (an index of high quality corporate bonds).
- The assets of the Greater Manchester Pension Fund attributable to the Council are included in the balance sheet at their fair value:
  - quoted securities at current bid price
  - unquoted securities at professional estimate
  - unitised securities at current bid price
  - property at market value.
- The change in the net pensions liability is analysed into seven components:
  - *current service cost* – the increase in liabilities as a result of years of service earned this year. This is allocated in the comprehensive income and expenditure statement to the services for which the employees worked.
  - *past service cost* – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years. This is debited to the surplus or deficit on the provision of services in the comprehensive income and expenditure statement as part of non-distributed costs.
  - *interest cost* – the expected increase in the present value of liabilities during the year as they move one year closer to being paid. This is debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement.
  - *expected return on assets* – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return. This is credited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement.
  - *gains or losses on settlements and curtailments* – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees. These are debited or credited to the surplus or deficit on the provision of services in the comprehensive income and expenditure statement as part of non-distributed costs.
  - *actuarial gains and losses* – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions. This is debited to the Pensions Reserve
  - *contributions paid to Greater Manchester Pension Fund* - cash paid as employer's contributions to the pension fund in settlement of liabilities is not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the general fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the movement in reserves statement, this means that there are appropriations to and from the pensions reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the pensions reserve thereby measures the beneficial impact to the general fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

ix. Events after the balance sheet date

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period. The statement of accounts is adjusted to reflect such events
- Those that are indicative of conditions that arose after the reporting period. The statement of accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the statement of accounts.

x. Financial instruments

Financial liabilities

Financial liabilities are recognised on the balance sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The *effective interest rate* is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For simple borrowings such as the Council's issued stock, this means that the amount presented in the balance sheet is the outstanding principal repayable plus accrued interest; and interest charged to the comprehensive income and expenditure statement is the amount payable for the year according to the loan agreement.

However, the Council has a significant portfolio of market LOBO loans with interest rates "stepped" over time. These are carried at a higher amortised cost than the outstanding principal; and interest is charged at a marginally higher *effective interest rate* than the actual rate payable.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the comprehensive income and expenditure statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the comprehensive income and expenditure statement, regulations allow the impact on the general fund balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. For discounts arising after 31 March 2007, the gain is spread over 10 years as required by Regulation. The reconciliation of amounts charged to the comprehensive income and expenditure statement to the net charge required against the general fund balance is managed by a transfer to or from the financial instruments adjustment account in the movement in reserves statement.

Financial assets

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and receivables

Loans and receivables are recognised on the balance sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

For most of the loans that the Council has made, this means that the amount presented in the balance sheet is the outstanding principal receivable plus accrued interest; and interest credited to the comprehensive income and expenditure statement is the amount receivable for the year in the loan agreement.

However, the Council has made a number of loans to third parties (typically home swap or equity loans to residents inconvenienced in regeneration areas) at less than market rates (soft loans). When soft loans are made, a loss is recorded in the comprehensive income and expenditure statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement at a marginally higher effective rate of interest than the rate receivable from the third party, with the difference serving to increase the amortised cost of the loan in the balance sheet. Statutory provisions require that the impact of soft loans on the general fund balance is the interest receivable for the financial year, so the reconciliation of amounts debited and credited to the comprehensive income and expenditure statement to the net gain required against the general fund balance is managed by a transfer to or from the financial instruments adjustment account in the movement in reserves statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the financing and investment income and expenditure line in the comprehensive income and expenditure statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement.

Available-for-sale assets

Available-for-sale assets are recognised on the balance sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (eg dividends) is credited to the comprehensive income and expenditure statement when it becomes receivable by the Council.

Assets are maintained in the balance sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices are valued at the market price
- other instruments with fixed and determinable payments are valued by discounted cash flow analysis
- equity shares with no quoted market prices are valued by independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the available-for-sale reserve and the gain/ loss is recognised in the surplus or deficit on revaluation of available-for-sale financial assets. The exception is where impairment losses have been incurred: these are debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement, along with any net gain or loss for the asset accumulated in the available-for-sale reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the financing and investment income and expenditure line in the comprehensive income and expenditure statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument, net of any principal repayment and amortisation.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement, along with any accumulated gains or losses previously recognised in the available-for-sale reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

xi. Foreign currency translation

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the financing and investment income and expenditure line in the comprehensive income and expenditure statement.

xii. Government grants and contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the comprehensive income and expenditure statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the balance sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or taxation and non-specific grant income (non-ring-fenced revenue grants and all capital grants) in the comprehensive income and expenditure statement.

Where capital grants are credited to the comprehensive income and expenditure statement, they are reversed out of the general fund balance in the movement in reserves statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the capital grants unapplied reserve. Where it has been applied, it is posted to the capital adjustment account. Amounts in the capital grants unapplied reserve are transferred to the capital adjustment account once they have been applied to fund capital expenditure.

xiii. Intangible assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (eg software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Internally-generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the comprehensive income and expenditure statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired; any losses recognised are posted to the relevant service line(s) in the comprehensive income and expenditure statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the other operating expenditure line in the comprehensive income and expenditure statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, then amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the general fund balance. The gains and losses are therefore reversed out of the general fund balance in the movement in reserves statement and posted to the capital adjustment account and (for any sale proceeds greater than £10,000) the capital receipts reserve.

xiv. Interests in companies and other entities

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates and jointly-controlled entities and require it to prepare group accounts. In the Council's single entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

xv. Inventories and long term contracts

Inventories are included in the balance sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the *FIFO*, "first-in, first-out", costing formula.

Long term contracts are accounted for on the basis of charging the surplus or deficit on the provision of services with the value of works and services received under the contract during the financial year.

xvi. Investment property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year end. Gains and losses on revaluation are posted to the financing and investment income and expenditure line in the comprehensive income and expenditure statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited, if material, to the financing and investment income line (if not material, they are credited to services) and result in a gain for the general fund balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the general fund balance. The gains and losses are therefore reversed out of the general fund balance in the movement in reserves statement and posted to the capital adjustment account and (for any sale proceeds greater than £10,000) the capital receipts reserve.

xvii. Jointly-controlled operations and jointly-controlled assets

Jointly-controlled operations are activities undertaken by the Council in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Council recognises on its balance sheet the assets that it controls and the liabilities that it incurs and debits and credits the comprehensive income and expenditure statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

Jointly-controlled assets are items of property, plant or equipment that are jointly controlled by the Council and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Council accounts for only its share of the jointly-controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

xviii. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the balance sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment, applied to write down the lease liability on the balance sheet, and
- a finance charge, debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement.

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the general fund balance, by way of an adjusting transaction with the capital adjustment account in the movement in reserves statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the comprehensive income and expenditure statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a rent-free period at the commencement of the lease).

The Council as lessor

Finance leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the balance sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the balance sheet (whether property, plant and equipment or assets held for sale) is written off to the other operating expenditure line in the comprehensive income and expenditure statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the comprehensive income and expenditure statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal), matched by a lease (long term debtor) asset in the balance sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property, applied to write down the lease debtor on the balance sheet (together with any premiums received), and
- finance income, credited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement.

The gain credited to the comprehensive income and expenditure statement on disposal is not permitted by statute to increase the general fund balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the general fund balance to the capital receipts reserve in the movement in reserves statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the general fund balance to the deferred capital receipts reserve in the movement in reserves statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the capital receipts reserve.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the capital adjustment account from the general fund balance in the movement in reserves statement.

Operating leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the balance sheet. Rental income is credited to the other operating expenditure line in the comprehensive income and expenditure statement. Credits are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

xix. Overheads and support services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Best Value Accounting Code of Practice 2010/11* (BVACOP). The total absorption costing principle is used; the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and democratic core, costs relating to the Council's status as a multifunctional, democratic organisation.
- Non-distributed costs, the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on assets held for sale.

These two cost categories are defined in BVACOP and accounted for as separate headings in the comprehensive income and expenditure statement, as part of net expenditure on continuing services.

xx. Property, plant and equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as property, plant and equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (ie repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (ie it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the taxation and non-specific grant income line of the comprehensive income and expenditure statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the donated assets account.

Where gains are credited to the comprehensive income and expenditure statement, they are reversed out of the general fund balance to the capital adjustment account in the movement in reserves statement.

Assets are then carried in the balance sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost
- dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH)
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

For non-property assets that have short useful lives or low values (or both), for example vehicles, depreciated historical cost basis is used as a proxy for fair value.

Assets included in the balance sheet at fair value are revalued sufficiently regularly, as a minimum every five years, to ensure that their carrying amount is not materially different from their fair value at the year-end. Increases in valuations are matched by credits to the revaluation reserve to recognise unrealised gains.

Exceptionally, gains might be credited to the comprehensive income and expenditure statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the revaluation reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the comprehensive income and expenditure statement.

The revaluation reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the capital adjustment account.

Impairment

Assets are assessed at each year end as to whether there are indications that an asset may be impaired. Where reliable and consistent indications exist and differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the revaluation reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the comprehensive income and expenditure statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the comprehensive income and expenditure statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (ie freehold land and certain community assets) and assets that are not yet available for use (ie assets under construction).

Deprecation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer, typically averaging to about 32 years
- vehicles, plant, furniture and equipment – straight-line allocation over the useful life of the asset, typically averaging to about 5 years
- infrastructure – straight line allocation over 10 years.

Where an item of property, plant and equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. In practice, the Council achieves the correct accounting effect by maintaining records for the main asset and calculating its equated life span for depreciation purposes based on the relative life spans of its various components.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the revaluation reserve to the capital adjustment account.

Disposals and non-current assets held for sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an asset held for sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the other operating expenditure line in the comprehensive income and expenditure statement. Gains in fair value are recognised only up to the amount of any previously-recognised losses in the surplus or deficit on provision of services. Depreciation is not charged on assets held for sale.

If assets no longer meet the criteria to be classified as assets held for sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale (adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as held for sale) and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as assets held for sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the balance sheet (whether property, plant and equipment or assets held for sale) is written off to the other operating expenditure line in the comprehensive income and expenditure statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the comprehensive income and expenditure statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the revaluation reserve are transferred to the capital adjustment account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the government. The balance of receipts is required to be credited to the capital receipts reserve, and can then only be used for new capital investment or set aside to reduce the Council’s underlying need to borrow (the capital financing requirement). Receipts are appropriated to the reserve from the general fund balance in the movement in reserves statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the capital adjustment account from the general fund balance in the movement in reserves statement.

xxi. Private Finance Initiative (PFI) and similar contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its balance sheet as part of property, plant and equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. For PFI scheme 2, the liability was written down by an initial capital contribution of £6m.

Non-current assets recognised on the balance sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to PFI operators each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the comprehensive income and expenditure statement
- finance cost – an interest charge (at 9% for PFI scheme 1, 8% for PFI scheme 2 and 4% on LIFT schemes) on the outstanding balance sheet liability, debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement
- payment towards liability – applied to write down the balance sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease)
- life cycle replacement costs – proportion of the amounts payable is posted to the balance sheet as a prepayment and then recognised as additions to property, plant and equipment when the relevant works are eventually carried out.

xxii. Provisions, contingent liabilities and contingent assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the comprehensive income and expenditure statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the balance sheet. Estimated settlements are reviewed at the end of each financial year; where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (eg from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Provision for back pay arising from unequal pay claims

The Council has made a provision for the costs of settling claims for back pay arising from discriminatory payments incurred before the Council implemented its equal pay strategy.

However, statutory arrangements allow settlements to be financed from the general fund in the year that payments actually take place, not when the provision is established. The provision is therefore balanced by an equal pay back pay account created from amounts credited to the general fund balance in the year the provision was made or modified. The balance on the equal pay back pay account will be debited back to the general fund balance in the movement in reserves statement in future financial years as payments are made.

Contingent liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the balance sheet but disclosed in a note to the accounts.

Contingent assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

xxiii. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the general fund balance in the movement in reserves statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the surplus or deficit on the provision of services in the comprehensive income and expenditure statement. The reserve is then appropriated back into the general fund balance in the movement in reserves statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement benefits and employee benefits and do not represent usable resources for the Council. These reserves are explained in the relevant policies.

xxiv. Revenue expenditure funded from capital under statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the comprehensive income and expenditure statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the movement in reserves statement from the general fund balance to the capital adjustment account then reverses out the amounts charged so that there is no impact on the level of council tax.

xxv. VAT

VAT (value-added tax) payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

xxvi. Council tax and non-domestic rate income

Council tax and non-domestic rate income are accounted for as agency arrangements.

xxvii. Group accounts

The group accounts include the Council's share of the operating results, assets and liabilities of each group entity's accounts, rather than just the historical cost of the investment. Subsidiaries are accounted for on an acquisition basis and incorporated line-by-line, writing out inter-group transactions. Associates and joint ventures are incorporated by accounting for the Council's share of their operating results in the group income and expenditure account and of their assets in the group balance sheet.

Group accounts are internally consistent, ie each group entity's accounts are adjusted so that all are presented adopting the same policies. The policies adopted are those that apply to the Council, as set out in this section.

Interim financial statements have been used for any entities with a financial year that differs from the Council's of 1 April to 31 March. These interim statements are produced using the entities' annual financial statements and relevant management accounting information.

2. Accounting standards that have been issued but have not yet been adopted

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code) has introduced a change in accounting policy in relation to the treatment of heritage assets held by the Council, which will need to be adopted fully by the Council in the 2011/12 financial statements. The Council is required to make disclosure of the estimated effect of the new standard in these 2010/11 financial statements.

The new standard will require that a new class of asset, heritage assets, is disclosed separately on the face of the Council's balance sheet. Heritage assets are assets that are held principally for their contribution to knowledge or culture. Salford Museum and Art Gallery holds such assets in its two permanent galleries, Lark Hill Place and The Victorian Gallery. Lark Hill Place consists of a recreated Victorian street with authentic period shops and rooms. The Victorian Gallery contains fine paintings, pottery and sculpture. The art collection is not currently accounted for as community assets as no cost information is available.

The Code will require that heritage assets are measured at valuation in the 2011/12 financial statements, including the 2010/11 comparative information. The Code will permit some relaxations in the valuation requirements of heritage assets and this will mean that the Council is able to recognise more of its collections of heritage assets in the balance sheet. The Council anticipates that it will be able to recognise its fine paintings collection on the balance sheet using as its base the detailed insurance valuations (which are based on market values) held by the Council in respect of the collection. The Council is unlikely to be able to recognise the majority of the pottery machinery and ephemera and the archaeological collection in future financial statements as obtaining valuations for the majority of these two collections would involve a disproportionate cost of obtaining the information in comparison to the benefits to the users of the Council's financial statements.. This exemption is permitted by the Code.

The carrying value of heritage assets currently held in the balance sheet as community assets (at cost) within property, plant and equipment at 1 April 2010 is £nil. The Council does hold information on the value of these assets for insurance purposes, supplied by an external valuer, Bonhams. The market value of the assets as at 1 April 2008 was £6.7 million. As these assets have not yet been recognised in the balance sheet, there will be a corresponding increase in the revaluation reserve of £6.7 million, ie a revaluation gain.

It is estimated therefore that the total value of heritage assets to be recognised in the balance sheet at 1 April 2010 under the requirements of the Code will be £6.7 million. This will result in a total revaluation gain recognised in the revaluation reserve of £6.7 million. The Council considers that its heritage will have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation for the assets. There will therefore be no change to the depreciation charged in the financial statements in relation to the Council's heritage assets.

The movements of heritage assets in the 2010/11 financial year are set out in the table below. Note that the Council is of the view, on the advice of its external valuers, that there are no material revaluation gains or losses on its holdings of heritage assets as at 31 March 2011

	2010/11 £000
Heritage assets previously classified as community assets in property plant and equipment, at valuation as at 1 April 2010	0
Heritage assets recognised for the first time at valuation as at 1 April 2010	6,700
Additions	0
Carrying value as at 31 March 2011	**6,700**

3. Critical judgements in applying accounting policies

In applying its accounting policies, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in the statement of accounts are:

- There is a degree of uncertainty about the effect of future levels of funding for local government. However, the Council has determined that this uncertainty is not sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- The Council is deemed to control the services provided under the outsourcing agreement for social care provision in two residential homes and also to control the residual value of the homes at the end of the agreement. The accounting policies for PFI schemes and similar contracts have been applied to the arrangement and the homes are recognised as property, plant and equipment on the balance sheet.
- The Council is deemed to control a portion of the services provided under the LIFT agreement for three Gateway centres and to control the residual value of the centres at the end of the agreement. The accounting policies for PFI schemes and similar contracts have been applied to the arrangement and the centres are recognised as property, plant and equipment on the Council's balance sheet.

4. Assumptions made about the future and other major sources of estimation uncertainty

The statement of accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2011 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Property, plant and equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £1.3m for a 1 year reduction in average useful lives.
Provisions	The Council has made a provision of £0.6m for the settlement of claims for back pay arising from the equal pay initiative, based on the number of claims received and an average settlement amount. It is not certain that all valid claims have yet been received by the Council or that precedents set by other authorities in the settlement of claims will be applicable.	An increase over the forthcoming year of 10% in either the total number of claims or the estimated average settlement would each have the effect of adding £60k to the provision needed.
Pensions liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £81.8m and a 1 year increase in member life expectancy would increase the liability by £58.7m. However, the assumptions interact in complex ways. During 2010/11, the Council's actuaries advised of actuarial gains as follows: that the net pensions liability had decreased by £62.4m as a result of estimates being corrected as a result of experience and by £114.2m attributable to updating of the assumptions.

This list does not include assets and liabilities that are carried at fair value based on a recently-observed market price.

5. Material items of income and expense

In 2010/11 there were two material items worthy of note. These were a credit of £105.9m in relation to pension past service costs and an expense of £88.3m in relation to impairment on council house valuation, both described in the foreword. There are no further material items not otherwise disclosed on the face of the income and expenditure statement.

6. Events after the balance sheet date

The statement of accounts was authorised for issue by the city treasurer on 30 September 2011. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2011, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

7. Adjustments between accounting basis and funding basis under regulations

This note details the adjustments that reconcile the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice with the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

2010/11	General fund balance £000	Housing revenue account £000	Capital receipts reserve £000	Major repairs reserve £000	Capital grants unapplied £000	Movement in unusable reserves £000
Adjustments primarily involving the capital adjustment account						
Reversal of items debited or credited to the comprehensive income and expenditure statement:						
Charges for depreciation and impairment of non-current assets	31,498	97,696	0	0	0	(129,194)
Revaluation losses on property plant and equipment						0
Movements in the market value of investment properties	(510)	(26)	0	0	0	536
Amortisation of intangible assets	32	0	0	0	0	(32)
Capital grants and contributions applied						0
Movement in the donated assets account						0
Revenue expenditure funded from capital under statute	62,120	0	0	0	0	(62,120)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the comprehensive income and expenditure statement						0
Insertion of items not debited or credited to the comprehensive income and expenditure statement:						0
Statutory provision for the financing of capital investment	(14,317)	0	0	0	0	14,317
Capital expenditure charged against the general fund and HRA balances	(116)	0	0	0	0	116
Adjustments primarily involving the capital grants unapplied account:						

Capital grants and contributions unapplied credited to the comprehensive income and expenditure statement	(8,408)				8,408	0
Application of grants to capital financing transferred to the capital adjustment account	(81,748)	0	0	0	0	81,748
Adjustments primarily involving the capital receipts reserve						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the comprehensive income and expenditure statement	(1,465)	12	15,330	0	0	(13,877)
Use of the capital receipts reserve to finance new capital expenditure			(14,724)			14,724
Contribution from the capital receipts reserve towards administrative costs of non-current asset disposals						0
Contribution from the capital receipts reserve to finance the payments to the government capital receipts pool.	606	0	(606)	0	0	0
Transfer from deferred capital receipts reserve upon receipt of cash						0
Adjustments primarily involving the deferred capital receipts reserve (england and wales):						
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the comprehensive income and expenditure statement	231	0	0	0	0	(231)
Adjustment primarily involving the major repairs reserve:						
Reversal of major repairs allowance credited to the HRA						0
Use of the major repairs reserve to finance new capital expenditure						0
Adjustment primarily involving the financial instruments adjustment account:						

Amount by which finance costs charged to the comprehensive income and expenditure statement are different from finance costs	(928)	(4,123)	0	0	0	5,051
Adjustments primarily involving the pensions reserve						
Reversal of items relating to retirement benefits debited or credited to the comprehensive income and expenditure statement (see note 47)	(88,581)	(1,519)	0	0	0	90,100
Employer's pensions contributions and direct payments to pensioners payable in the year						0
Adjustments primarily involving the collection fund adjustment account						
Amount by which council tax income credited to the comprehensive income and expenditure statement is different from council tax income calculated for the year in accordance with statutory requirements	(957)	0	0	0	0	957
Adjustment primarily involving the unequal pay back pay adjustment account						
Amount by which amounts charged for equal pay claims to the comprehensive income and expenditure statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements	(1,831)	0	0	0	0	1,831
Adjustment primarily involving the accumulated absences account						
Amount by which officer remuneration charged to the comprehensive income and expenditure statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(1,792)	0	0	0	0	1,792
Total adjustments	(106,166)	92,040	0	0	8,408	5,718

2009/10	General fund balance £000	Housing revenue account £000	Capital receipts reserve £000	Major repairs reserve £000	Capital grants unapplied £000	Movement in unusable reserves £000
Adjustments primarily involving the capital adjustment account						
Reversal of items debited or credited to the comprehensive income and expenditure statement:						
Charges for depreciation and impairment of non-current assets	51,890	12,833				(64,723)
Revaluation losses on property plant and equipment						
Movements in the market value of investment properties						
Amortisation of intangible assets	273					(273)
Capital grants and contributions applied	0	0				0
Movement in the donated assets account						
Revenue expenditure funded from capital under statute	55,965	(120)				(55,845)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the comprehensive income and expenditure statement						
Insertion of items not debited or credited to the comprehensive income and expenditure statement:						
Statutory provision for the financing of capital investment	(13,771)					13,771
Capital expenditure charged against the general fund and HRA balances	(250)					250
Adjustments primarily involving the capital grants unapplied account:						
Capital grants and contributions unapplied credited to the comprehensive income and expenditure statement	(985)				985	
Application of grants to capital financing transferred to the capital adjustment account	(71,291)					71,291
Adjustments primarily involving the capital						

receipts reserve						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the comprehensive income and expenditure statement	7,385	(287)	7,152			(14,250)
Use of the capital receipts reserve to finance new capital expenditure			(6,852)			6,852
Contribution from the capital receipts reserve towards administrative costs of non-current asset disposals						
Contribution from the capital receipts reserve to finance the payments to the government capital receipts pool.	301		(301)			
Transfer from deferred capital receipts reserve upon receipt of cash						
Adjustments primarily involving the deferred capital receipts reserve						
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the comprehensive income and expenditure statement	217					(217)
Adjustment primarily involving the major repairs reserve:						
Reversal of major repairs allowance credited to the HRA						
Use of the major repairs reserve to finance new capital expenditure						
Adjustment primarily involving the financial instruments adjustment account:						
Amount by which finance costs charged to the comprehensive income and expenditure statement are different from finance costs	146	(4,342)				4,196
Adjustments primarily involving the pensions reserve						
Reversal of items relating to retirement benefits debited or credited to the comprehensive	10,521	79				(10,600)

income and expenditure statement (see note 47) Employer's pensions contributions and direct payments to pensioners payable in the year						
Adjustments primarily involving the collection fund adjustment account						
Amount by which council tax income credited to the comprehensive income and expenditure statement is different from council tax income calculated for the year in accordance with statutory requirements	431					(431)
Adjustment primarily involving the unequal pay back pay adjustment account						
Amount by which amounts charged for equal pay claims to the comprehensive income and expenditure statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements	(1,157)					1,157
Adjustment primarily involving the accumulated absences account						
Amount by which officer remuneration charged to the comprehensive income and expenditure statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	273					(273)
Total adjustments	39,948	8,163	(1)	0	985	(49,095)

8. Transfers to/from earmarked reserves

This note sets out the amounts set aside from the general fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet general fund and HRA expenditure.

	Revised Balance 31-Mar-09 £000	Transfers to reserves during the year 2009/10 £000	Transfers from reserves during the year 2009/10 £000	Balance 31-Mar-10 £000	Transfers to reserves during the year 2010/11 £000	Transfers from reserves during the year 2010/11 £000	Balance 31-Mar-11 £000
General Fund							
VER reserve	781	200	0	981	295	(1,181)	95
LABGI reserve	0	263	0	263	0	0	263
Media city regeneration reserve	0	592	0	592	708	(592)	708
Community committee reserve	473	581	(473)	581	423	(581)	423
DSO appropriation account	119	0	0	119	0	0	119
Investment reserve	576	2,150	(2,511)	215	227	(442)	0
Barton Moss trading	15	28	0	43	28		71
Risk management fund	400		(396)	4		(4)	0
Pooled budget reserve	140	245	(47)	338	42	(338)	42
Systems development reserve	21	45	0	66	91		157
PFI reserve	(22)	210	(95)	93	307	(16)	384
PFI capital reserve	0	0	0	0	0	0	0
Social services reserve	1,426		(188)	1,238	1,087	(1,088)	1,237
Insurance fund reserve	6,626	976	(328)	7,274	337	(1,806)	5,805
Community initiatives reserve	1,051	2,671	(1,051)	2,671	597	(2,671)	597
IFRS revenue grants reserve	7,020	10,069	(7,020)	10,069	5,083	(10,069)	5,083
Total earmarked reserves	**18,626**	**18,030**	**(12,109)**	**24,547**	**9,225**	**(18,788)**	**14,984**
HRA							
Housing repairs account	0	8,265	(8,265)	0	10,258	(10,258)	0

The VER reserve was established to cover potential costs relating to early retirements.

The local authority business growth incentive (LABGI) reserve was set up in 2005/06 from the proceeds of the grant received from the government in recognition of the increase in business activity in the city. The reserve will be used to promote economic development activities and encourage investment in the city.

The Media City regeneration reserve was created in 2009/10 to fund work associated with the opening of Media City at Salford Quays.

The community committee reserve represents unused balances on sums delegated to community committees, to be used for the for the benefit of the relevant area.

The DSO appropriation account was established in 1981/82 to receive and distribute profits and to cover any losses made by the Council's direct service organisations.

The investment reserve was set up in 2006/07 to bridge the gap between investment in a savings project and the return on that project.

The Barton Moss trading reserve was set up in 1996/97 to meet any deficits arising on the trading account and to support specific items of expenditure.

The risk management fund was set up in 1998/99 to meet the costs of identifying risks and carrying out measures to reduce or eliminate risks to assets, employees and third parties.

The pooled budget reserve holds funds earmarked for pooled budgets with Salford NHS PCT. Each year, pooled budget surpluses are redistributed to the Council and the PCT; the reserve holds the Council's share of any surplus, which is used to meet future pooled budget shortfalls.

The systems development reserve was established in 2003/04 to assist in providing for the implementation of new systems under the e-government initiative.

The PFI reserve The funding available for the PFI schemes from special grant and Council revenue contributions will exceed the payments of unitary charge in the early years of the contract and then be less in subsequent years due to reducing grant support. The Council has therefore created an interest bearing reserve during the year, which will be effective over the life of the contracts and will ensure that the estimated unitary charge payments are provided for over the life of the contract. A contribution has also been made to the PFI reserve from the general fund, which will be used to meet set up costs for the Building Schools for the Future scheme.

The PFI capital reserve was set up to match the prepayment provision on schools' PFI schemes. With the change to the accounting treatment for PFI contracts this year, the reserve and the associated long term debtor were written out of the accounts.

The social services reserve was set up in 2004/05. Its purpose is to meet demographic cost pressures and personalisation developments across health and social care.

The insurance fund reserve provides an additional contingency to meet any further claims, in addition to the amount provided for under long-term liabilities.

The community initiatives reserve was created in 2008/09 to fund schemes designed to assist community development.

IFRS revenue grants reserve has been set up for grants and contributions which have been recognised in the income and expenditure account but which will be used in the future.

The HRA repairs account reserve has been set up in the housing revenue account to meet the repair, maintenance and improvement programme expenditure.

9. Other operating expenditure

	2009/10 £000	2010/11 £000
Payments to the government housing capital receipts pool	301	606
Gains/losses on the disposal of non-current assets	7,105	(1,295)
Total	**7,406**	**(689)**

10. Financing and investment income and expenditure

	2009/10 £000	2010/11 £000
Interest payable and similar charges	20,738	19,027
Pensions interest cost and expected return on pensions assets	16,100	11,800
Interest receivable and similar income	(2,576)	(3,026)
Income and expenditure in relation to investment properties and changes in their fair value	(384)	(1,080)
Other investment income		
Total	**33,878**	**26,721**

11. Taxation and non-specific grant income

	2009/10 £000	2010/11 £000
Council tax	(89,916)	(91,344)
Non-domestic rates	(103,967)	(113,718)
Non-ring-fenced government grants		
Revenue support grant	(23,997)	(16,513)
Area based grant	(26,627)	(35,815)
Local authority business growth incentive scheme grant	(263)	0
Capital grants and contributions	(72,276)	(90,156)
Total	**(317,046)**	**(347,546)**

12. Property, plant and equipment

Movements on Balances

Movements in 2010/11	Council dwellings £000	Other land & buildings £000	Vehicles, plant etc. £000	Infra-structure £000	Community assets £000	Surplus assets	Assets under construction	Total £000
Cost or valuation								
Gross book value at 01 April 2010	341,713	460,842	36,932	219,447	2,783	8,854	24,536	1,095,107
Additions	29,127	13,930	11,479	11,576	567	375	17,551	84,605
Donations	0	0	0	0	0	3,478	0	3,478
Accumulated depreciation and impairment written off on revaluation	(6,745)	(8,596)	0	0	0	(78)	0	(15,419)
Revaluation increases/(decreases) recognised in the revaluation reserve	(4,234)	35,054	0	0	0	24	0	30,844
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	(92,968)	(9,338)	0	0	0	(807)	0	(103,113)
Derecognition - disposals	(632)	(6,117)	(18)	0	0	(397)	0	(7,164)
Assets reclassified (to)/from held for sale	0	(6,958)	0	0	0	(516)	0	(7,474)
Assets reclassified (to)/from investment property	0	0	0	0	0	33	0	33
Other	54	(16,511)	23,231	0	22	2,045	(8,841)	0
Gross book value at 31 March 2011	266,314	462,306	71,624	231,023	3,372	13,009	33,246	1,080,894
Accumulated depreciation and impairment								
Depreciation at 1 April 2010	(6,745)	(13,299)	(22,419)	(151,765)	0	(63)	0	(194,291)
Depreciation for year	(7,002)	(10,337)	(8,451)	(7,386)	(1)	(47)	0	(33,224)
Accumulated depreciation and impairment written off on revaluation	6,745	8,596	0	0	0	78	0	15,419
Derecognition - disposals	19	287	6	0	0	1	0	313
Other	0	2,021	(1,957)	0	0	(64)	0	0
Depreciation at 31 March 2011	(6,984)	(12,732)	(32,822)	(159,151)	(1)	(94)	0	(211,784)
Net book value at 31 March 2011	259,330	449,574	38,802	71,872	3,372	12,915	33,246	869,111

Movements in 2009/10	**Council dwellings £000**	**Other land & buildings £000**	**Vehicles, plant etc. £000**	**Infra-structure £000**	**Community assets £000**	**Surplus assets**	**Assets under construction**	**Total £000**
Cost or valuation								
Gross book value at 01 April 2009	388,431	457,685	32,479	213,499	1,357	25,640	10,648	1,129,739
Additions	12,160	22,301	5,674	5,948	1,426	0	13,888	61,397
Donations	0	0	0	0	0	0	0	0
Accumulated depreciation and impairment written off on revaluation	(6,590)	(6,031)	0	0	0	(141)	0	(12,762)
Revaluation increases/(decreases) recognised in the revaluation reserve	(38,720)	16,929	0	0	0	933	0	(20,858)
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	(12,849)	(31,282)	0	0	0	(2,599)	0	(46,730)
Derecognition - disposals	(720)	(1,197)	(1,221)	0	0	(12,556)	0	(15,694)
Assets reclassified (to)/from held for sale	0	0	0	0	0	0	0	0
Assets reclassified (to)/from investment property	0	0	0	0	0	0	0	0
Other	0	2,436	0	0	0	(2,423)	0	13
Gross book value at 31 March 2010	341,713	460,842	36,932	219,447	2,783	8,854	24,536	1,095,107
Accumulated depreciation and impairment								
Depreciation at 1 April 2009	(6,590)	(10,449)	(18,146)	(144,562)	0	(234)	0	(179,981)
Depreciation for year	(6,767)	(8,908)	(4,973)	(7,203)	0	(61)	0	(27,912)
Accumulated depreciation and impairment written off on revaluation	6,590	6,031	0	0	0	141	0	12,762
Derecognition - disposals	22	46	700	0	0	73	0	841
Other	0	(18)	0	0	0	18	0	0
Depreciation at 31 March 2010	(6,745)	(13,299)	(22,419)	(151,765)	0	(63)	0	(194,291)
Net book value at 31 March 2010	334,967	447,543	14,513	67,682	2,783	8,790	24,536	900,814

Capital commitments and other financial commitments

At 31 March 2011, the Council has entered into a number of contracts for the construction or enhancement of property, plant and equipment in 2011/12 and future years budgeted to cost £64.3m. The major commitments are:

	£m
BSF Academy	18.2
Barton Stadium (loan commitment)	17.0
Greengate	6.1
Higher Broughton Hub	4.8
Wheatersfield School	4.8
Chapel Street public realm (Phase 2)	3.6
Fit City Irlam	2.7
Council house new build	2.5
Ordsall Hall	1.4

Effects of changes in estimates

In 2010/11, the Council made two changes to its accounting estimates for property, plant and equipment:

The method of measuring and depreciating furniture and equipment assets was amended as described in the accounting policy on depreciation.

During the revaluation of the Council's office accommodation, remaining useful lives were reviewed critically for all properties occupied by the Council. As a result, an estimate of equated useful life was calculated as described in the accounting policy on depreciation.

The impact of these changes will carry forward into future years.

Revaluations

The Council carries out a rolling programme that ensures that all property, plant and equipment required to be measured at fair value is revalued at least every five years. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset.

The significant assumptions applied in estimating the fair values are:

- For existing use values, that the asset will continue to be owner-occupied, or let pursuant to the delivery of a service, for the existing use for the foreseeable future
- That no high alumina cement, asbestos, or other deleterious material was used in the construction of any property and that none has been subsequently incorporated.
- That the properties are not subject to any unusual or especially onerous restrictions, encumbrances or outgoings and that good title can be shown.
- That the properties and their values are unaffected by any matters which would be revealed by a local search or inspection of any register and that the use and occupation are both legal.
- That inspection of those elements of any of the building's parts which have not been examined would not alter the estimation of value.
- That the land and properties are not contaminated.
- That no allowances have been made for any rights, obligations or liabilities arising from the Defective Premises Act 1972.

	Council dwellings £000	Operational land & buildings £000	Non-operational land & buildings £000	Total £000
Valued at fair value in :				
current year	266,830	104,924	32,029	403,783
2009/10		104,857	65,474	170,331
2008/09		147,055	14,413	161,468
2007/08		5,356	8,217	13,573
2006/07		467	1,220	1,687
Total	266,830	362,659	121,353	**750,842**

The valuer is R. Wynne MRICS (Urban Vision Partnership Ltd.)

13. Investment properties

The following items of income and expense have been accounted for in the financing and investment income and expenditure line in the comprehensive income and expenditure statement:

	2009/10	2010/11
	£000	£000
Rental income	(528)	(542)
Direct operating expenses	0	0
Net gain/(loss)	**(528)**	**(542)**

The Council's investment property includes its share of rental from ground leases relating to industrial units located at Manchester Airport as part of the agreement on the abolition of the former Greater Manchester Council and therefore the Council has limited influence on the investment activities related to the asset and incurs no direct operating expenses.

The remaining assets within the investment portfolio relate to properties used to site telecommunications equipment for third parties. The agreements ensure that all the associated costs are met by the user.

The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year.

	2009/10	2010/11
	£000	£000
Balance at start of the year	7,555	7,411
Additions		
▪ Purchases	34	0
Disposals	(35)	0
Net gains/(losses) from fair value adjustments	(144)	536
Transfers		
to/from property, plant and equipment	0	(33)
Balance at end of the year	**7,410**	**7,914**

14. Intangible assets

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of property, plant and equipment. Intangible assets include both purchased licenses and internally-generated software. The carrying amount of intangible assets is amortised on a straight-line basis over its estimated useful life. The transactions are not material to the accounts.

15. Financial instruments

Categories of financial instruments

Investments	**Long term**			**Current**		
	1 April 2009 £000	**31 March 2010 £000**	**31 March 2011 £000**	**1 April 2009 £000**	**31 March 2010 £000**	**31 March 2011 £000**
Loans and receivables						
Investments in the financial market	18,429	15,482	15,709	26,551	12,128	20,482
Available-for-sale financial assets						
Unquoted equity investments at cost						
Manchester airport plc	10,214	10,214	10,214			
City of Salford Community Stadium Ltd			6,666			
Trinity ICP	1,571	1,571	1,571			
MaST LIFT Ltd	167	167	167			
Manchester science park		252	252			
BSF TCP		49	49			
	11,952	12,253	18,919	0	0	0
Total	**30,381**	**27,735**	**34,628**	**26,551**	**12,128**	**20,482**

Debtors	**Long term**		
	1 April 2009 £000	**31 March 2010 £000**	**31 March 2011 £000**
Loans and receivables			
Manchester airport group	7,246	8,852	8,852
Equity loans	2,769	3,481	3,356
Homeswops	1,937	1,563	1,563
Salford reds	240	500	1,000
Loan for Salford Stadium			3,449
other	1,799	1,700	1,530
Total	**13,991**	**16,096**	**19,750**

Borrowings	Long term 1 April 2009 £000	Long term 31 March 2010 £000	Long term 31 March 2011 £000	Current 1 April 2009 £000	Current 31 March 2010 £000	Current 31 March 2011 £000
Financial liabilities at amortised cost						
Money market	282,221	280,129	329,069	15,168	186,821	174,765
PWLB	0	0	0	160,876	0	0
Stock	13,567	13,567	13,567	169	169	169
Transferred debt	315	269	225	635	772	
Other	0	0	0	78	91	89
	296,103	293,965	342,861	176,926	187,853	175,023
Liabilities at fair value through profit and loss		0	0		0	0
Total	**296,103**	**293,965**	**342,861**	176,926	**187,853**	**175,023**

Other long term creditors	Long term 1 April 2009 £000	Long term 31 March 2010 £000	Long term 31 March 2011 £000
Commuted Grds Maint	(6,428)	(6,003)	(6,029)
Lowry Rcpt In Adv	(1,313)	(1,261)	(1,209)
Transferred Debt	(11,019)	(11,827)	(11,015)
Private Street Works	(6)	(6)	(6)
Lease obligations	(54,337)	(52,060)	(48,443)
	(73,103)	**(71,157)**	**(66,701)**

Other long term liability	Long term 1 April 2009 £000	Long term 31 March 2010 £000	Long term 31 March 2011 £000	Current 1 April 2009 £000	Current 31 March 2010 £000	Current 31 March 2011 £000
Pensions Liability	(191,600)	(473,100)	(204,800)			

Creditors	Long term 1 April 2009 £000	Long term 31 March 2010 £000	Long term 31 March 2011 £000	Current 1 April 2009 £000	Current 31 March 2010 £000	Current 31 March 2011 £000
Financial liabilities at amortised cost	(73,106)	(71,159)	(66,701)			
Financial liabilities carried at contract amount				(68,415)	(78,778)	(79,454)

Reclassifications

There were no reclassifications between categories.

Income, expense, gains and losses

	2010/11 Financial liabilities at amortised cost £000	Financial assets: Loans & receivables £000	Financial assets: Available for sale £000	Net total £000
Interest payable & similar charges	17,965	0	0	17,965
Interest and investment income	0	(960)	0	(960)
Surplus arising on revaluation of financial assets	0	0	0	0
Net (gain)/loss for the year	**17,965**	**(960)**	**0**	**17,005**
	2009/10 Financial liabilities at amortised cost £000	**Financial assets: Loans & receivables £000**	**Financial assets: Available for sale £000**	**Net total £000**
Interest payable & similar charges	16,443	0	0	16,443
Interest and investment income	0	(1,563)	0	(1,563)
Surplus arising on revaluation of financial assets	0	0	0	0
Net (gain)/loss for the year	**16,443**	**(1,563)**	**0**	**14,880**

Fair values of assets and liabilities

Financial liabilities and financial assets represented by loans and receivables are carried in the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments. The Council's treasury management advisors, Sector, have assisted in the preparation of this disclosure, using the following assumptions:

- interest rates at 31 March 2011 based on the comparable new borrowing/deposit rate for the same financial instrument from a comparable lender. A consistent approach has been applied to assets and liabilities;
- no early repayment or impairment is recognised;
- where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to fair value.
- the fair value of trade and other receivables is taken to be the invoiced or billed amount

The fair values calculated are set out below.

	1 April 2009		31 March 2010		31 March 2011	
	Carrying amount £000	**Fair Value £000**	**Carrying amount £000**	**Fair Value £000**	**Carrying amount £000**	**Fair value £000**
Financial liabilities	472,001	505,470	480,686	536,360	517,527	566,632
Loans and receivables	60,524	59,447	69,442	69,789	54,811	54,949
Available for sale financial assets	11,952	11,952	12,253	12,253	18,919	18,919

The fair value of the liabilities is higher than the carrying amount primarily because the Council's portfolio of loans includes a number of stepped LOBO loans where the interest rate payable currently higher than the rate available for a similar instrument on the valuation date. Had these loans been replaced with the similar instruments at that time this would have given rise to significant premiums.

The available-for-sale asset category includes the Council's investments in companies. None are quoted on the stock market, nor is there a satisfactory evidence base on which to determine a reliable fair value. They are therefore valued at cost less any impairment. Further details concerning shareholdings are included in the note on related businesses and companies.

Short term debtors and creditors are carried at cost as this is a fair approximation of their value.

16. Inventories

	2009/10 Consumable stores £000	2009/10 Maintenance materials £000	2009/10 Total £000	2010/11 Consumable stores £000	2010/11 Maintenance materials £000	2010/11 Total £000
Balance outstanding at start of the year	622	114	736	665	113	778
Purchases	1,271	376	1,647	1,315	411	1,727
Recognised as an expense in the year	(1,228)	(369)	(1,597)	(1,322)	(386)	(1,708)
Written off balances	0	(8)	(8)	0	(8)	(8)
Balance outstanding at end of the year	665	113	778	**659**	**131**	**789**

17. Construction contracts

The Council is not undertaking construction contracts on behalf of other parties.

18. Debtors

	1 April 2009 £000	31 March 2010 £000	31 March 2011 £000
Government departments	11,987	19,682	35,338
Other local authorities	7,376	4,716	589
NHS and other public bodies	1,658	16,184	13,797
Other entities and individuals	50,736	38,288	36,313
	71,757	**78,870**	**86,037**

19. Cash and cash equivalents

The balance of cash and cash equivalents is made up of the following elements:

	1 April 2009 £000	31 March 2010 £000	31 March 2011 £000
Cash held by the Council	168	127	159
Bank current accounts	2,712	4,066	(537)
Short-term deposits with building societies	15,544	41,832	18,620
	18,424	**46,025**	**18,242**

20. Assets held for sale

	Current assets 31 March 2010 £000	Current assets 31 March 2011 £000
Balance outstanding at start of year	**321**	**334**
Assets newly classified as held for sale :		
• Property, plant and equipment	0	7,482
• Newly acquired assets	140	0
• Revaluation losses	(51)	0
Assets declassified as held for sale		
• Property, plant and equipment	0	(8)
• Investment properties	0	0
Assets sold	(76)	(7,018)
Balance outstanding at year end	**334**	**790**

21. Creditors

	1 April 2009 £000	31 March 2010 £000	31 March 2011 £000
Government departments	(12,423)	(19,876)	(8,880)
Other local authorities	(3,879)	(1,628)	(6,052)
Health bodies	(4,230)	(9,711)	(4,577)
Public Corporation		(4,826)	(4,016)
Other entities and individuals	(47,883)	(42,737)	(55,929)
	(68,415)	**(78,778)**	**(79,454)**

22. Provisions

	Insurance provision £000	Other £000	Total £000
Balance at 1 April 2009	**(10,928)**	**(7,605)**	**(18,533)**
Additional provisions made in 2009/10	(3,661)	(726)	(4,387)
Amounts used in 2009/10	4,291	2,376	6,667
Unused amounts reversed in 2009/10		395	395
Balance at 31 March 2010	**(10,298)**	**(5,560)**	**(15,858)**
Additional provisions made in 2010/11	(11,847)	(1,578)	(13,425)
Amounts used in 2010/11	5,520	2,241	7,761
Unused amounts reversed in 2010/11	4,853	1,831	6,684
Balance at 31 March 2011	**(11,772)**	**(3,066)**	(14,838)

Insurance Provision

The Council maintains an insurance fund to meet the excess amount of any liability and fire claims not covered by its external insurers. The fund meets liability claims that are settled for amounts of less than £250,000 with external insurers covering the remainder. It meets fire claims up to £10,000 for dwellings, £25,000 for corporate properties and up to £100,000 for schools, with external insurers covering the balance. The fund consists of this provision which covers actual claims made and also a reserve to provide a contingency against potential future claims. The claims will be paid out over a number of years.

£57,000 of the insurance provison at 01 April 2009 as previously reported in the 2009/10 accounts has been reclassified as other provision.

Other

Provisions for repayments of grant, equal pay settlements and other minor provisions made by services. The majority of the other provisions are expected to be paid within the year.

23. Usable reserves

Movements in the Council's usable reserves are detailed in the movement in reserves statement. Movements in earmarked reserves are detailed in note 8.

Schools balances

Under the terms of the Education Act 1996, local authorities are required to delegate management responsibilities to the governing bodies of schools. All primary, secondary and special schools are formula funded and are included in the scheme of full delegation. Nursery schools are excluded from the scheme.

In accordance with the Council's approved scheme for delegating budgets to schools, the amount of any budget not spent in the year is available for future use by the schools, subject to the limits agreed by the Department for Education and prescribed in the scheme of delegation to schools. The balances are not available to the Council for general use.

The balances held are set out below. They form part of the Council's general fund included within the movement in reserves statement.

	1 April 2009	31 March 2010 £000	31 March 2011 £000
Schools managed locally			
- underspendings carried forward	5,005	5,054	6,085
- (overspendings) carried forward	(6,654)	(6,990)	(7,153)
Net underspend/(overspend) carried forward	**(1,649)**	**(1,936)**	**(1,068)**

24. Unusable Reserves

	Balance 31 March 2010 £000	Balance 31 March 2011 £000
Revaluation Reserve	85,792	108,374
Available for sale financial instruments reserve	0	0
Capital adjustment account	384,259	300,188
Financial instruments adjustment account	(73,443)	(68,391)
Deferred capital receipts reserve	2,260	2,022
Pensions reserve	(473,100)	(204,800)
Collection fund adjustment account	(957)	0
Unequal pay back pay account	(395)	0
Accumulated absences account	(10,049)	(8,257)
Total unusable reserves	**(85,631)**	**129,136**

Revaluation Reserve

The revaluation reserve is the store of gains made by the Council arising from increases in the value of its property, plant and equipment not yet realised through sales. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the capital adjustment account.

Revaluation reserve	2009/10 £000	2010/11 £000
Balance brought forward 1 April	109,855	85,792
Surplus or deficit on the revaluation of non-current assets not posted to the surplus or deficit on the provision of services	(20,857)	30,844
Transfers to the capital adjustment account		
• Accumulated gains on assets sold or scrapped	(1,841)	(6,148)
• Difference between fair value depreciation and historical cost depreciation	(1,365)	(2,114)
Balance carried forward 31 March	**85,792**	**108,374**

Available for sale financial instruments reserve

The available for sale financial instruments reserve would contain gains arising from increases in the value of investments that have quoted market prices or otherwise do not have fixed or determinable payments. The Council does not have any such instruments.

Capital adjustment account

The capital adjustment account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the comprehensive income and expenditure statement (with reconciling postings from the revaluation reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The account contains accumulated gains and losses on investment properties and gains recognised on donated assets that have yet to be consumed by the Council.

The account also contains revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date that the revaluation reserve was created to hold such gains.

Note 7 provides details of the source of all the transactions posted to the account, apart from those involving the revaluation reserve.

Capital adjustment account	**2009/10 £000**	**2009/10 £000**	**2010/11 £000**	**2010/11 £000**
Balance b/f 1 April		423,670		384,261
Asset restatement		2,349		
Reversal of items relating to capital expenditure debited or credited to the comprehensive income and expenditure statement				
• Depreciation charged in the year	(26,499)		(33,224)	
• Impairment charge	(50,720)		(102,577)	
• Amortisation of intangible assets, hbp loan	(273)		(32)	
• Total write down of revenue expenditure funded from capital under statute	(55,744)		(62,120)	
• Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the comprehensive income and expenditure statement	(14,474)		(13,869)	
		(147,710)		(211,822)
Adjusting amounts written out of the revaluation reserve		3,264		8,262
Net written out amount of the cost of non-current assets consumed in the year				
• Use of capital receipts reserve to repay debt	6,852		14,723	
• Use of major repairs reserve to finance new capital expenditure	10,103		3,666	
• Capital grants and contributions credited to the comprehensive income and expenditure statement that have been applied to capital financing	71,411		81,111	
• Application of grants to capital financing from the capital grants unapplied account	0		637	
• Statutory provision for the financing of capital investment charges against the general fund and HRA balances	13,772		14,320	
• Capital expenditure charged against the general fund and HRA balances	250		116	
• Equal pay	300		1,436	
		102,688		116,009
Movement in the donated assets account credited to the comprehensive income and expenditure statement				3,478
Balance carried forward 31 March		**384,261**		**300,188**

Financial instruments adjustment account

The financial instruments adjustment account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

The Council uses the account to manage premiums paid on the early redemption of loans. Premiums are debited to the comprehensive income and expenditure statement when they are incurred, but reversed out of the general fund balance to the account in the movement in reserves statement. Over time, the expense is posted back to the general fund balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 11 will be charged to the general fund over the next 48 years.

	2009/10 £000	2010/11 £000
Balance at 1 April	78,014	73,443
Premiums incurred in the year and charged to the comprehensive income and expenditure statement	617	0
Proportion of premiums incurred in previous financial years to be charged to the general fund balance in accordance with statutory requirements	(5,847)	(5,523)
Discounts incurred in the year and credited to the comprehensive income and expenditure statement	0	0
Proportion of discounts incurred in previous financial years to be credited to the general fund balance in accordance with statutory requirements	539	435
Amount by which finance costs charged to the comprehensive income and expenditure statement are different from finance costs chargeable in the year in accordance with statutory requirements	120	37
Balance carried forward 31 March	**73,443**	**68,392**

Pensions reserve

The pensions reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the comprehensive income and expenditure statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the pensions reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2009/10 £000	2010/11 £000
Balance brought forward 1 April	(191,600)	(473,100)
Net charges made for retirement benefits in accordance with FRS17	(10,600)	90,100
Actuarial gains/(losses)	(270,900)	178,200
Balance carried forward 31 March	**(473,100)**	**(204,800)**

Deferred capital receipts reserve

The deferred capital receipts reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the capital receipts reserve. For instance, in the case of home swaps, it becomes receivable upon a subsequent resale of a property sold by the Council on which a legal charge has been placed. In the case of council house sales, the amount represents outstanding mortgages with the Council.

	2009/10 £000	2010/11 £000
Balance brought forward 1 April	2,862	2,260
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the comprehensive income andexpenditure statement	(374)	
Transfer to the capital receipts reserve upon receipt of cash	(228)	(239)
Balance carried forward 31 March 2010	**2,260**	**2,021**

Collection fund adjustment account

The collection fund adjustment account manages the differences arising from the recognition of council tax income in the comprehensive income and expenditure statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the general fund from the collection fund. The collection fund shows the transactions of the Council as a billing authority and is discussed in detail in the relevant section of these accounts.

	2009/10 £000	2010/11 £000
Balance brought forward 1 April	(526)	(958)
Amount by which council tax income credited to the comprehensive income and expenditure statement is different from council tax income calculated for the year in accordance with statutory requirements	(432)	958
Balance carried forward 31 March 2010	**(958)**	**0**

Unequal pay back pay account

The unequal pay back pay account compensates for the differences between the rate at which the council provides for the potential costs of back pay settlements in relation to equal pay cases and the ability under statutory provisions to defer the impact on the general fund balance until such time as cash might be paid out to claimants.

	2009/10 £000	2010/11 £000
Balance brought forward 1 April	(1,252)	(395)
Amount by which amounts charged for equal pay claims to the comprehensive income and expenditure statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements (cash settlements paid in the year)	857	395
Balance carried forward 31 March	**(395)**	**0**

Accumulated absences account

The accumulated absences account absorbs the differences that would otherwise arise on the general fund balance from accruing for compensated absences earned but not taken in the year, eg annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the general fund balance is neutralised by transfers to or from the account.

Accumulated absences account	2009/10 £000	2009/10 £000	2010/11 £000	2010/11 £000
Balance b/f 1 April		(9,776)		(10,049)
Settlement or cancellation of accrual made at the end of the preceding year	9776		10,049	
Amounts accrued at the end of the current year	(10,049)		(8,257)	
Amount by which officer remuneration charged to the comprehensive income and expenditure statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		(273)		1,792
Balance carried forward 31 March		**(10,049)**		**(8,257)**

25. Cash flow statement – operating activities

The cash flows for operating activities include the following items.

	31 March 2010 £000	31 March 2011 £000
Interest received	3,647	277
Interest paid	(16,700)	(14,829)
Dividends received	1,006	1,000

26. Cash flow statement – investing activities

	31 March 2010 £000	31 March 2011 £000
Purchase of property, plant and equipment, investment property and intangible assets	60,533	82,234
Purchase of short-term and long-term investments	301	6,667
Other payments for investing activities	61,843	64,158
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(7,010)	(15,323)
Capital grants	(69,462)	(84,049)
Proceeds from shot-term and long-term investments	(12,136)	(8,667)
Net cash flows from investing activities	34,069	45,020

27. Cash flow statement – financing activities

	31 March 2010 £000	31 March 2011 £000
Cash receipts of short- and long-term borrowing	(176,013)	(213,053)
Other receipts from financing activities		(231)
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	1,553	2,749
Repayments of short- and long-term borrowing	168,545	176,929
Other payments for financing activities	(3,662)	(5,060)
Net cash flows from financing activities	(9,577)	(38,666)

28. Amounts reported for resource allocation decisions

The analysis of income and expenditure by service on the face of the comprehensive income and expenditure statement is that specified by the Best Value Accounting Code of Practice. However, decisions about resource allocation are taken by the Council cabinet on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the revaluation reserve and amortisations are charged to services in the comprehensive income and expenditure statement)
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year
- expenditure on some support services is budgeted for centrally and not charged to directorates.

The income and expenditure of the Council's principal directorates recorded in the budget reports for the year is set out overleaf.

Amounts reported for resource allocation decisions

Directorate	Children's	Community, Health & Social Care	Sustainable Regeneration	Chief Executive's & Customer & Support Services	Other direct services (Environment, URC, HRA)	Other (capital financing, precepts & charges, inflation/ contingency)	Total
	2010/11	**2010/11**	**2010/11**	**2010/11**	**2010/11**	**2010/11**	**2010/11**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Employee expenses	137,776	28,336	21,368	36,482	20,508	3,711	248,181
Other services expenses	115,461	81,696	164,847	45,515	51,113	57,901	516,533
Support service recharges	4,729	6,916	2,732	9,411	3,022	762	27,572
Total operating expenses	**257,966**	**116,948**	**188,947**	**91,408**	**74,643**	**62,374**	**792,286**
Fees,charges & other service income	(25,583)	(40,004)	(42,834)	(37,371)	(62,194)	4,311	(203,675)
Government grants	(183,094)	(8,067)	(126,840)	(33,993)	(3,727)	(6,915)	(362,636)
Total income	**(208,677)**	**(48,071)**	**(169,674)**	**(71,364)**	**(65,921)**	**(2,604)**	**(566,311)**
Net cost of services	**49,289**	**68,877**	**19,273**	**20,044**	**8,722**	**59,770**	**225,975**

	2009/10	**2009/10**	**2009/10**	**2009/10**	**2009/10**	**2009/10**	**2009/10**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Employee expenses	128,718	32,441	24,161	35,772	22,467	2,965	246,524
Other services expenses	110,306	80,250	153,953	43,771	60,156	58,682	507,118
Support service recharges	4,696	5,861	3,255	9,414	2,684	785	26,695
Total operating expenses	**243,720**	**118,552**	**181,369**	**88,957**	**85,307**	**62,432**	**780,337**
Fees,charges & other service income	(22,655)	(40,142)	(42,652)	(36,440)	(63,136)	(9,602)	(214,627)
Government grants	(175,171)	(7,492)	(119,623)	(33,120)	(10,724)	18,346	(327,784)
Total income	**(197,826)**	**(47,634)**	**(162,275)**	**(69,560)**	**(73,860)**	**8,744**	**(542,411)**
Net cost of services	**45,894**	**70,918**	**19,094**	**19,397**	**11,447**	**71,176**	**237,926**

Reconciliation of directorate income and expenditure to cost of services in the comprehensive income and expenditure statement

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the comprehensive income and expenditure statement (CIES).

	2009/10 £000	2010/11 £000
Cost of services in service analysis	237,926	225,975
Add services not included in main analysis	0	0
Add notional amounts not reported to management	134,425	109,186
Remove amounts reported to management not included in CIES	(54,462)	(17,745)
Net cost of services in CIES	**317,889**	**317,416**

Reconciliation to subjective analysis

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the surplus or deficit on the provision of services included in the comprehensive income and expenditure statement.

	Service analysis	Not reported to management	Reported to management but not included in cost of services	Allocation of recharges	Net cost of services	Corporate Amounts	Surplus or deficit on the provision of services
	2010/11	**2010/11**	**2010/11**	**2010/11**	**2010/11**	**2010/11**	**2010/11**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Employee expenses	248,181	(79,792)	(23,900)	(17,427)	127,062		127,062
Other service expenses	498,568	(1,832)	(14,202)	(9,319)	473,215	(537)	472,678
Support service recharges	27,572			(27,572)	0		0
Depreciation, amortisation and impairment		190,810			190,810		190,810
Interest payments	17,965		(17,965)		0	29,765	29,765
Payments to Housing capital receipts pool					0	606	606
Gain or loss on disposal of fixed assets					0	(1,295)	(1,295)
Total operating expenses	**792,286**	**109,186**	**(56,067)**	**(54,318)**	**791,087**	**28,539**	**819,626**
Fees, charges & other service income	(201,711)		543	54,318	(146,850)	(90,699)	(237,549)
Interest and investment income	(1,964)		1,964		0	(1,964)	(1,964)
Income from council tax					0	(91,344)	(91,344)
Government grants and contributions	(362,636)		35,815		(326,821)	(166,046)	(492,867)
Total income	**(566,311)**	**0**	**38,322**	**54,318**	**(473,671)**	**(350,053)**	**(823,724)**
Surplus or deficit on the provision of services	**225,975**	**109,186**	**(17,745)**	**0**	**317,416**	**(321,514)**	**(4,098)**

	Service analysis	Not reported to management	Reported to management but not included in cost of services	Allocation of recharges	Net cost of services	Corporate Amounts	Surplus or deficit on the provision of services
	2009/10 £000s	2009/10 £000s	2009/10 £000s	2009/10 £000s	2009/10 £000s	2009/10 £000s	2009/10 £000s
Employee expenses	246,524	17,573	(22,800)	(15,314)	225,983		225,983
Other service expenses	486,380	(3,716)	(14,021)	(8,501)	460,142	144	460,286
Support service recharges	26,695			(26,695)	0		0
Depreciation, amortisation and impairment		120,568			120,568		120,568
Interest payments	20,738		(20,738)		0	36,838	36,838
Payments to Housing capital receipts pool					0	301	301
Gain or loss on disposal of fixed assets			(7)		(7)	7,105	7,098
Total operating expenses	**780,337**	**134,425**	**(57,566)**	**(50,510)**	**806,686**	**44,388**	**851,074**
Fees, charges & other service income	(212,051)		528	50,510	(161,013)	(72,804)	(233,817)
Interest and investment income	(2,576)		2,576		0	(2,576)	(2,576)
Income from council tax					0	(89,916)	(89,916)
Government grants and contributions	(327,784)				(327,784)	(154,854)	(482,638)
Total income	**(542,411)**	**0**	**3,104**	**50,510**	**(488,797)**	**(320,150)**	**(808,947)**
Surplus or deficit on the provision of services	**237,926**	**134,425**	**(54,462)**	**0**	**317,889**	**(275,762)**	**42,127**

29. Acquired and discontinued operations

Disclosure is required of the nature of acquired or discontinued operations and details of any outstanding liabilities in respect of discontinued operations. There were no acquired or discontinued operations in 2010/11.

30. Trading operations

The Council has no significant trading operations operating in a true commercial environment. Activities considered as trading undertakings under recommended accounting practice in previous years are all an integral part of one of the Council's services to the public and their income and expenditure is incorporated into the net cost of services in the comprehensive income and expenditure statement.

31. Agency services

The Council is the lead authority for the Greater Manchester Police Authority (GMPA). It provides legal, financial, personnel, administrative and valuation and estates services to the GMPA under the terms of an annually-negotiated service level agreement. The cost of these services is fully reimbursed. Included within the Council's income & expenditure account is £3.105m income and expenditure (£3.056m in 2009/10)

The Council was the lead authority for North West Learning Grid (NWLG), a consortium of seventeen local authorities in the North West of England with the aim of working in partnership with schools to improve the process and management of learning using the latest information and communication technologies. The cost of NWLG was fully met by subscriptions from member authorities. In 2010/11, NWLG had expenditure and income of £1.275m (2009/10 £1.421m). NWLG is included in the Council's income & expenditure account, within the children's and education services line, only to the extent of the Council's own subscription of £45,000 (2009/10 £45,000). The Council holds unspent balances relating to NWLG of £0.100m (2009/10 £0.509m) and this is included within creditors to other local authorities on the balance sheet. The consortium disbanded 31 March 11 and the remaining surplus funds will be returned to partners during 2011/12.

The Council is a partner in the Association of Greater Manchester Authorities (AGMA) Future Jobs Fund programme with the nine other AGMA councils, the Commission for the New Economy and various other employing organisations. The Council acts as the accountable body for the scheme and administers, on behalf of the partnership, grant of £52 million over two years commencing November 2009 to support 8,000 new jobs. The Council will receive a fee of £20 per job (£160,000 total). Aside from the fee, the grant has been recorded in the income & expenditure account only to the extent to which it is directly attributable to Salford. Agreements with partners ensure that any grant repayable to DWP will be met by the relevant partner. The Council's risk exposure in managing the programme funds is therefore negligible.

The Council acts as the agent of the major preceptors, the Greater Manchester Police Authority and the Greater Manchester Fire and Rescue Authority, when collecting council tax on their behalf. No fee is chargeable for this service.

The Council acts as the agent of the government in collecting national non-domestic rates. The government paid the Council an allowance for the cost of this collection of £0.450m in 2010/11 (£0.449m in 2009/10).

Levies

The net cost of services includes the following amounts which are charged by levy for services not directly provided by the Council.

	31 March 2010 £000	31 March 2011 £000
Highways, roads and transport services		
• Greater Manchester Integrated Transport Authority	14,094	14,953
Environmental services		
• Greater Manchester Waste Disposal Authority	10,072	11,132
• Environment Agency – flood defence	107	109
Association of Greater Manchester Authorities – county wide shared services	1,175	1,239
	25,448	**27,433**

32. Road charging schemes under the transport act 2000

Disclosure is required of road user charging schemes and/or licensing schemes for a workplace parking levy made under the Act. The Council does not operate any such scheme.

33. Pooled budgets

[A part of adult social care]

The pooled budget mechanism is a means by which the Council and Salford NHS Primary Care Trust (PCT) can bring resources together to both commission and provide services jointly, allowing flexible and integrated support and care to be offered.

The Council now acts as ‘host’ to four pooled budgets.

- Learning difficulties pool: to provide for Salford residents with learning disabilities a comprehensive range of services, including community social work and assessment together with nursing, residential, homecare, day care, supported employment and supported tenancy services and an adult placement scheme.
- Integrated Equipment Services pool: to provide an adaptations and equipment service for Salford residents of all ages to enable them to live as independently as possible. The service includes the assessment of individuals' needs by community occupational therapists and the provision of equipment, wheelchairs and adaptations to homes.
- National treatment allocation adult pool: to provide for the commissioning of a range of services for Salford adults with drugs-related problems. This includes the assessment of needs and the provision of a range of services for prevention and rehabilitation of service users.
- Intermediate care pool: to provide intensive support for some older Salford residents to enable them to maintain their independence, either as an alternative to a hospital admission or prematurely entering long-term care, or to assist recovery after a period of significant illness. Services provided include social worker assessment, intermediate care rehabilitation and rapid response, provision of nursing and rehabilitation beds, and an intensive home support service.

The income and expenditure for each pooled budget is set out overleaf.

	2009/10 £000	2010/11 £000
a) Learning difficulties pool		
Pooled fund income:		
Council contribution	12,014	13,491
Salford NHS PCT contribution	10,407	9,712
client & other non-pool income	5,989	5,921
Total pooled fund income	28,410	29,124
Gross pooled fund expenditure	(28,410)	(29,124)
Surplus for the year	**0**	**0**
b) Integrated equipment services pool		
Pooled fund income:		
Council contribution	1,306	1,413
Salford NHS PCT contribution	1,511	1,510
client & other non-pool income	175	129
Total pooled fund income	2,992	3,052
Gross pooled fund expenditure	(2,992)	(3,052)
Surplus for the year	**0**	**0**
c) National treatment allocation adult pool		
Pooled fund income:		
Council contribution	355	293
Salford NHS PCT contribution	2,675	2,554
client & other non-pool income	1,047	747
Total pooled fund income	4,077	3,594
Gross pooled fund expenditure	(4,077)	(3,594)
Surplus for the year	**0**	**0**
d) Intermediate care pool		
Pooled fund income:		
Council contribution	2,848	2,643
Salford NHS PCT contribution	5,717	6,203
client & other non-pool income	1	1
Total pooled fund income	8,566	8,847
Gross pooled fund expenditure	(8,566)	(8,847)
Surplus for the year	**0**	**0**

The Council's share of the pools' expenditure is included within adult social care in the CIES.

The Council and Salford NHS PCT budget for an annual contribution to each pool. In the event of this exceeding pool expenditure, the surplus is redistributed to the partners, so that income exactly meets expenditure. The redistribution is in the ratio of their original contributions to the pool as set out below.

- Learning difficulties, Council 48:52 PCT
- Integrated equipment services, Council 50:50 PCT
- National treatment allocation, Council 19:81 PCT
- Intermediate care pool, Council 35:65 PCT

In the event of a budget shortfall, additional contributions are to be made by each partner so that pool income meets expenditure. The Council has earmarked a pooled budget reserve for the purpose of meeting any such shortfall in its share of contributions.

34. Members' allowances

The Council has 60 elected members and has co-opted independent members: a peak of 8 such during 2010/11 (2009/10 7). In total, £0.904m was paid in allowances and £0.004m in travel and subsistence in 2010/11 (2009/10 £0.943m and £0.005m)

Details are published at http://www.salford.gov.uk/memberallowances.htm.

35. Officers' remuneration

The remuneration paid to the Council's senior employees is set out overleaf. The data in the 2009/10 comparator table on the second page following is different to that originally presented in the 2009/10 statement of accounts in the following respects:

- Some expenses data were wrongly included within salary. This has been removed.
- The expenses allowance figures (relating to car allowances) wrongly included the non-taxable element. This has been removed.

The net effect of these changes is to reduce the total 2009/10 remuneration from that reported in the 2009/10 statement of accounts. The largest such amendment is a reduction of £818 and the total for all affected officers is a reduction of £3,522 compared to the data originally reported in 2009/10.

2010/11 remuneration details, statutory and senior officers

Post title and name	Notes*	Salary (including fees and allowances) 2010/11 £	Bonuses 2010/11 £	Expense allowances 2010/11 £	Compensation for loss of office 2010/11 £	Benefits in kind 2010/11 £	Total remuneration, excluding employer pension contributions 2010/11 £	Employer pension contributions 2010/11 £	Total remuneration, including employer pension contributions 2010/11 £
Senior officer's salary over £150,000 per year:									
B Spicer, Chief Executive	a	182,458	0	914	0	0	183,372	27,020	210,392
Senior officers' salary between £50,000 and £150,000 per year:									
Strategic Director of Customer and Support Services	b	89,706	0	927	0	0	90,633	13,491	104,124
Former Strategic Director of Customer and Support Services	c	115,981	0	910	0	0	116,891	17,480	134,371
Strategic Director of Community, Health and Social Care		116,121	0	1,080	0	0	117,201	17,480	134,681
Assistant Chief Executive		116,121	0	901	0	0	117,022	17,480	134,502
Strategic Director of Regeneration		116,121	0	901	0	0	117,022	17,480	134,502
City Treasurer		82,317	0	915	0	0	83,232	12,430	95,662
Strategic Director of Children's Services		97,863	0	896	0	0	98,759	14,777	113,536
Strategic Director of Environment and Community Safety	d	32,293	0	21	0	0	32,314	4,876	37,190
Former Strategic Director of Environment and Community Safety	e	101,310	0	896	56,145	0	158,351	15,243	173,594

2009/10 remuneration details, statutory and senior officers

Post title and name	Notes*	Salary (including fees and allowances) 2009/10 £	Bonuses 2009/10 £	Expense allowances 2009/10 £	Compensation for loss of office 2009/10 £	Benefits in kind 2009/10 £	Total remuneration, excluding employer pension contributions 2009/10 £	Employer pension contributions 2009/10 £	Total remuneration, including employer pension contributions 2009/10 £
Senior officer's salary over £150,000 per year:									
B Spicer, Chief Executive	a	182,961	0	802	0	0	183,763	25,214	208,977
Senior officers' salary between £50,000 and £150,000 per year:									
Former Strategic Director of Customer and Support Services	c	115,786	0	841	0	0	116,627	16,670	133,297
Strategic Director of Community, Health and Social Care		115,761	0	1,008	0	0	116,769	16,670	133,439
Assistant Chief Executive		108,592	0	814	0	0	109,406	15,603	125,009
Strategic Director of Regeneration		108,592	0	6,712	0	0	115,304	15,603	130,907
Strategic Director of Customer and Support Services (then Director of Change)	b	83,779	0	848	0	0	84,627	12,030	96,657
Former Strategic Director of Environment and Community Safety (then Director of Environment – see note)	e	92,980	0	829	0	0	93,809	13,389	107,198
City Treasurer		82,317	0	861	0	0	83,178	11,854	95,032
Strategic Director of Children's Services	f	75,507	0	744	0	0	76,251	10,873	87,124

Notes to senior officers' remuneration tables on previous two sheets

a) The Chief Executive's remuneration includes an allowance of 20% of the total salary, for providing services to the Greater Manchester Police Authority, which is reimbursed to the Council. It also includes gross pay of £7,864 (2009/10) or £7,361 (2010/11) and employer pension of £0 (2009/10) or £1,176 (2010/11) in relation to returning officer duties, fully funded by the Electoral Commission.

b) On 1 December 2010, the former Director of Change was appointed Strategic Director of Customer and Support Services at an annualised salary of £100,950

c) The former Strategic Director of Customer and Support Services left the service of the council on 31 March 2011.

d) The Strategic Director of Environment and Community Safety was appointed 6 December 2010 at an annualised salary of £100,950.

e) The former Strategic Director of Environment and Community Safety left the service of the council on 31 March 2011. He was appointed to that position on 1 April 10. During 2009/10 he was Deputy Director of Environment at an annualised salary of £90,549 including honorarium from 1 April 2009 to 31 August 2009 and was appointed Strategic Director of Environment on an annualised salary of £93,540 from 1 September 2009 to 31 March 2010. The redundancy payment of £56,145 included in this disclosure was agreed during 2010/11 but not actually paid until 2011/12.

f) The Strategic Director of Children's Services was appointed 1 March 2010, at an annualised salary of £93,540. The 2009/10 disclosure includes remuneration from his previous post.

Remuneration bands

The Council's employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

Remuneration Band	Number of Employees	
	2009/10	**2010/11**
£50,000 - £54,999	92	88
£55,000 - £59,999	61	63
£60,000 - £64,999	40	47
£65,000 - £69,999	9	17
£70,000 - £74,999	17	14
£75,000 - £79,999	11	9
£80,000 - £84,999	4	5
£85,000 - £89,999	3	1
£90,000 - £94,999	6	3
£95,000 - £99,999	3	3
£100,000 - £104,999	2	3
£105,000 - £109,999	2	1
£110,000 - £114,999	-	-
£115,000 - £119,999	2	4
£120,000 - £124,999	-	-
£125,000 - £129,999	-	-
£130,000 - £134,999	-	-
£135,000 - £139,999	-	-
£140,000 - £144,999	-	-
£145,000 - £149,999	-	-
£150,000 - £154,999	-	-
£155,000 - £159,999	-	-
£160,000 - £164,999	-	-
£165,000 - £169,999	-	-
£170,000 - £174,999	-	-
£175,000 - £179,999	0	0
£180,000 – £184,999	1	1
Total	**253**	**259**
Non-school staff	115	97
School staff	138	162
Total	**253**	**259**

36. External audit costs

The Council has incurred the following costs in relation to the audit of the statement of accounts, certification of grant claims and statutory inspections and to non-audit se rvices provided by the Council's external auditors:

Fees payable to the Audit Commission	2009/10 £000	2010/11 £000
• with regard to external audit services carried out by the appointed auditor	325	303
• in respect of statutory inspection	77	0
• for the certification of grant claims and returns	63	73
• in respect of other services provided by the appointed auditor	2	2
Total	**467**	**378**

37. Dedicated schools grant

[A part of Children's and educational services]

The Council's expenditure on schools is funded primarily by dedicated schools grant (DSG) monies provided by the Department for Education. DSG is ring-fenced and can only be applied to meet expenditure properly included in the schools budget. The schools budget includes elements for a range of educational services provided on a Council-wide basis and for the individual schools budget, which is divided into a budget share for each school.

Details of the deployment of the DSG receivable are set out below.

	Central expenditure £000	Individual schools budget £000	Total £000
Final DSG for 2010/11			**135,251**
Brought forward from 2009/10			**(3,675)**
Carry forward to 2011/12 agreed in advance			**0**
Agreed budgeted distribution in 2010/11	15,306	116,270	**131,576**
Actual central expenditure	(18,839)		**(18,839)**
Actual ISB deployed to schools		(116,270)	**(116,270)**
Council contribution for 2010/11	0	0	**0**
Carry forward to 2011/12	(3,533)	0	**(3,533)**

38. Grant income

The Council credited the following grants, contributions and donations to the comprehensive income and expenditure statement.

	2009/10 £0	**2010/11** £0
DCSF - Dedicated Schools Grant	130,660	135,251
DWP - Grants for Benefis	126,567	135,279
CLG – area-based grant	26,627	35,815
CLG – Revenue support grant (RSG)	23,997	16,513
DCSF - Education Standards Fund	18,867	20,424
CLG - Supporting People	13,191	12,737
DCSF - Surestart	8,663	10,383
DCSF - Schools Standards	6,751	6,855
CLG - Private Finance Initiative	5,573	5,573
CLG - local public service agreements	4,860	0
CLG - new deal for communities	2,357	
DCSF - Young People's Learning Agency (LSC 2008/09)	2,331	2,903
Contd.		

CLG - Housing Market Renewal Fund	1,229	1,451
HO - Asylum Seekers1,8561,377DOH - Social Care Reform	1,149	1,317
Other grants	6,001	5,538
	380,679	**391,416**

Capital grants and receipts in advance

	1 April 2009	2009/10	2010/11
	£000	£000	£000
Department for Education	(6,327)	(9,880)	(5,031)
Department of Communities and Local Government	0	(5,143)	0
Defra	0	(76)	(76)
Depertment of Health	(764)	(800)	(6)
ERDF	(409)	(409)	0
Other contributions	(253)	(241)	(257)
Department of Transport	0	0	(2,709)
Total	**(7,754)**	**(16,549)**	**(8,079)**

39. Related parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or influenced *by* the council. The disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government

Central government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (eg council tax bills, housing benefits). Grants from government departments are set out in the subjective analysis in note 28 on reporting for resources allocation decisions and in note 38 on grant income.

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2010/11 is shown in Note 34. Members' interests outside of the Council are recorded in the register of interests and the register of gifts and hospitality maintained by the monitoring officer. A number of members hold official positions in organisations independent of their role as elected members of the Council. Where the Council has contracts for services and/or has awarded grants to such organisations, the Council's standing orders were fully complied with, with proper consideration of any declarations of interests.

Members hold positions on the boards of various community and voluntary organisations in and around Salford. In 2010/11 £449,000 of the Council's expenditure related to such declared member interests (£102,000 in 2009/10).

One member also acts as chair of the board of Salford Royal NHS Foundation Trust. In 2010/11, £40,000 of the Council's expenditure and £244,000 of its income related to the Trust (2009/10, £79,000 expenditure and £337,000 income).

Four members sit on the board of City West Housing Trust, a registered social landlord. In 2010/11 £235,392 of the Council's expenditure and £3,925,794 of its income related to the Trust (2009/10, £235 expenditure and £8,239,665 income).

Officers

Officers may be in a position to influence financial or operational practices. There were no transactions in 2010/11 with bodies in which officers had a pecuniary interest and were able to exercise such an influence (2009/10 nil).

Other public bodies [subject to common control by central government]

Other public bodies which have a financial relationship with the Council through the ability to precept or levy are disclosed in the agency income and expenditure note and in the collection fund note. The Council also works in close partnership with the health service, and its joint financing of pooled budgets is disclosed in note 33.

Entities controlled or influenced by the Council

a. *Salix Homes Ltd*

Salix Homes Ltd is an ALMO (arms-length management organisation) of the Council, and was formed in July 2007. The company's principal activities are to manage and maintain the housing stock of the Council.

The parent board of Salix Homes Ltd comprises four tenant representatives, four Council nominees and four independent members. Salix Homes is incorporated into the group accounts of the Council as a subsidiary company.

At the year ended 31 March 2011, the company had net liabilities of £1.754m (net liabilities of £6.686m at 31 March 2010). In 2010/11 the surplus before tax was £2.243m (2009/10 surplus of £0.204m).

At the year ended 31 March 2011, the Council owed Salix £0.347m and was owed £0.502m.

Further information and details of the financial statements of Salix Homes Ltd may be obtained from the Company Secretary, Salix Homes Ltd., Diamond House, Peel Cross Road, Salford M5 4DT.

b. *Higher Broughton Partnership companies*

The principal activity of these companies is to manage a real estate project regenerating the Higher Broughton area of the city.

The Council has a 19% interest in Higher Broughton Partnership LP and Higher Broughton (GP) Ltd. Higher Broughton (GP) Ltd has a board of directors of which 44% are Council representatives.

In 2010/11, the Council made £nil payments to the Higher Broughton Partnership companies (£nil in 2009/10) and received no payments (£nil in 2009/10).

c. *Urban Vision Partnership Limited (UVPL)*

Urban Vision Partnership Limited is a joint venture arrangement created between Capita Symonds, Morrison and Salford City Council and was formed on 1 February 2005. Salford City Council is a minority shareholder in this venture and current shareholdings are Capita Symonds 50.1%, Morrison 30% and SCC 19.9%. UVPL is considered to be a joint venture company and is treated in these accounts as an associate company.

The principal activity of the company is to provide a wide range of multi-disciplinary services to the Council which were previously performed by the Council itself. These services include engineering & highways, architectural services, property & development, planning & building control and business development & support.

At 31 December 2010 the company had net assets of £1.989m (net assets of £1.831m 31 December 2009) and for 2010 had a profit before tax of £0.224m (£0.546m deficit in 2009). The Council has a ten year agreement for the provision of services from UVPL and purchased £30.400m in 2010 (£28.100m in 2009). In 2010 the Council received £10.700m from UVPL as reimbursement of salary costs for seconded staff and other costs (£16.400m in 2009).

At year ended 31 March 2011, the Council owed Urban Vision £0.546m and was owed £0.896m.

Further information and details of financial statements can be obtained from the Company Secretary, Urban Vision Partnership Ltd., Emerson House, Albert Street, Eccles M30 0TE.

d. *Central Salford URC Ltd.*

Central Salford URC was incorporated as a private company, limited by guarantee with no share capital in August 2006. The Council currently has 18% of the directors and is restricted by the articles of association to at all times have less than 20% of the voting rights and so not exert significant influence. The company is in the process of being wound up in 2011/12.

The principal activity of the company was to facilitate the regeneration of an area of central Salford.

In the year 2010/11 the Council made payments, in the form of a grant, to Central Salford URC of £261,000 (£319,000 in 2009/10) and received payments of £30,000 (£30,693 in 2009/10) for financial and administrative support.

e. *Manchester Airport Group plc (MAG)*

The principal activity of the company is the operation and development of an international airport. The Council holds 10,214,000 £1 ordinary shares, equivalent to 5% of share capital.

At 31 March 2011, the company had net assets of £817.0m (£769.1m at 31 March 2010). The profit before tax was £80.6m and profit after tax was £84.7m (2009/10 profit before tax £45.6m, and profit after tax of £36.9m).

A dividend of £1.000m was received in 2010/11 (£1.000m in 2009/10).

Further information and details of financial statements can be obtained from the Company Secretary, c/o Manchester Professional Services Ltd., PO Box 532, Town Hall, Manchester M60 2LA.

f. *Lowry Centre Trust*

The Lowry Centre Trust is a private company, limited by guarantee with no share capital. Its principal activity is the operation of the Lowry Centre art gallery and theatre. Two Council members and an officer sit on the Trust's board but the Council has no financial interest in its performance.

Under an agreement dated 19 March 1997, the Council has agreed with the Arts Council and the Trust that it will pay to the Trust each year an amount representing the planned deficit for the year in the Trust's revenue accounts in respect of the operation of the Lowry Centre, provided that the deficit has actually been incurred. The agreement came into operation on 1 April 2000 and the amount of the fixed annual contribution is to be reviewed every five years, beginning from the starting date and subject to a minimum sum of £350,000. The terms of the agreement are irrevocable except with the consent of the Arts Council.

The amount of the contribution was £0.677m for each of the two years 2000/01 and 2001/02. To secure additional external funding amounting to £16.250m, it was agreed that an extra £0.250m would be paid to the Trust for each of the five years commencing in 2003/04, raising the annual contribution rate to £0.927m. This arrangement is subject to an annual review taking into account the Trust's annual business plan. Contributions were maintained at £0.927m up to 2009/10, reduced to £0.877m in 2010/11 with a further reduction to £0.727m planned for 2011/12.

In return, the Trust provides the following services by way of a service level agreement: community education and outreach services to schools and Salford residents; publicity for the Council; conference facilities; housing of the Lowry collection under a 30 year lease until 2036.

At year ended 31 March 2011, the Council was owed £44,547 by the Lowry Centre Trust.

Further information may be obtained from the Company Secretary, The Lowry, Pier 8, Salford M50 3AZ.

g. *Salford Community Leisure Limited (SCL)*

The principal activity of the company is to provide a range of diverse sports and physical activities within the City, which include sports centre, swimming pools, specialist sports facilities, sports development and sports events.

The company is a not-for-profit community organisation that has been incorporated under the Industrial and Provident Societies Act, and was formed on 1 October 2003. SCL is an independent organisation from the Council but works in partnership with the Council to achieve mutual strategic aims and objectives. The Council has a funding agreement in place for the provision of services from SCL and purchased £6.717m in 2010/11 (£2.845m in 2009/10).

Further information and details of the financial statements of SCL may be obtained from the Secretary to the Board, Susan Leonard, Salford Community Leisure Ltd, New Bridgewater House, 12 Bridgewater Street, Walkden, M28 3JE.

At year ended 31 March 2011, the Council owed SCL £2.791m (including £2.080m invested on behalf of SCL) and was owed £0.725m.

h. *Manchester/Salford/Trafford Groundwork Ltd.*

Manchester/Salford/Trafford Groundwork Ltd is a private company limited by guarantee without share capital. The Council holds 13% of the directorships and has a liability that is limited to £10.

In the year 2010/11 the Council made payments for services of £0.567m (2009/10 £0.181m) and received nil payments (2009/10 £0.015m).

j. *MaST LIFT Company Ltd*

The company was formed under the NHS Local Improvement Finance Trust (LIFT) initiative to develop and deliver health and social care estate. Its principal activity is as a holding company for a group providing accommodation and servicing of medical centres. Three of the LIFT developments within Salford include space leased by the Council in relation to library, community space and one stop shop provision. In 2010/11 the Council made lease payments of £0.795m (2009/10 £0.772m).

The principal shareholder is Primary Plus (Holdings) Limited, a company jointly owned equally by John Laing and HBOS (Bank of Scotland), which owns a 60% equity investment. The other shareholders are health and local authorities in the Manchester area.

The Council owns 200 class B shares (equivalent to a 2.22% investment) in MaST LIFT Company Limited. The Council has also invested in £0.167m long term subordinated loan stock of a subsidiary, MaST LIFT Project Company (No. 2) Limited.

No dividend was received in 2010/11 (2009/10 nil).

Further information can be obtained from the Company Secretary, Allington House, 150 Victoria Street, London SW1E 5LB

k. *Trinity ICP*

The principal activity of this joint venture company is to develop the 0.1 hectare site that was acquired from the Guardian Media Group by Bruntwood Ltd and Salford City Council with the support of the North West Regional Development Agency. The Council holds 1,570,500 "A" ordinary shares of £1 each which represents 50% of the share capital.

No profit was made in 2010/11 (2009/10 nil) and the net worth at 30 September 2010 was £3.148m (£3.148m at 30 September 2009).

Further information can be obtained from the Company Secretary, City Tower, Piccadilly Plaza, Manchester M1 4BD.

l. *BBC Philharmonic*

The Council has an agreement to sponsor the BBC Philharmonic Orchestra for eight years at a total cost of £20.4m. The amount of the sponsorship in 2010/11 is £3.0m (£2.5m in 2009/10). It will be nil in 2011/12, returning to £3.0m in 2012/13 to 2014/15 and ending with £2.4m in 2015/16.

The partnership aims to help raise the profile of the city nationally and internationally and is enabling the orchestra to build active links with local communities and schools, creating opportunities for young musicians to develop their skills and career aspirations.

m. *City of Salford Community Stadium Ltd (CoSCoS)*

The principal activity of this joint venture company is to develop and operate a community stadium on a site in Barton adjacent to the Manchester Ship Canal. Peel Holdings and Salford City Council provided the site in exchange for shares. The Council holds 5,000,000 ordinary shares of £1 each, which represents 50% of the ordinary share capital, and 1,666,666 redeemable preference shares of £1 each.

The Council has entered into a development funding agreement with CoSCos. Under the terms of the agreement the Council will advance up to £18.8m to fund the development of the stadium. The loan is repayable over a period of 25 years and at the 31 March 2011 the total advanced and owed to the Council was £3.5m. There is an additional loan of £3.2m for operational funding.

The company made no profit in the year, and at 31 March 2011 the company had net assets of £11.6m.

At year ended 31 March 2011, the Council was owed £488,496 by CoSCoS in respect of development work undertaken by the Council.

Further information can be obtained from the Company Secretary, Cobbetts LLP, 58 Mosley Street, Manchester M2 3HZ.

n.. Manchester Science Park

The City has a 2.8% shareholding and voting representation on the board of the company.

The City Council, as a part shareholder in Manchester Science Park Limited (MSPL), has a management contract to MSPL for the management of Salford University Business Park. Under this contract the council paid a management fee of £31k and received £302k in rent

40. Capital expenditure and capital financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI/PP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the capital financing requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed below.

	31 March 2010 £000	31 March 2011 £000
Opening Capital Financing Requirement	431,616	455,381
IFRS restatement	2,981	
Revised Capital Financing Requirement	434,597	455,381
Capital investment		
Property, Plant and Equipment	61,637	84,182
Investment Properties	0	0
Intangible Assets	0	116
Revenue Expenditure Funded from Capital under Statute	55,657	62,120
Other capital expenditure	6,156	10,274
Sources of finance		
Capital receipts	0	0
Government grants and other contributions	(71,338)	(81,747)
Sums set aside from revenue		
Direct revenue contributions		
[MRP/loans fund principal]	(31,328)	(33,831)
Closing Capital Financing Requirement	455,381	496,495
Explanation of movements in year		
Increase in underlying need to borrowing (supported by government financial assistance)	5,118	12,411
Increase in underlying need to borrowing (unsupported by government financial assistance)	36,235	58,752
Assets acquired under finance leases	406	
Provision for debt repayment	(20,975)	(30,049)
Increase/(decrease) in Capital Financing Requirement	**20,784**	**41,114**

41. Leases

The Council as lessee has a number of finance leases and is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the vehicles acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	31 March 2010 £000	31 March 2011 £000
Finance costs payable in future years (net present value of minimum lease payments)	2,299	1,153
Current	1,146	269
Non-current	1,153	884
Finance costs payable in future years	196	124
Minimum lease payments	2,495	1,277

The minimum lease payments will be payable over the following periods.

	min lease payments		finance lease liability	
	31-Mar-10	**31-Mar-11**	**31-Mar-10**	**31-Mar-11**
not later than one year	1,218	324	1,146	269
later than one year and not later than five years	1,149	925	1,026	855
later than five years	128	28	127	28
total	**2,495**	**1,277**	**2,299**	**1,153**

Council as Lessor

Finance Leases

When the Council transferred its housing stock to City West Housing Trust in 2008/09 a number of vehicles which the council leased under finance leases were then leased onto City West under terms which mirrored the councils own lease terms. The Council has a gross investment in the lease, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the vehicle when the lease comes to an end. The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the Council in future years whilst the debtor remains outstanding. The leases finished in 2009/10. The gross investment is made up of the following amounts:

Authority as lessor	31-Mar-10 £000	31-Mar-11 £000
finance lease debtor (npv of minimum lease payments)	231	0
current	231	0
non-current	0	0
unearned finance	0	0
unguaranteed residual value of property	0	0
gross investment in the lease	231	0

	Gross investment in the lease		Minimum lease payments	
	31-Mar-10 £000	**31-Mar-11 £000**	**31-Mar-10 £000**	**31-Mar-11 £000**
not later than one year	231	0	231	0
later than one year and not later than five years	0	0	0	0
later than five years	0	0	0	0

42. Private finance initiatives and similar contracts

The Council has entered into service concession contracts with providers for local improvement finance trust (LIFT) and private finance initiative (PFI) schemes. LIFT has delivered three health centres which include library, community space and one-stop shop provision. The two PFI contracts have delivered three new special high schools and two new high schools. The contract specifies minimum standards for the services to be provided by the contractor, with deductions from the fee payable being made if facilities are unavailable or performance is below the minimum standards. The contractor took on the obligation to construct the centres and maintain them in a minimum acceptable condition and to procure and maintain the plant and equipment needed to operate the centres. The buildings and any plant and equipment installed in them at the end of the contract will be transferred to the Council for nil consideration. The Council only has rights to terminate the contract if it compensates the contractor in full for costs incurred and future profits that would have been generated over the remaining term of the contract.

Property, plant and equipment

The PFI and similar assets used to provide services are recognised on the Council's balance sheet. Movements in their value over the year are detailed below.

	2009/10 £000	2010/11 £000
Net book value at 1 April	67,179	71,436
Additions	250	1,941
Revaluations	5,877	872
Depreciation	(1,870)	(2,750)
Disposals	0	0
Net book value at 31 March	**71,436**	**71,499**

The Council makes an agreed payment each year which is increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed. Payments remaining to be made under the PFI contract at 31 March (excluding any estimation of inflation and availability/ performance deductions) are as follows.

	Repayment of liability £000	Interest £000	Payment for Services £000	Total £000
Payable in 2011/12	1,580	3,875	2,548	**8,003**
Payable within two to five years	6,277	14,232	10,850	**31,359**
Payable within six to ten years	8,420	14,873	15,180	**38,473**
Payable within eleven to fifteen years	10,655	11,169	17,199	**39,023**
Payable within sixteen to twenty years	13,031	6,416	18,413	**37,860**
Payable within twenty-one years to twenty five years	8,086	1,246	7,667	**16,999**
Payable within twenty six years to thirty years	1,042	50	386	**1,478**
Total	**49,091**	**51,861**	**72,243**	**173,195**

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The total outstanding liability to the contractor for capital expenditure incurred is as follows:

	2009/10 £000	2010/11 £000
Balance outstanding at start of year	52,909	51,356
Payments during the year	(1,553)	(1,603)
Capital expenditure incurred in the year	0	0
Balance outstanding at year-end	**51,356**	**49,753**

On 20 March 2003 the City Council entered into a 26 year Private Finance Initiative (PFI) arrangement with Eccles Special High School Company Ltd for the provision of 3 new Special High Schools. The first payment made under the terms of this contract was made in 2004/ 05 and the contract expires in 2029/30. Over the

remaining 19 years of this contract the City Council is committed to making gross payments estimated at £43.857m (average payment per year is £2.308m). However, the net cost to the City Council after income from specific government grant is estimated at £17.071m (average payment per year is £0.898m). The actual payments made will depend upon ESHSCO's performance in provision of the services.

On 20 November 2006 the City Council entered into a 25 year Private Finance Initiative (PFI) arrangement with Salford Schools Solutions Ltd for the provision of 2 new High Schools. The first payment made under the terms of this contract was made in September 2008; the contract expires in 2033/34. Over the remaining 23 years and 5 months of this contract the City Council is committed to making gross payments estimated at £133.662m (average payment per year is £5.811m). However, the net cost to the City Council after income from specific government grant is estimated at £43.094m (average payment per year is £1.874m). The actual payments made will depend upon SSSL's performance in provision of the services.

The company was formed under the NHS Local Improvement Finance Trust (LIFT) initiative to develop and deliver health and social care estate. Its principal activity is as a holding company for a group providing accommodation and servicing of medical centres. Three of the LIFT developments within Salford include space leased by the Council in relation to library, community space and one stop shop provision. Payments are for 30 years starting in 2008/09, with total payments of £20.244m.

Indexation
Each April a proportion of the Unitary Charge (representing the Services element), is adjusted for the impact of inflation using the RPIX Table published by the Office of National Statistics based on the RPIX value for February each year.

Benchmarking / Market Testing
Market testing and or Benchmarking of soft services (cleaning, catering, grounds maintenance and waste management) is undertaken five years after service commencement. Where the cost of the soft services tested are above or below that quoted in the scheme's financial model, a corresponding adjustment is made to the schemes Unitary Charge to account for the difference.

The council has an option to purchase the Eccles Lift building at the end of the agreement for the residual value of £600k or to vacate the building.

43. Impairment losses

The Council has not charged impairment losses to the surplus or deficit on the provision of services and to other comprehensive income and expenditure, which would have required disclosure in this note.

44. Capitalisation of borrowing costs

Not relevant to Salford City Council.

45. Termination benefits

During the year the Council agreed voluntary redundancy or early retirement with 418 staff, incurring liabilities of £4.791m for redundancy payments.

46. Pensions schemes accounted for as defined contribution schemes

Teachers' pension scheme

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Department for Education. The scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is technically a defined benefit scheme. However, the scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this statement of accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

The Council paid £8.844 to Teachers' Pensions in respect of teachers' retirement benefits (2009/10 £8.796m), based on 14.1% of employees' pensionable pay (2009/10 14.1%). There were no contributions remaining payable at the year-end.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in defined benefit pension schemes note.

NHS pension scheme

Employees who have transferred direct from the NHS to the Council in support of pooled budget arrangements (see the pooled budgets note) are allowed to choose to remain with the NHS pension scheme. Some 80 employees of the Council are therefore members of the NHS pension scheme, administered by the Department of Health. The scheme provides members with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is technically a defined benefit scheme. However, the scheme is unfunded and the Department of Health uses a notional fund as the basis for calculating the employers' contribution rate. The Council is not able to identify its share of underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this statement of accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

The Council paid £0.224m to NHS Pensions in respect of members' retirement benefits (2009/10 £0.229m), based on 14% of employees' pensionable pay (2009/10 14%). There were no contributions remaining payable at the year-end.

There are no benefits awarded upon early retirement outside of the terms of the scheme.

47. Defined benefit pension schemes

Participation

As part of the terms and conditions of employment of its officers and members, the Council makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The LGPS is a funded scheme, meaning that the employer's and employees' contributions into the fund (the GMPF) are calculated at a level intended to balance the pension liabilities with investment assets.

The Council participates in the following schemes:

- The Local Government Pension Scheme, administered locally as the Greater Manchester Pension Fund by Tameside MBC. This is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets. In 2010/11 the Council's employer's contribution to the GMPF was £18.7m (£17.8m in 2009/10), based on 15.1% of employees' pensionable pay (14.4% in 2009/10). In addition, expenditure of £1.0m relating to past service costs for unfunded capital costs of early retirements, not included by the actuary in his valuation, became payable; the actual payment of these costs is deferred. In 2011/12, the Council expects to pay an employer's contribution of £18.8m, based on 16.0% of employees' pensionable pay.
- Arrangements under both the Greater Manchester Pension Fund and the Teachers' Pension Scheme for the award of discretionary post retirement benefits upon early retirement. These are unfunded defined benefit arrangements, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due. In 2010/11 the cost of discretionary benefits was £2.4m under the GMPF and £2.8m under the TPS. In 2011/12, the Council again expects to pay £2.4m and £2.8m respectively.

Transactions

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the general fund via the movement in reserves statement. The following transactions have been made in the comprehensive income and expenditure statement and the general fund balance via the movement in reserves statement during the year:

	Local Government Pension Scheme		Teachers' Pension Scheme (added years element)	
	2009/10 £000	2010/11 £000	2009/10 £000	2010/11 £000
Comprehensive income and expenditure statement				
Within cost of services:				
Current service cost	12,700	24,100	-	-
Past service cost	400	(103,500)	-	(2,400)
Impact of settlements and curtailments	4,200	3,800	-	-
Within financing and investment income and expenditure:				
Interest cost	46,300	57,900	2,300	2,200
Expected return on scheme assets	(32,500)	(48,300)	-	-
Net charge to surplus or deficit on the provision of services	**31,100**	**(66,000)**	**2,300**	**(200)**
Other:				
Actuarial gains and losses	261,800	(176,600)	9,100	(1,600)
Total charge to the comprehensive income and expenditure statement	**292,900**	**(242,600)**	**11,400**	**(1,800)**
Movement in reserves statement				
Reversal of net charges made to surplus or deficit on the provision of services	(11,000)	87,100	400	3,000
Actual amount charged against council tax for pensions in year				
Employer's contributions payable to scheme	17,800	18,700	-	-
Discretionary awards benefits payable to pensioners	2,300	2,400	2,700	2,800
	20,100	**21,100**	**2,700**	**2,800**

Past service cost

The past service cost in 2010/11 is a significant credit to the comprehensive income and expenditure statement and as such has been disclosed separately from other non-distributed costs.

Cumulative actuarial gains and losses

The cumulative amount of actuarial gains and losses recognised in the comprehensive income and expenditure statement to the 31 March 2011 is a loss of £153.4m: £143.6m on the LGPS, £9.8m on the TPS (2009/10 £331.6m: £320.2m and £11.4m).

Reconciliation of present value of the scheme liabilities (defined benefit obligation)

	Local Government Pension Scheme		Teachers' Pension Scheme (added years element)		Total	
	2009/10 £000	2010/11 £000	2009/10 £000	2010/11 £000	2009/10 £000	2010/11 £000
Opening balance	(671,600)	**(1,131,200)**	(34,400)	**(43,100)**	(706,000)	**(1,174,300)**
Current service cost	(12,700)	(24,100)	-	-	(12,700)	(24,100)
Interest cost	(46,300)	(57,900)	(2,300)	(2,200)	(48,600)	(60,100)
Contributions by members	(8,000)	(7,700)	-	-	(8,000)	(7,700)
Actuarial gains/(losses)	(414,400)	192,700	(9,100)	1,600	(423,500)	194,300
Past service costs	(400)	103,500	-	2,400	(400)	105,900
Losses on curtailments	(4,200)	(3,800)	-	-	(4,200)	(3,800)
Estimated unfunded benefits paid	2,300	2,400	2,700	2,800	5,000	5,200
Estimated benefits paid	24,100	28,000	-	-	24,100	28,000
Closing defined benefit obligation	**(1,131,200)**	**(898,100)**	**(43,100)**	**(38,500)**	**(1,174,300)**	**(936,600)**

Reconciliation of fair value of the scheme (plan) assets

	Local Government Pension Scheme		Teachers' Pension Scheme (added years element)		Total	
	2009/10 £000	2010/11 £000	2009/10 £000	2010/11 £000	2009/10 £000	2010/11 £000
Opening asset balance	514,400	701,200	-	-	514,400	701,200
Expected return on assets	32,500	48,300	-	-	32,500	48,300
Contributions by members	8,000	7,700	-	-	8,000	7,700
Employer contributions	17,800	18,700	-	-	17,800	18,700
Contributions in respect of unfunded benefits	2,300	2,400	2,700	2,800	5,000	5,200
Actuarial gains/(losses)	152,600	(16,100)	-	-	152,600	(16,100)
Unfunded benefits paid	(2,300)	(2,400)	(2,700)	(2,800)	(5,000)	(5,200)
Benefits paid	(24,100)	(28,000)	-	-	(24,100)	(28,000)
Closing asset balance	**701,200**	**731,800**	**-**	**-**	**701,200**	**731,800**

The Council has taken advice from the actuary and the expected return on assets is based on the long-term future expected investment return, net of investment expenses, for each asset class at the beginning of the period.

The actual return on scheme assets in the year was £47.0m (2009/10 £185.1m).

Scheme history

	2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000
LGPS					
Fair value of employer assets	636,700	608,200	514,400	701,200	731,800
Present value of defined benefit obligation	(749,700)	(670,700)	(671,600)	(1,131,200)	(898,100)
Surplus/(deficit)	(113,000)	(62,500)	(157,200)	(430,000)	(166,300)
Teachers' pension					
Fair value of employer assets	-	-	-	-	-
Present value of defined benefit obligation	(34,800)	(35,400)	(34,400)	(43,100)	(38,500)
Surplus/(deficit)	(34,800)	(35,400)	(34,400)	(43,100)	(38,500)
Total defined benefit balance	**(147,800)**	**(97,900)**	**(191,600)**	**(473,100)**	**(204,800)**

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The total liability/deficit has a substantial impact on the net worth of the Council as recorded in the balance sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy:

- the deficit on the local government scheme will be made good by increasing contributions over the remaining working life of employees (ie before payments fall due), as assessed by the scheme actuary
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

Basis for estimating assets and liabilities

The pensions liability has been assessed on an actuarial basis using the projected unit method of valuation, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. Both the GMPF and the TPS added years element attributable to Salford Council teachers have been assessed by the GMPF's actuary, Hymans Robertson. The GMPF is formally valued every three years, with the value being rolled forward using certain assumptions in the interim periods. The most recent full actuarial valuation of the fund was as at the 31 March 2010. The principal assumptions are set out below.

Assumptions	31 March 2010	31 March 2011
Indexing	% per annum	% per annum
• Rate of increase in salaries	5.3	4.3
• Rate of increase in pensions in payment	3.8	2.8
• Discount rate	5.5	5.5
• Inflation assumptions (CPI)	3.8	2.8
Long-term expected rate of return on scheme assets:	% per annum	% per annum
• Equities	7.8	7.5
• Government Bonds	5.0	4.9
• Property	5.8	5.5
• Cash	4.8	4.6
Mortality assumptions, longevity at age 65:	years	years
• Current pensioners (male)	20.8	20.1
• Current pensioners (female)	24.1	22.9
• Future pensioners (male)	22.8	22.5
• Future pensioners (female)	26.2	25.0
Elections to convert annual pension to lump sum:	%	%
• Pre-April 2008 service	50	50
• Post-April 2008 service	75	75

Asset categories

The discretionary benefits arrangements have no assets to cover its liabilities. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held.

LGPS assets	Proportion of fair value of assets at 31 March 2010	Proportion of fair value of assets at 31 March 2011
	%	%
Equities	67	66
Bonds	16	17
Property	6	5
Cash	11	12
Total	100	100

History of experience gains and losses

Actuarial gains (and losses), measured as a percentage of assets and liabilities at the period end, are set out below.

	2006/07 %	2007/08 %	2008/09 %	2009/10 %	2010/11 %
LGPS					
Difference between the expected and actual return on assets	0.6	(11.9)	(26.9)	21.8	(2.2)
Experience gains (/losses) on liabilities	(0.0)	(0.8)	(0.7)	(0.2)	8.8
TPS					
Difference between the expected and actual return on assets	-	-	-	-	-
Experience gains (/losses) on liabilities	(0.9)	(6.8)	(2.9)	(6.3)	2.6

48. Contingent liabilities

a. *Municipal Mutual Insurance*

In January 1994, the Council's then insurer, Municipal Mutual Insurance (MMI), made a Scheme of Arrangement with its creditors. Under the Scheme claims are initially paid out in full, but if the eventual winding up of the company results in insufficient assets to meet all liabilities, a claw back clause will be triggered. The main effect of the scheme would be the imposition of a levy against the Council on all claims paid on its behalf since 30 September 1993, to the extent that these are not fundable.

As at the 31 March 2011 claims paid on behalf of the Council were £8.833m (£8.759m at 31 March 2010), with outstanding claims estimated at £0.312m (£0.318m at 31 March 2010). The estimated amount liable to the levy if the scheme is triggered is £9.095m (£9.077m at 31 March 2010).

The Greater Manchester Council's (GMC) former insurer was also MMI. As at 31 March 2011 £10.7m of claims relating to GMC had already been paid (£10.7m at 31 March 2010), with outstanding claims estimated at £0.025m (£0.1m at 31 March 2010). GMC ceased to exist on 31 March 1986 and any residual liabilities are shared between the ten local authorities of AGMA based on population. The Council's share of ex GMC claims paid and outstanding at 31 March 2011 is estimated at £0.894m.

As at June 2010 the MMI annual report and accounts stated that the directors are of the view that if a positive outcome can be achieved in the current litigation case a solvent run off with full payment of claims will be achieved. The litigation case is to be considered by the Supreme Court at the end of 2011 and a decision to be made possibly summer 2012.

As the likelihood, timing and amount of any claw back can not be determined, no provision for the potential liability has been made in the balance sheet. However, the Council maintains an insurance reserve and considers the claw back risk when determining the level of funds to be held in that reserve.

b. *Modesole Ltd.*

As a result of the Council receiving a distribution from the proceeds of Modesole's sale of its shares in the Midland Hotel & Conference Centre a liability may arise, the extent of which can not yet be determined, to repay its share of a grant given in 1986 towards the refurbishment of the hotel.

As a result of the Council receiving a distribution of proceeds from the sale of its entire shareholding in Modesole Ltd, an indemnity was given to the buyer against any future liabilities in Modesole prior to the date of the sale. This indemnity is limited to the value of the sale proceeds received and will last until 9 August 2015, 10 years from the date of sale.

c. *Metrolink*

The Association of Greater Manchester Authorities (AGMA), the Greater Manchester Integrated Transport Authority (GMITA) and Greater Manchester Passenger Transport Executive (GMPTE), now known as Transport for Greater Manchester and the Department for Transport (DfT) have entered into a partnership funding approach for Metrolink phase 3a.

Within the agreement the DfT contribution is capped at £244m and AGMA, GMPTA and GMPTE are jointly and severally responsible for meeting all costs over and above that sum, on the understanding that the scheme is delivered as it was approved. The scheme is fully funded at present and the arrangement will only be operative if the costs exceed the DfT contribution. Monitoring arrangements will be put in place by all parties to minimise the risk of that happening.

d. *Salix Homes Ltd pension liability*

In addition to the Council's pension liability disclosed separately, the Council's ALMO (Salix) carries a pension liability estimated at £2.428m as at 31 March 2010 (£6.967m liability at 31 March 2010). In a similar fashion to the Council's own liability, any deficit on the local government pension scheme will be made good by increasing contributions over the remaining working life of employees, as assessed by the scheme actuary. The Council has indicated its current intention that, in the event of factors causing pension liabilities to fall due earlier than planned, the Council expects that it will ensure Salix is in a position to meet those liabilities.

e. *Warranties by the Council in favour of City West Housing Trust*

City West Housing Trust was the recipient of a large-scale voluntary transfer of council houses in 2008/09. Arrangements were agreed to meet costs associated with catastrophic events and essential repairs (but not betterment) for unadopted infrastructure. It was originally estimated that the total contingency for these items would be £23.1m up to 2038/39. City West were to meet the first £5m of costs. The next £10m were to be split on a 75:25 basis to the Council and City West respectively. The remaining £8.1m were to be split on a 50:50 basis. Any liabilities above £23.1m will be borne by City West Housing Trust. The arrangement would run for 30 years should it be necessary. The Council's maximum exposure is therefore £6.6m. The scheme is in its third year and costs so far have been £0.132m. No liability has yet been met by the Council.

It has also been agreed that City West will meet the first £13.246m (plus VAT and management costs) of costs associated with asbestos. The Council will underwrite any further costs including VAT and management costs above this figure. The arrangement will last for 35 years. This arrangement is in its third year and costs so far have been £1.420m. No liability has yet been met by the Council.

f. *Equal pay*

The Council has made a provision for the settlement of equal pay claims (see note 22). The provision is based on estimates of the settlement amount for known claims where it is considered that the Council is more likely than not to ultimately make a payment. In addition to the amount provided, there is the possibility of additional liabilities arising through further claims or through unprovided-for existing claims where the Council's current expectation is that they will be found in its favour. While it is not expected that additional liabilities will arise, their maximum extent is estimated to be £3.5m.

g. *Subsidence*

Liability in relation to subsidence at a number of properties in Little Hulton has not yet been established. Should the Council be held to be responsible, a liability estimated not to exceed £300,000 may arise, which would not be covered by the Council's insurance arrangements.

h. *Higher Broughton CPO*

The outcome of a judicial review of objections to a compulsory purchase order for properties in Higher Broughton has not yet been decided. It is anticipated that any liability on the Council will not exceed £300,000.

j. *Employment tribunal claims*

Former employees have lodged claims at the Employment Tribunal totalling approximately £300,000. The Council disputes these claims, which have not yet been heard.

k. *Urban Vision highways claim*

The Council's partner Urban Vision is preparing a claim for a cumulative underpayment on the highways contract over years 1 to 5. As the likelihood of an eventual payment, the amount and timing are uncertain, as yet no provision has been made in the Council's accounts.

l. *Commitment by the Council in favour of Ask Developments*

As part of proposed developments in Greengate, the Council proposes to underwrite rental income on two office blocks to be built by its development partner Ask Developments, subject to successful planning approval. It is intended that tenants will be found and no liability incurred. There is currently no formal obligation and, as the likelihood of any eventual payment, its actual amount and timing are uncertain, no provision has been made in the Council's accounts.

49. Contingent Assets

a. *VAT shelter*

In 2008/09 the Council agreed an initial 10-year "VAT shelter" arrangement with City West Housing Trust. This has been approved by HMRC. In practice this will generate approximately £49m of VAT reclaim to be utilised by City West for the decent homes programme in West Salford. The Council has agreed to a 100% arrangement in favour of City West, ie all monies generated by the shelter will go to City West. This follows the Council strategy of maximising the cash flow opportunity for City West in the early years of its business plan and is expected and supported by DCLG.

There is an option to extend the VAT shelter for a further 5 years and both the Council and City West support this. The commercial agreement between the Council and City West Housing Trust has been built around receiving this confirmation. For the years 11 to 15 it is therefore expected that there will be a different sharing arrangement, with both the Council and City West receiving 50% at a value of £8.5m each.

b. *Right-to-buy receipts*

In 2008/09 the Council and City West Housing Trust agreed an arrangement on receipts generated through the right-to-buy (RTB) and right-to-acquire (RTA) dwellings by tenants wishing to purchase their council houses.

A right-to-buy tenant is one who was in tenancy at the point of transfer completion. The RTB arrangement will run for 15 years during which a contractually-calculated proportion of receipts will go to the council. Receipts generated by RTBs are not consistently received throughout the period and it is not possible to reliably estimate the total value of this arrangement. Up to 31 March 2011, £1.110m had been received (to 31 March 10 £0.681m). After the 15-year period, all RTB receipts will be retained by City West Housing Trust.

Right-to-acquire receipts are generated by sales of houses to tenants who came into tenancy or who took up a new tenancy after the date of transfer. City West Housing Trust will retain 100% of RTA receipts.

50. Nature and extent of risks arising from financial instruments

The Council's activities expose it to a variety of financial risks:

- *credit risk*, the possibility that other parties might fail to pay amounts due to the Council;
- *liquidity risk*, the possibility that the Council might not have funds available to meet its commitments to make payments;
- *market risk*, the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by the Council in the annual treasury management strategy. The Council maintains written principles for overall risk management, as well as written treasury management policy statements covering specific areas such as interest rate risk, credit risk, and the investment of surplus cash.

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. Deposits are not made with banks and financial institutions unless they are rated independently with a minimum score of [A-]. The Council has a policy of not lending more than £10m of its surplus balances to one institution.

Customers are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the Council.The following analysis summarises the Council's potential maximum exposure to credit risk, based on experience of default and uncollectibility over the last five financial years, adjusted to reflect current market conditions.

	Estimated maximum exposure to default 31 March 10 £000	Balance 31 March 11 £000 A	Estimated maximum likelihood of default % B	Estimated maximum exposure to default 31 March 11 £000 (A x B)
Deposits with banks and financial institutions	58	54,811	0.1	55
Long term debtors	15	19,750	0.1	20
Customers	2,165	45,483	4.9	2,211
Total	**2,238**			**2,286**

The estimated maximum likelihood of default is based on historical experience, adjusted for market conditions at 31 March 2011, and having regard to the Council's treasury management policies. So, while market conditions have deteriorated, throughout the reporting period the counterparty list has been under review, and institutions have been removed from the list whenever their credit ratings have been downgraded to below the Council's minimum criteria. The likelihood of default is not therefore judged to have increased since last year. The Council is alerted to changes in credit ratings by its Treasury Management Advisors, Sector Treasury Services Ltd.

No credit limits were exceeded during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

The Council does not generally allow credit for customers. £2.636m of the trade and other debtor balance (31 March 2010 £2.405m) is past its due date for payment. The past due amount can be analysed by age as set out below.

Age of debt	31 March 2010 £000	31 March 2011 £000
Less than three months	489	692
Three to four months	106	124
Five months to one year	828	573
More than one year	982	1,247
	2,405	**2,636**

Liquidity risk

As the Council has ready access to borrowings from the Public Works Loans Board, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The strategy is to ensure that not more than 50% of loans are due to mature within any rolling three-year period through a combination of careful planning of new loans taken out and (where it is economic to do so) making early repayments.

The maturity analysis of financial liabilities is set out below (excluding interest).

	31 March 2010 £000	31 March 2011 £000
Less than one year	176,046	163,944
Between one and two years	1,044	30
Between two and five years	68	52
Between five and ten years	18,132	21,631
Between ten and fifteen years	3,554	48
More than fifteen years	275,237	325,231
	474,081	**510,936**

All trade and other payables are due to be paid in less than one year.

Interest rate risk

The Council is exposed to significant risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- for borrowings at variable rates, the interest expense charged to the income and expenditure account would rise;
- for borrowings at fixed rates, the fair value of the liabilities borrowings would fall;
- for investments at variable rates, the interest income credited to the income and expenditure account would rise;
- for investments at fixed rates, the fair value of the assets would fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the comprehensive income and expenditure statement. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the surplus or deficit on the provision of services and have a commensurate effect on the general fund balance. Movements in the fair value of fixed rate investments will be reflected in other comprehensive income and expenditure.

The Council has a number of strategies for managing interest rate risk. Policy is to aim to keep a maximum of 50% of its borrowings in variable rate loans. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is ameliorated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the Council's cost of borrowing and provide compensation for a proportion of any higher costs.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget throughout the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

Price risk

The Council does not generally invest in equity shares, but does have shareholdings to the value of £18.919m (31 March 10 £12.253m) in a number of related businesses and companies. While classified as available for sale, in practice these shareholdings are pursued for service reasons. In each case there is no reliable evidence of fair value so they are held at cost less impairment in the balance sheet. The Council is not therefore exposed to losses arising from movements in the prices of the shares.

Foreign exchange risk

The Council has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

51. Trust Funds

The authority is responsible for the administration of 7 individual trust funds (not as sole trustee).These funds are not owned by the authority and are used in accordance with the aims of the particular charity or trust. Any cash balances managed by the Council on behalf of trust funds are shown as current liabilities in the authority's balance sheet.

Fund	capital value 31 March 10	capital value 31 March 11
	£000	£000
Robert Cardwell Holiday Fund	1	1
Salford/Lunen Travelling Scholarship Trust	22	22
Salford Youth Sailing Trust – sailing opportunities for young people	34	52
Salford Children's Holiday Camp	59	82
Joule Medal Fund – commemorative medals for students	3	3
Relief of Distress Fund	22	21
Isaac Felix Sahal's Will Trust – to improve community facilities	625	501
	766	682

52. Prior period adjustments

In 2010/11, the IFRS-based Code of Practice on Local Authority Accounting (the Code) has been introduced in compliance with statute, replacing the previous Statement of Recommended Practice on Local Authority Accounting (the SORP). This results in a number of changes to accounting policies. These are described below alongside the effects that they have had on the financial statements presented herein.

Note that in every case, the net effect on the comprehensive income and expenditure account shown below has is offset by compensating transfers within the “adjustments between accounting basis and funding basis under regulations” line on the movement on reserves statement in order to have a neutral effect on the council tax payer.

Government grants deferred

Under the SORP, grants were held in a government grants deferred account and released over time in financing capital to match depreciation charges in the year. Under the Code, grants are recognised immediately and the government grant deferred account eliminated.

Statement line	Effects up to 2008/09	Effect on 2009/10	Cumulative effect
	£000	£000	£000
Balance sheet net assets			
Government grants deferred	142,927	25,525	168,452
Capital grants receipts in advance	(854)	(99)	(953)
Net total	142,073	25,426	167,499
Balance sheet reserves			
Usable reserves	17		17
Unusable reserves	142,056	25,426	167,482
Net worth	142,073	25,426	167,499
Comprehensive income & expenditure statement			
Cultural, environmental, regulatory and planning services		26,479	
Education and children’s services		3,361	
Other housing services		15,487	
Adult social care		360	
Other operating expenditure		178	
Taxation and non-specific grant income		(71,291)	
Net total		(25,426)	

Leases

Under the SORP, a numerical test of present value of minimum lease payments as a percentage of fair value of the asset applied in determining whether a lease was an operating lease or a finance lease. Under the

Code, a judgement of risks and rewards applies. The consequence is that some leases previously considered to be operating leases are now finance leases, and the asset and a lease liability brought on to the balance sheet.

The same determination applies to assets leased by the Council, removing some assets from the balance sheet where they are determined to be finance leases.

Statement line	**Effects up to 2008/09 £000**	**Effect on 2009/10 £000**	**Cumulative effect £000**
Balance sheet net assets			
Property, plant & equipment	2,465		2,465
Long-term debtors	448	(217)	231
Other long-term liabilities	(2,981)	1,088	(1,893)
Net total	(68)	871	803
Balance sheet reserves			
Unusable reserves	(68)	871	803
Comprehensive income & expenditure statement			
Cultural, environmental & planning services		(519)	
Local authority housing		51	
Financing and Investment Income and Expenditure		(403)	
Net total		(871)	

Accumulated short-term absences

A new requirement under the Code is to recognise leave accrued by employees at the year end as a liability in the same manner as any other financial liability. This is balanced by an unusable reserve, the accumulated absence account.

Statement line	**Effects up to 2008/09 £000**	**Effect on 2009/10 £000**	**Cumulative effect £000**
Balance sheet net assets			
Other long-term liabilities	(9,776)	(273)	(10,049)
Balance sheet reserves			
Unusable reserves	(9,776)	(273)	(10,049)
Comprehensive income & expenditure statement			
Central services to the public		(16)	
Cultural, environmental, regulatory and planning services		(480)	
Education and children's services		203	
Highways and transport services		(54)	
Other housing services		(126)	
Adult social care		762	
Corporate and democratic core		(16)	
Net total		273	

Cash and cash equivalents

The Code requires cash equivalents to be recognised in the same manner as cash, meaning that some investments are recategorised.

Statement line	**Effects up to 2008/09 £000**	**Effect on 2009/10 £000**	**Cumulative effect £000**
Balance sheet net assets			
Short-term investments	(15,544)	(26,288)	(41,832)
Cash and cash equivalents	15,544	26,288	41,832
Net total	0	0	0

Recognition of grants

Undrer the SORP, grants received but not yet applied were held as creditors. The Code requires them to be recognised in the comprehensive income and expenditure account and, where necessary, be appropriated to an earmarked reserve, except where there are outstanding conditions, in which case they continue to be treated as creditors.

Statement line	Effects up to 2008/09 £000	Effect on 2009/10 £000	Cumulative effect £000
Balance sheet net assets			
Short term creditors	11,145	4,034	15,179
Balance sheet reserves			
Usable reserves	11,145	4,034	15,179
Comprehensive income & expenditure statement			
Central services to the public		(23)	
Cultural, environmental, regulatory and planning services		(2,869)	
Education and children's services		(1,275)	
Highways and transport services		(424)	
Other housing services		2,426	
Adult social care		(847)	
Corporate and democratic core		(37)	
Taxation and non-specific grant income		(985)	
Net total		(4,034)	

Asset measurement

The Code requires asset components to be considered separately for depreciation where the life of the component is different from the asset as a whole.

Statement line	Effects up to 2008/09 £000	Effect on 2009/10 £000	Cumulative effect £000
Balance sheet net assets			
Property, plant & equipment	107,090	(7,078)	100,012
Assets held for sale	321	13	334
Investment properties	(45,241)	9,057	(36,184)
Surplus assets held for disposal	(62,253)	(2,834)	(65,087)
Deferred liabilities		(406)	(406)
Net total	(83)	(1,248)	(1,331)
Balance sheet reserves			
Unusable reserves	(83)	(1,248)	(1,331)
Comprehensive income & expenditure statement			
Central services to the public		14	
Cultural, environmental, regulatory and planning services		21,573	
Education and children's services		(2,228)	
Highways and transport services		36	
Local authority housing		438	
Other housing services		1,111	
Adult social care		297	
Corporate and democratic core		6	
Non-distributed costs		(23,784)	
Other operating expenditure		(13)	
Financing and investment income and expenditure		144	
Surplus or deficit on revaluation of property, plant and equipment assets		3,656	
Net total		1,250	

Housing revenue account

Housing revenue account income and expenditure statement (HRA)

The HRA income and expenditure statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the movement on the HRA Statement.

2009/10 £000		2010/11 £000	Notes
	Income		
(31,156)	Dwelling rents (gross)	(32,003)	1
(317)	Non-dwelling rents (gross)	(369)	1
(3,320)	Charges for services and facilities	(3,202)	
(6,463)	HRA subsidy receivable (inc. MRA)	373	2
(41,256)	**Total income**	**(35,201)**	
	Expenditure		
8,004	Repairs and maintenance	10,258	3
14,688	Supervision and management	11,819	3
603	Rents, rates, taxes and other charges	603	
595	Increased provision for bad or doubtful debts	354	
20,314	Depreciation and impairment of fixed assets	101,239	5
46	Debt management costs	49	
44,250	**Total expenditure**	**124,322**	
2,994	**Net cost of HRA services as included in the whole authority Income and expenditure Account**	89,121	
166	Non-distributed costs	123	6,7
3,160	**Net cost of HRA services**	**89,244**	
(305)	(Gains) or loss on the disposal of fixed asset	12	8
2,735	Interest payable and similar charges	2,671	
238	Pensions interest cost and expected return on pensions assets	153	
(68)	Interest and investment income	(78)	
5,760	**(Surplus)/deficit for year on HRA services**	**92,002**	

Movement on the HRA statement

This statement takes the outturn on the HRA income and expenditure statement and reconciles it to the surplus or deficit for the year on the HRA balance, calculated in accordance with the requirements of the Local Government and Housing Act 1989.

2009/10 £000		2010/11 £000	Notes
5,760	Deficit (surplus) for the year on the HRA income and expenditure account	92,002	
(5,809)	Adjustments between accounting basis and funding basis under statute	(92,040)	* see below
(49)	Decrease/(increase) in the HRA balance for the year	(38)	
(1,218)	Housing revenue account surplus brought forward	(1,267)	
(1,267)	**Housing revenue account surplus carried forward**	**(1,305)**	

***Amounts included in the HRA income and expenditure account but excluded from the movement on the HRA balance for the year**

2009/10 £000		2010/11 £000	Notes
2,864	Excess of depreciation charged to HRA services over the major repairs allowance element of housing subsidy	(3,881)	9
(13,361)	Impairment of fixed assets	(93,789)	
120	Government grants deferred amortisation	0	
4,342	Interest payable and similar charges – difference between the SORP and statutory charges	4,123	
305	Net profit /(loss) on sale of fixed asset	(12)	
(79)	Net charges made for retirement benefits in accordance with IAS19	1,519	10
(5,809)	**Net additional amount required by statute to be debited or (credited) to the HRA balance for the year**	**(92,040)**	

Notes to the housing revenue account (HRA)

1. Gross rent income

This is the total rent income due for the year after allowance is made for vacant property etc. An analysis of gross rents and allowances is set out below.

2010/11	Dwellings £000	Shops £000	Other £000	Total £000
Gross rent income before allowances	(32,003)	(287)	(82)	(32,372)
Less: allowances for vacant properties				
Gross rent income after allowances	(32,003)	(287)	(82)	(32,372)

2009/10	Dwellings £000	Shops £000	Other £000	Total £000
Gross rent income before allowances	(31,698)	(275)	(93)	(32,066)
Less: allowances for vacant properties	542			542
Gross rent income after allowances	(31,156)	(275)	(93)	(31,524)

During the year 1.1% of lettable properties were vacant (2009/10 1.7%).

Average rents were £64.16 per week (2009/10 £62.41).

2. Housing subsidy

Housing subsidy is payable by the government to the housing revenue account (HRA). The subsidy is calculated by reference to a notional account broadly comprising expenditure in respect of management and maintenance costs, capital charges income from rents and interest on receipts. Housing subsidy supports the difference between notional costs and income.

	2009/10 £000	2010/11 £000
Rent	(30,600)	(31,339)
Interest on receipts	(4)	(2)
Management and maintenance allowance	18,854	19,924
Major repair allowance	10,136	7,002
Charges for capital	8,031	7,376
Sub-total	6,417	2,961
Adjustment to previous years entitlement	46	(3,336)
Total housing subsidy	**6,463**	**(375)**

3. Related party transactions

During 2010/11 Salix Homes Ltd, an arms-length management organisation, managed and maintained the Council's housing stock.

Included in HRA expenditure is the payment of a management fee to Salix Homes Ltd as follows:

a. Contribution to housing repairs account £10.258m (2009/10 £8.084m)

b. Supervision and management £10.931m (2009/10 £11.574m)

4. Rent rebates

Assistance with rents is available to those on low income under the government's housing benefit scheme, which is administered by the Council. 68% of Council tenants received help with the cost of rent (2009/10 73%). Rent rebates are included in the housing line of the income & expenditure account core statement.

5. Depreciation

The HRA is charged an annual amount for the depreciation of assets and impairment losses relating to a decrease in the asset value for which there is no related balance held in the revaluation reserve. Details of the charges relating to assets used in the direct delivery of the services are shown below.

	2009/10 £000	2010/11 £000
Depreciation		
Council dwellings (MRA)	6,767	7,002
Other operational assets	457	534
	7,224	7,536
Less grants released on depreciated assets	(120)	0
Total depreciation	7,104	7,536
Impairment		
Council dwellings	12,849	92,968
Other operational assets	361	735
Total impairment	13,210	93,703
Total depreciation and impairment	20,314	101,239

The Council has adopted a policy whereby the depreciation relating to council dwellings is equal to the major repairs allowance (MRA) which reflects the cost of maintaining properties in their present condition. In 2009/10 the Council was approved a request to bring forward part (£3.336m) of the 2010/11 MRA which was fully utilised in 2009/10. The total cost of depreciation on all HRA properties is credited to the major repairs reserve. Regulations require that where the total depreciation charges are less than the MRA the difference is transferred to the HRA from the major repairs reserve.

Impairment charges are reversed out to the capital adjustment account to avoid having any impact on rent levels.

6. Impairment

Impairment losses of £93.815m have occurred on HRA assets (2009/10 £13.361m). The charges are shown within total expenditure for assets used in the delivery of the service £93.703m and non distributed costs for surplus assets not held for sale £0.112m.

The majority of the impairment (about £88.3m) relates to council dwellings and reflects a reduction in the social housing adjustment factor from 48% up to 2009/10 to 35% in 2010/11. This factor is prescribed by the government and is applied to the vacant possession value of the assets to give the existing use value for social housing. The factor has been reduced to more accurately reflect the additional risk and liability the public sector landlords undertake when compared with private sector investors. Reductions in value are charged to the net cost of services if there are insufficient balances held for the assets in the revaluation reserve and reversed out to capital reserves to avoid having any impact on rent levels

7. Non-distributed costs

The HRA has been charged with depreciation and impairment losses relating to non-operational assets. These charges are met from a contribution from the major repairs reserve and from the capital financing account so that they do not impact on rent levels.

	2009/10 £000	2010/11 £000
Depreciation on non operational assets	15	11
Impairment charges on non operational assets	151	112
	166	123

8. Gains / (Losses) on the disposal of assets

This reflects the difference between the net book value of assets disposed of and the amount of received from the sale. The gain is effectively reversed out in the statement of movement on the HRA balance to ensure that it has no impact on the level of housing rents.

9. Major repairs reserve

Authorities are required to establish and maintain a major repairs reserve. The main credit to the reserve is an amount equivalent to the total depreciation charges for HRA dwellings. Authorities are able to charge capital expenditure directly to the reserve.

	2009/10 £000	2010/11 £000
Balance brought forward 1 April	0	0
Transfer from capital adjustment account		
a. Depreciation on operational assets	7,224	7,536
b. Depreciation on non-operational assets	15	11
	7,239	7,547
Transfer to HRA	2,864	(3,881)
Major repairs reserve used to fund capital expenditure	(10,103)	(3,666)
Balance carried forward 31 March	**0**	**0**

10. HRA share of contributions from the pension reserve

Proper accounting practices require that the HRA recognises a share of the full IAS19 costs borne by the Council for defined benefit pension schemes. These costs have been allocated in proportion to employee costs and are set out in the table below. In order to ensure that the costs have no impact on the net deficit or on the level of housing rents, the charges are reversed out of the HRA below net operating surplus.

Local Government Pension Scheme	2009/10 £000	2010/11 £000
Within net cost of services:		
Net current service cost	(238)	(61)
Past service costs	7	(1,672)
Impact of settlements/curtailments	72	61
Within surplus/deficit for the year:		
Interest cost	798	926
Expected return on assets in the scheme	(560)	(773)
Impact on net operating surplus	79	(1,519)
HRA share of contributions from pension reserve	(79)	1,519
Impact on total surplus/deficit	**0**	**0**

11. Housing stock - numbers and valuation

Housing stock numbers	1 April 2009		2009/10		2010/11	
	no.	%	no.	%	no.	%
Houses	5,131	49	5,123	49	5,203	49
Flats	5,279	50	5,269	50	5,261	50
Bungalows	130	1	130	1	125	1
	10,540	**100**	**10,522**	**100**	**10,589**	**100**

Housing stock movement	1 April 2009 no.	2009/10 no.	2010/11 no.
Stock at 1 April	25,371	10,540	10,522
Less: sales and demolitions		(23)	(43)
Add: acquisitions	(14,831)	5	9
Add: acquisitions (new build)		0	101
Stock at 31 March	**10,540**	**10,522**	**10,589**

Housing stock valuation	Net book value 1 April 2009 £000	Net book value 31 March 2010 £000	Net book value 31 March 2011 £000
Property, plant and equipment			
a. Council dwellings	381,842	334,968	259,846
b. Other land and buildings	13,786	13,856	11,863
c. Infrastructure and community assets	2,779	2,488	2,194
d. Vehicles, plant, furniture and equipment	3	791	1,236
e. Surplus assets not held for sale	1,255	662	593
f. Work under construction	972	1,212	63
Investment property	442	442	468
Assets held for sale	54	0	320
Total	**401,133**	**354,419**	**276,583**

12. Vacant possession value

Council dwellings are included in the balance sheet at a value based on existing use value for social housing. This reflects a value for a property as if it were to be sold with sitting tenants, enjoying rents at less than open market value and rights including the option of 'right to buy'. For comparison, the vacant possession value as at 1 April 2010 was £679m (1 April 2009 £688m).

13. Housing repairs account reserve

A HRA repairs account has been established to meet repairs and maintenance expenditure. The movement on the account is set out below.

	2009/10 £000	2010/11 £000
Balance brought forward 1 April	0	0
Add: net contribution in the year from HRA	8,004	10,258
Add: other income	261	0
Less: expenditure in the year	(8,265)	(10,258)
Balance carried forward 31 March	**0**	**0**

14. Capital expenditure and sources of funding

Capital expenditure	2009/10 £000	2010/11 £000
Dwellings	12,160	28,860
Other land and buildings	249	458
Infrastructure	13	15
Vehicles, plant, furniture and equipment	850	522
Assets under construction	244	63
Total	**13,516**	**29,918**

Source of funding	2009/10 £000	2010/11 £000
Major repairs allowance	10,103	3,666
Supported borrowing	2,854	17,162
Capital grants	559	8,949
Other		141
	13,516	**29,918**

15. Capital receipts

Under the Local Government Act 2003, local authorities are required to pay over to the Secretary of State specified amounts of any capital receipts derived from the disposal of an interest in housing land. The specified amounts are 75% in relation to the disposal of dwellings and 50% in relation to the disposal of any other interest in housing land, subject to capital allowances which allow 100% use of certain type of receipts.

	2009/10 Receipts	2009/10 Pooled	2009/10 Usable	2010/11 Receipts	2010/11 Pooled	2010/11 Usable
	£000	£000	£000	£000	£000	£000
Dwellings	372	(277)	95	856	(601)	255
Land & other property	0	0	0	330	0	330
Mortgage repayments	31	(23)	8	8	(6)	2
Total	**403**	**(300)**	**103**	**1,194**	**(607)**	**587**

16. Rent arrears

	2009/10 £000	2010/11 £000
Arrears at 31 March	6,884	2,244
Arrears as a percentage of gross rent income	22%	7%
Amounts written off during the year	1,072	4,380
Provision against potential future irrecoverable arrears		
a. Contribution in-year	595	354
b. Balance at year end	5.442	1.416
Gross rent income - dwellings	31,156	32,003

Collection fund

2009/10 £000s		2010/11 £000s	2010/11 £000s	Notes
	Income			
(79,944)	Council tax payers	(80,938)		2
	Transfers from general fund			
(24,989)	- Council tax benefits	(26,190)		
(104,933)			(107,128)	
0	Contribution towards previous years collection fund deficit		0	4
(78,428)	Non-domestic rate payers		(69,344)	5
(183,361)			(176,472)	
	Expenditure			
	Precepts and demands			
9,146	- GM Police Authority	9,836		
3,499	- GM Fire and Rescue Authority	3,588		
90,347	- Salford City Council	90,387		
102,992			103,811	2
	Distribution of previous year's collection fund surplus			
0	- GM Police	0		
0	- GM Fire and Rescue Authority	0		
0	- Salford City Council	0		
0			0	4
	Non-domestic rates			5
77,979	- Payment to national pool	68,895		
449	- Costs of collection	449		
78,428			69,344	
	Adjustment to the provision for uncollectable amounts			3
2,441	- Council tax		2,217	
500	(Surplus)/deficit for the year		(1,100)	
	Movement of fund balance			
600	Accumulated (surplus)/deficit at the beginning of the year		1,100	
500	(Surplus)/deficit for the year		(1,100)	
1,100	Fund balance at the end of the year		**0**	4

Notes to the collection fund

1. General

Each billing authority is required to maintain a separate collection fund, which shows the transactions of the billing authority in relation to non-domestic rates, council tax and residual community charges and illustrates the way in which these have been distributed to preceptors and the general fund.

2. Council tax

All domestic properties are placed in one of nine valuation bands. The government has determined that the council tax level for each of the bands is assessed as a proportion of the tax rate for a band D property.

Each year the Council must estimate the equivalent number of band D properties, after allowing for discounts, exemptions, losses on collection etc. For 2010/11, the calculation was as follows.

Valuation band	Total no. of dwellings (after discounts)	Proportion to band D	Band D equivalent
A-	116	$^5/_9$	64
A	46,273	$^6/_9$	30,849
B	18,301	$^7/_9$	14,234
C	12,939	$^8/_9$	11,501
D	6,146	1	6,146
E	2,943	$^{11}/_9$	3,597
F	1,230	$^{13}/_9$	1,777
G	745	$^{15}/_9$	1,242
H	65	$^{18}/_9$	130
	88,758		69,540
Less: allowance for losses on collection			(1,391)
Council tax base			68,149

The actual number of chargeable dwellings was 102,209 but, after allowing for single person discounts, empty properties etc., the figure is reduced to 88,758 (88,700 in 2009/10).

Individual charges are calculated by estimating the amount of income required for the services of the Council, the Greater Manchester Police and Fire and Rescue authorities, and dividing this by the council tax base. This gives the basic amount of council tax for a band D property of £1,523.29 in 2010/11 (£1,511.94 in 2009/10). This is multiplied by the proportion specified for the particular band to give the individual amount due for a property.

Council Tax Income	**2010/11 £000s**
Estimated income before allowance for losses in collection (£1,523.29 x 69,540)	105,930
Less: benefits	(26,190)
	79,740
Less: estimated provision for doubtful debts	(2,217)
	77,523
Add: net impact of changes in the property base, discounts, exemptions, etc.	3,415
	80,938

3. Provision for uncollectable amounts

	2009/10 £000s	**2010/11 £000s**
Provision at 1 April	8,073	9,238
Less: amounts written off in the year	(1,276)	(1,965)
Add: contribution to the provision in the year	2,441	2,217
Provision at 31 March	**9,238**	**9,490**

The provision is split between the Council and the precepting authorities in the proportions set out below.

	2009/10 £000s	2010/11 £000s
Salford City Council	8,043	8,263
Greater Manchester Police Authority	875	899
Greater Manchester Fire and Rescue Authority	320	328
Provision as at 31 March	**9,238**	**9,490**

4. Collection fund surpluses and deficits

Regulations require the Council to make estimates in January each year of the deficit or surplus likely to arise at the end of the financial year in respect of both community charge and council tax transactions. The amounts so estimated are to be transferred into or out of the collection fund in the following financial year. Any such balance relating to council tax is required to be distributed to/borne by the Council and the Greater Manchester Police and Fire and Rescue authorities in proportion to the value of their respective demand and precept.

The estimates for 2009/10 and 2010/11 both provided for a break even position on the fund at 31 March 2010 and 31 March 2011 respectively and therefore no associated distributions were made in 2010/11 or will be made in 2011/12.

The estimated fund balance is attributable to the Council and the major precepting authorities as follows.

Collection fund balance	**1 April 2009 £000**	**31 March 2010 £000**	**31 March 2011 £000**
Salford City Council	529	958	0
Greater Manchester Police Authority	51	104	0
Greater Manchester Fire and Rescue Authority	20	38	0
Total deficit/(surplus)	**600**	**1,100**	**0**

5. Non-domestic rates

The Council collects non-domestic rates for its area, based on local rateable values multiplied by a uniform rate. This rate is fixed by Government and in 2010/11 was 41.4p in the pound (2009/10 48.5p). For businesses qualifying for small business rate relief, the rate applied was 40.7p (2009/10 48.1p).

The total amount due, less certain reliefs and other deductions, is paid to a national pool administered by the Government. The pool is then redistributed to local authorities on the basis of a fixed amount per head of population.

The local rateable value of non-domestic properties at 31 March 2011 was £226.4m (£202.0m at 31 March 2010).

The amount of income in the year is significantly different to the yield from a simple multiplication of the rateable value by the rate in the pound. The difference is explained below.

	2009/10 £m	2009/10 £m	2010/11 £m	2010/11 £m
Anticipated charges based on the rateable value at preceding 31 March		**98.0**		**92.1**
(Less)/add:				
Exemptions and small business rate relief	(10.5)		(12.8)	
Net impact of changes in rateable values in the year	(2.9)		(5.1)	
Allowances and other reliefs	(5.1)		(3.7)	
Impact on collection of rate deferral scheme	(0.3)		0.1	
Net adjustment to the provision for bad debts	(0.4)		(1.3)	
		(19.2)		(22.8)
Income from business ratepayers		**78.8**		**69.3**
Less costs of collection		(0.4)		(0.4)
Contribution to the NNDR pool		78.4		68.9

Part III group accounts

The Salford City Council group of companies

The following pages contain the consolidated accounts of the Salford City Council group of companies, including its share of its subsidiaries, associates and joint ventures for the financial year ended 31 March 2011.

Group undertakings can be of several types, and the accounting treatment for each is different. Each entity in which the Council has an interest has therefore been assessed to determine which category it falls under.

Subsidiaries are where the Council exercises control. Salix Homes Ltd is classified as a subsidiary of the Council and as such is incorporated into the accounts on a line-by-line basis.

Associates are where the Council exercises significant influence. Higher Broughton Partnership LP, Salford Hundred Venture and Urban Vision Partnership Ltd are classified as associates and as such, are incorporated into the accounts on an equity basis.

Joint Ventures are where the Council exercises joint control with other entities. Higher Broughton (GP) Ltd, Trinity ICP Ltd and City of Salford Community Stadium Ltd are classified as joint ventures with the Council and as such, are incorporated into the accounts on an equity basis.

Where the Council has an interest in an entity but this interest is insufficient for it to be considered one of the above types of group companies, it is treated as a simple investment. The Council holds several such investments, disclosed in the related party notes to the balance sheet in the single entity accounts.

No group relationship exists where the body delivering the service is not an entity in its own right, for example Section 31 Pooled Budgets or where a partnership does not currently have a legal status, or where the Council has no interest in an entity, for example the vast majority of companies with which the Council trades.

Subsidiaries

Salix Homes Ltd

Salix Homes Ltd is an ALMO (arms-length management organisation) of the Council and was formed in July 2007. The company's principal activities are to manage and maintain the housing stock of the Council.

The Parent Board of Salix Homes Ltd comprises four tenant representatives, four Council nominees and four independents.

Further information and details of the financial statements of Salix Homes Ltd may be obtained from the Company Secretary, Salix Homes Ltd., Diamond House, Peel Cross Road, Salford M5 4DT.

Associates

Higher Broughton Partnership LP

Higher Broughton Partnership LP is a Joint Venture Limited Partnership whose objective is to regenerate an area of the city of Salford.

The Council has a 19% stake in the partnership and has three of the seven directors on the board.

Higher Broughton Partnership has been incorporated into the group accounts of the Council as an associate. As the partnership's financial year runs from 1 January to 31 December interim accounts have been prepared for consolidation, using management accounting information for the periods January to March.

Further information and details of financial statements can be obtained from the Company Secretary, Higher Broughton Partnership LP, 1 Victoria Square, Birmingham B1 1BD.

Salford Hundred Venture Ltd

The principal activity of the company is to provide aid towards the creation and promotion of small businesses in the Salford area.

The Council has an 11% stake in the company and one of the five directors is a Council member.

Salford Hundred Venture Ltd has been incorporated into the group accounts of the Council as an associate.

Further information and details of financial statements can be obtained from the Company Secretary, Salford Hundred Venture Ltd, Business Link House, 33-35 Winders Way, Off Frederick Road, Salford M6 6BU

Urban Vision Partnership Ltd

On 19 January 2005, Salford City Council approved the creation of Urban Vision Partnership Ltd, a new joint venture to deliver most of the services previously provided by its Development Services Directorate.

Urban Vision Partnership Ltd is a multi-disciplinary joint venture company which provides the full range of professional services in connection with the built environment and has the capacity and capability to deliver a wide range of professional development regeneration consultancy services.

The Council owns 199 £1 ordinary shares, equivalent to 19.9% of share capital. One of the seven directors on the board represents the Council. The Council also has certain powers of veto over the operation of Urban Vision.

Urban Vision Partnership Ltd has been incorporated into the group accounts of the Council as an associate.

Further information and details of financial statements can be obtained from the Company Secretary, Urban Vision Partnership Ltd., Emerson House, Albert Street, Eccles, Manchester M30 0TE.

Joint ventures

Higher Broughton (GP) Ltd

The principal activity of the company is to manage the business of the Higher Broughton Partnership LP.

The Council owns 19% of the shares in Higher Broughton (GP) Ltd. Three of the seven directors on the board represent the Council.

The company's financial year runs from 1 January to 31 December, but to date all in-year transactions of the project go through the Limited Partnership accounts, so the accounts for this company have not changed between 31 December 2010 and 31 March 2011 and the published accounts have been used in the consolidation.

Further information and details of financial statements can be obtained from the Company Secretary, Higher Broughton (GP) Ltd., 35 St. Paul's Square, Birmingham, B3 1QX.

Trinity ICP

The principal activity of this joint venture company is to develop the 0.1 hectare site that was acquired from the Guardian Media Group by Bruntwood Ltd and Salford City Council with the support of the North West Regional Development Agency. The company was incorporated on 17 September 2007 and the Council holds 1,570,500 “A” ordinary shares of £1 each which represents 50% of the share capital.

For the period ended 31 March 2010 no profit was made and the net worth was £3,147,523,

Further information can be obtained form the Company Secretary, City Tower, Piccadilly Plaza, Manchester M1 4BD.

City of Salford Community Stadium Ltd

The principal activity of this company is to develop a community stadium on the Barton site. The company was incorporated on 16th April 2010 and the Council holds 5,000,000 ordinary shares of £1 each which represents 50% of the share capital. In addition, the Council also own 1,666,666 preference shares at £1 each, but these preference shares do not hold voting rights and are redeemable.

For the period ended 31 March 2011 a loss of £17,497 was made and the company had a net worth of £11,649,169

Council's share in its subsidiaries and associates

The following table identifies the Council's aggregate share in its subsidiary and associates.

	Subsidiary £000s	Associates £000s
Turnover	25,486	8,474
Fixed assets	192	20
Current assets	3,530	2,795
Liabilities due within one year	(3,048)	(2,319)
Liabilities due after one year	(2,428)	0
Surplus/(Deficit)	2,239	91

Council's share in its joint ventures

The following table identifies the Council's share in each of its individual joint ventures and an aggregated total.

	City of Salford Community Stadium Ltd £000s	Trinity ICP £000s	Total Joint Ventures £000s
Turnover	0	18	18
Expenses	(9)	(18)	(27)
Surplus/Deficit	(9)	0	(9)
Fixed assets	8,220	1,609	9,829
Current assets	301	1	302
Liabilities due within one year	(972)	(36)	(1,008)
Liabilities due after one year	(1,725)	0	(1,725)

Group Movement in reserves statement (MiRS)

2010/11	General fund balance	Earmarked general fund reserves	Housing revenue account	Earmarked HRA reserves	Capital receipts reserve	Major repairs reserve	Capital grants unapplied	**Total usable reserves**	Unusable reserves	**Total Council Reserves**	Share of reserves of subsidiaries, associates and joint ventures	**Total Council reserves**
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2010	**7,626**	**24,547**	**1,267**	**0**	**0**	**0**	**5,126**	**38,565**	**(85,633)**	**(47,068)**	**(6,371)**	**(53,440)**
Movement in reserves during 2010/11												
Surplus or (deficit) on the provision of services	96,101		(92,002)					**4,099**		4,099	2,413	**6,512**
Other comprehensive income and expenditure								**0**	209,044	209,044	2,693	**211,737**
Total comprehensive income and expenditure	**96,101**	**0**	**(92,002)**	**0**	**0**	**0**	**0**	**4,099**	**209,044**	**213,143**	**5,106**	**218,249**
Adjustments between group accounts and Council accounts	0	0	0	0	0	0	0	**0**	0	**0**	0	**0**
Net increase/decrease before transfers	**96,101**	**0**	**(92,002)**	**0**	**0**	**0**	**0**	**4,099**	**209,044**	**213,143**	**5,106**	**218,249**
Adjustments between accounting basis and funding basis under regulations (Note 7)	(106,166)		92,040				8,408	**(5,718)**	5,718	**0**		**0**
Net increase/decrease before transfers to earmarked reserves	**(10,065)**	**0**	**38**	**0**	**0**	**0**	**8,408**	**(1,619)**	**214,762**	**213,143**	**5,106**	**218,249**
Transfers to/from earmarked reserves (note 8)	9,563	(9,563)						**0**		**0**		**0**

Increase/decrease in 2010/11	**(502)**	**(9,563)**	**38**	**0**	**0**	**0**	**8,408**	**(1,619)**	**214,762**	**213,143**	**5,106**	**218,249**
Balance at 31 March 2011	**7,124**	**14,984**	**1,305**	**0**	**0**	**0**	**13,534**	**36,946**	**129,129**	**166,076**	**(1,265)**	**164,810**

2009/10 comparatives	General fund balance	Earmarked general fund reserves	Housing revenue account	Earmarked HRA reserves	Capital receipts reserve	Major repairs reserve	Capital grants unapplied	**Total usable reserves**	Unusable reserves	**Total Council Reserves**	Share of reserves of subsidiaries, associates and joint ventures	**Total Council reserves**
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2009	7,610	18,626	1,218	0	0	0	4,141	**31,595**	255,220	286,815	(766)	**286,049**
Movement in reserves during 2009/10												
Surplus or (deficit) on the provision of services	(34,013)		(8,114)					**(42,127)**		**(42,127)**	(244)	**(42,371)**
Other comprehensive income and expenditure								**0**	(291,758)	**(291,758)**	(5,362)	**(297,120)**
Total Comprehensive Income and Expenditure	**(34,013)**	**0**	**(8,114)**	**0**	**0**	**0**	**0**	**(42,127)**	**(291,758)**	**(333,884)**	**(5,606)**	**(339,491)**
Adjustments between group accounts and Council accounts												
Net increase/decrease before transfers	**(34,013)**		**(8,114)**	**0**	**0**	**0**	**0**	**(42,127)**	**(291,758)**	**(333,885)**	**(5,606)**	**(339,491)**
Adjustments between accounting basis and funding basis under regulations (Note 7)	39,948		8,163				985	**49,096**	(49,095)	**1**		**1**
Net Increase/Decrease before Transfers to Earmarked Reserves	**5,935**	**0**	**49**	**0**	**0**	**0**	**985**	**6,969**	**(340,853)**	**(333,884)**	**(5,606)**	**(339,490)**
Transfers to/from earmarked reserves (note 8)	(5,920)	5,921										

Increase/decrease in 2009/10	**15**	**5,921**	**49**	**0**	**0**	**0**	**985**	**6,969**	**(340,853)**	**(333,884)**	**(5,606)**	**(339,490)**
Balance at 31 March 2010	**7,626**	**24,547**	**1,267**	**0**	**0**	**0**	**5,126**	**38,565**	**(85,633)**	**(47,067)**	**(6,371)**	**(53,440)**

Group Comprehensive income and expenditure statement (CIES)

2009/10 Gross Expenditure £000	Gross Income £000	Net Expenditure £000		2010/11 Gross Expenditure £000	Gross Income £000	Net Expenditure £000
33,655	(30,394)	3,261	Central services to the public	33,596	(31,072)	2,524
154,067	(50,152)	103,915	Cultural, environmental, regulatory and planning services	136,498	(29,193)	107,305
257,263	(198,321)	58,942	Education and children's services	290,499	(205,511)	84,988
53,159	(13,746)	39,413	Highways and transport services	47,426	(10,161)	37,265
42,610	(39,414)	3,196	Local authority housing (HRA) (Note 3)	31,594	(33,095)	(1,501)
			Exceptional item reduction in social housing factor	88,300	0	88,300
143,677	(114,607)	29,070	Other housing services	140,028	(119,545)	20,483
113,180	(44,640)	68,540	Adult social care	110,337	(42,576)	67,761
5,513	(563)	4,950	Corporate and democratic core	5,730	(412)	5,318
6,804	0	6,804	Non-distributed costs	8,551	0	8,551
			Non-distributed costs: pension past service costs	**(105,900)**	**0**	**(105,900)**
809,928	**(491,837)**	**318,091**	**Cost of Services**	**786,659**	**(471,565)**	**315,094**
		7,406	Other operating expenditure			(688)
		33,920	Financing and investment income and expenditure (Note 4)			26,727
		0	Surplus or deficit of discontinued operations			
		(317,046)	Taxation and non-specific grant income			(347,547)
		42,371	**(Surplus) or Deficit on Provision of Services (Note 9)**			**(6,414)**
		(168)	Share of the surplus or deficit on the provision of services by associates (Note 5)			(116)
		59	Tax expenses of subsidiaries (Note 7)			4
		0	Tax expenses of associates (Note 8)			13
		42,262	**Group (Surplus)/Deficit**			**(6,513)**
		20,858	Surplus or deficit on revaluation of non-current assets			(30,844)
		0	Surplus or deficit on revaluation of available-for-sale financial assets			
		276,370	Actuarial gains/losses on pension assets / liabilities			(180,893)
		0	Share of other comprehensive income and expenditure of associates and joint ventures			
		297,228	**Other Comprehensive Income and Expenditure**			**(211,737)**
		339,490	**Total Comprehensive Income and Expenditure**			**(218,250)**

Group Balance sheet (BS)

01 Apr 09	31 Mar 10		Notes	31 Mar 10	31 Mar 10
2009	**2010**			**2011**	**2011**
£000	£000			£000	£000
949,388	901,056	Property, plant and equipment)	10	869,302	
7,556	7,410	Investment property		7,914	
281	8	Intangible assets	11	93	
		Assets held for sale			
28,807	26,160	Long term investments	13	26,386	
1,897	1,980	Investments in Associates and Joint Ventures	14	8,728	
13,991	16,096	Long term debtors		19,750	
		Deferred Tax Asset			
1,001,920	**952,710**	**Long term assets**			932,174
26,551	12,128	Short term investments		20,482	
321	334	Assets held for sale		790	
736	778	Inventories		789	
71,870	78,535	Short term debtors		86,106	
20,708	48,415	Cash and cash equivalents	15	21,025	
		Current Tax Asset			
120,186	**140,190**	**Current assets**	16		129,192
		Cash and cash equivalents			
(176,926)	(187,853)	Short term borrowing		(175,023)	
(70,518)	(80,882)	Short term creditors		(81,820)	
		Provisions		0	
		Liabilities in disposal groups		0	
	(4)	Current Tax Liability		(4)	
(247,444)	**(268,739)**	**Current liabilities**	17		**(256,847)**
(73,106)	(71,159)	Long term creditors		(66,701)	
(18,533)	(15,858)	Provisions		(14,838)	
(296,104)	(293,965)	Long term borrowing		(342,861)	
(193,115)	(480,067)	Other long term liabilities		(207,228)	
		Donated assets account		0	
(7,754)	(16,549)	Capital grants receipts in advance		(8,079)	
		Deferred Tax Liability			
(588,612)	**(877,598)**	**Long term liabilities**			**(639,707)**
286,049	**(53,437)**	**Net assets**			164,813
31,816	39,123	Usable reserves	19		37,975
254,233	(92,560)	Unusable reserves	18		126,838
286,049	**(53,437)**	**Total reserves**			**164,813**

Group cash flow statement

2009/10 £000		2010/11 £000
42,316	Net (surplus) or deficit on the provision of services	(6,435)
(92,497)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	30,655
(2,022)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(3,189)
(52,203)	Net cash flows from Operating Activities (Note 20)	21,031
34,073	Investing Activities (Note 21)	45,024
(9,577)	Financing Activities (Note 22)	(38,666)
(27,707)	Net (increase) or decrease in cash and cash equivalents	27,389
20,708	Cash and cash equivalents at the beginning of the reporting period	48,415
48,415	Cash and cash equivalents at the end of the reporting period (Note 15)	21,025

Notes to group accounts

Index to notes:

1. Accounting Policies

The group accounts include the Council's share of the operating results, assets and liabilities of each group entity's accounts, rather than just the historical cost of the investment. Subsidiaries are accounted for on an acquisition basis and incorporated line-by-line, writing out inter-group transactions. Associates and joint ventures are incorporated by accounting for the Council's share of their operating results in the group income and expenditure account and of their assets in the group balance sheet.

Furthermore, it is necessary that group accounts are internally consistent, i.e. that each group entity's accounts are adjusted so that all are presented adopting the same policies. The policies adopted are those that apply to the Council, as set out in this section.

In these accounts, interim financial statements have been used for any entities with a financial year that differs from the Council's of 1 April to 31 March. These interim statements have been produced using the entities' annual financial statements and relevant management accounting information.

2. Adjustments between group accounts and Council account

There have been no adjustments between group accounts and Council accounts in 2010/11.

3. Housing revenue account (HRA)

The operating expenditure and income of Salix Homes Ltd including FRS17 current service pension cost, has been included within the housing revenue account line on the group income & expenditure account.

Intragroup transactions between the Council and Salix Homes Ltd have been removed from the income and expenditure figures of both accounts. Salix Homes Ltd adjusted income is £0.124m and adjusted expenditure is £20.934m (adjusted income was £0.472m and adjusted expenditure was £23.061m in 2009/10).

4. Financing and investment income and expenditure

	2009/10 £000	2010/11 £000
Interest Receivable:		
Salix Homes	13	14
Urban Vision	0	1
Interest Payable:		
Higher Broughton (GP)	(55)	(22)
Total	**(42)**	**(7)**

5. Share of the surplus or deficit on the provision of services by associates

This includes the percentage share of operating results for the associate companies: Higher Broughton Partnership LP – surplus of £81,000 in 2010/11 (surplus of £186,000 in 2009/10, £32,000 relating to 2009/10 and £154,000 to correct a misreporting from 2008/09 when the company was incorrectly reported to be dormant); and Urban Vision Partnership Ltd. – surplus of £43,000 in 2010/11 (loss of £18,000 in 2009/10, £109,000 surplus relating to 2009/10 and a negative £127,000 adjustment to surpluses previously reported).

6. Defined benefit pension scheme

Salix Homes Ltd operates the same Local Government Pension Scheme (LGPS) for its employees as that operated by Salford City Council and described in the single entity statements.

In 2011/12 Salix Homes expects to pay £0.776m employer's contributions to the scheme.

The following table summarises the additional transactions for Salix Homes Ltd that are included in the group income and expenditure account.

	Salix Homes	
	2009/10 £000s	2010/11 £000s
Comprehensive income and expenditure statement		
Within cost of services:		
Current service cost	504	1,039
Past service cost	11	(2,257)
Impact of settlements and curtailments	0	0
Within financing and investment income and expenditure:		
Interest cost	638	929
Expected return on scheme assets	(492)	(796)
Net charge to surplus or deficit on the provision of services	**661**	**(1,085)**
Actual amount of employer's contributions payable to scheme	679	761
Employer's contribution rate	15.10%	15.10%

In 2011/12, Salix Homes Ltd expects to pay £0.776m employer's contributions to the scheme.

The cumulative amount of actuarial gains and losses recognised in the comprehensive income and expenditure statement to the 31 March 2011 is a loss of £2.587m (2009/10 loss of £5.280m).

Reconciliation of present value of scheme liabilities

	Salix Homes Ltd Funded liabilities: Local Government Pension Scheme	
	2009/10 £000s	**2010/11 £000s**
Opening defined benefit obligation	(8, 835)	(18,067)
Current service cost	(504)	(1,039)
Interest cost	(638)	(929)
Contributions by members	(311)	(329)
Actuarial gains/(losses)	(7,768)	(77)
Past service costs	(11)	2,257
Gains/(losses) on curtailments	-	-
Estimated benefits paid	-	181
Liabilities extinguished on settlement	-	-
Closing defined benefit obligation	**(18,067)**	**(18,003)**

Reconciliation of fair value of scheme assets

	Salix Homes Ltd assets: Local Government Pension Scheme	
	2009/10 £000s	**2010/11 £000s**
Opening asset balance	7,320	11,100
Expected return on assets	492	796
Contributions by members	311	329
Employer contributions	679	761
Actuarial gains/(losses)	2,298	2,770
Benefits paid	-	(181)
Assets distributed on settlement	-	-
Closing asset balance	**11,100**	**15,575**

The actual return on scheme assets in the period was a gain of £0.775m (2009/10 a loss of £2.794m) for Salix Homes Ltd.

History of scheme balance

	2006/07 £000	**2007/08** £000	**2008/09** £000	**2009/10** £000	**2010/11** £000
Salix Homes Ltd					
Fair value of employer assets	-	7,785	7,320	11,100	15,575
Present value of defined benefit obligation	-	(8,283)	(8,835)	(18,067)	(18,003)
Surplus/(deficit)	-	(498)	(1,515)	(6,967)	(2,428)

History of experience gains and losses

Actuarial gains (and losses), measured as a percentage of assets and liabilities at the period end, are set out below.

	2006/07 %	**2007/08** %	**2008/09** %	**2009/10** %	**2010/11** %
Salix Homes Ltd					
Difference between the expected and actual return on assets	-	(12.1)	(27.2)	20.7	17.8
Experience gains (/losses) on liabilities	-	0.0	0.0	0.0	0.0

*Measured as proportion of assets prior to settlement.

7. Tax expenses of subsidiaries

This figure represents the Council's share of the Corporation Tax due by its subsidiary Salix Homes Ltd £4,000 (£30,000 in 2009/10).

8. Tax expenses of associates

This figure represents the Council's share of the Corporation Tax due by its associate Urban Vision Partnership Ltd, £13,000 (£29,000 in 2009/10).

9. (Surplus)/deficit on the provision of services

This figure represents the amount of the total Group deficit attributable to the Council's subsidiaries Salix Homes Ltd, surplus of £2,332,000 (surplus of £81,000 in 2009/10), and NPHL, surplus/deficit of £0 (deficit of £300,000 in 2009/10).

10. Property, plant and equipment

This figure includes the fixed assets of the subsidiary Salix Homes Ltd £192,000 (£241,153 in 2009/10).

	Vehicles, plant etc £000
Gross book value at 1 April 09	181
Additions	162
Gross book value at 31 March 10	343
Gross book value at 1 April 10	343
Additions	5
Gross book value at 31 March 11	348
Accumulated depreciation to 1 April 10	102
Depreciation 2010/11	54
Accumulated depreciation at 31 March 11	156
Net book value 31 March 11	**192**

11. Intangible assets

No goodwill arose in respect of the subsidiaries as the Council set up the companies and retained ownership of the fixed assets.

12. Financial Instruments

Details of financial instruments can be found in note 15 to the Council-only financial statements.

13. Long term investments

Investments figure is the figure in the Salford single entity accounts adjusted to exclude amounts invested in joint ventures.

14. Investments in Associates and Joint Ventures

	1 April 2009 £m	**2009/10 £m**	**2010/11 £m**
Higher Broughton LP	(0.220)	(0.243)	(0.030)
Salford Hundred Venture	0.130	0.130	0.130
Urban Vision	0.412	0.364	0.396
Trinity ICP	1.575	1.575	1.574
City of Salford Community Stadium Ltd	0	0	6.658
Total	**1.897**	**1.826**	**8.728**

15. Cash and cash equivalents

The balance of cash and cash equivalents is made up of the following elements:

	1 April 2009 £000	31 March 2010 £000	31 March 2011 £000
Cash and cash equivalents held by the Council	18,424	46,025	18,242
Cash and cash equivalents held by Salix Homes	2,169	2,390	2,783
Cash and cash equivalents held by NPHL	115	0	0
	20,708	**48,415**	**21,025**

16. Current assets

The current assets in this figure have incorporated the assets of the subsidiary Salix Homes Ltd £3.530m (£3.184m 2009/10, £2.921m in 2008/09) and intra group debtors have been removed from the Council's and Salix Homes Ltd figures.

17. Current liabilities

The current liabilities in this figure have incorporated the liabilities of the subsidiary Salix Homes £3.048m (£3.145m in 2009/10, £2.955m in 2008/09), of which £4,000 relates to a Corporation Tax liability. Intra group creditors have been removed from both the Council's and subsidiary figures.

18. Unusable Reserves

Unusable reserves is the Council only figure adjusted for unusable reserves from the subsidiary Salix Homes Ltd of -£2.428m (-£6.918m in 2009/10), and Salford Hundred Venture Ltd of 0.130m (0.130m in 2009/10).

19. Usable reserves

The figure includes the Council's share of the accumulated profits and losses made by the subsidiary, associate and joint venture companies:-

	Balance 1 April 2009 £000	Balance 31 March 2010 £000	Balance 31 March 2011 £000
Salix Homes Ltd	28	281	674
Higher Broughton LP	(220)	(89)	(30)
Salford Hundred Venture Ltd		0	0
Urban Vision Ltd	412	364	396
City of Salford Community Stadium Ltd		0	(9)
Total usable reserves	**220**	**556**	**1,030**

20. Cash flow statement – operating activities

The cash flows for operating activities include the following items:

	31 March 2010 £000	31 March 2011 £000
Interest received	(3,660)	(291)
Interest paid	20,994	18,908
Dividends received	(1,006)	(1000)

21. Cash flow statement – investing activities

	31 March 2010 £000	31 March 2011 £000
Purchase of property, plant and equipment, investment property and intangible assets	60,533	82,234
Purchase of short-term and long-term investments	301	6,667
Other payments for investing activities	61,843	64,158
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(7,010)	(15,323)
Capital grants	(69,462)	(84,049)
Proceeds from short-term and long-term investments	(12,136)	(8,667)
Income Tax Paid	4	4
Net cash flows from investing activities	34,069	**45,024**

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22. Cash flow statement – financing activities

	31 March 2010 £000	31 March 2011 £000
Cash receipts of short- and long-term borrowing	(176,013)	(213,053)
Other receipts from financing activities	0	0
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	1,553	2,749
Repayments of short- and long-term borrowing	168,545	176,929
Other payments for financing activities	(3,662)	0
Net cash flows from financing activities	(9,577)	**(38,666)**

23. Contingent Liabilities

Details of contingent liabilities relating to the group can be found in the single entity accounts in note 48.

24. Amounts Reported for Resource Allocation Decisions

Results of group members are not reported in internal management reports. Therefore, the group members' results are not reportable segments but included as items not reported to management for decision making purposes. They will be consolidated below as adjusting items in the reconciliation.

Reconciliation of segment income and expenditure to cost of services in the group comprehensive income and expenditure statement

This reconciliation shows how the figures in the analysis of segment income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	2009/10 £000	2010/11 £000
Cost of services in service analysis	237,926	225,975
Add services not included in main analysis	0	0
Net Expenditure of Subsidies not included in the analysis	202	(2,322)
Add notional amounts not reported to management	134,425	109,186
Remove amounts reported to management not included in CIES	(54,462)	(17,745)
Net cost of services in CIES	**318,091**	**315,094**

Reconciliation to subjective analysis

This reconciliation shows how the figures in the analysis of segment income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Group Comprehensive Income and Expenditure Statement.

	Service analysis	Amounts not reported to management	Net expenditure of subsidiaries not included in analysis	Reported to management but not included in cost of services	Allocation of recharges	Net cost of services	Corporate Amounts	Surplus or deficit on the provision of services
	2010/11	2010/11	2010/11	2010/11	2010/11	2010/11	2010/11	2010/11
	£000	£000	£000	£000	£000	£000	£000	£000
Employee expenses	248,181	(79,792)	5,517	(23,900)	(17,427)	132,579		132,579
Other service expenses	498,568	(1,832)	17,593	(14,202)	(9,319)	490,808	(537)	490,271
Support service recharges	27,572				(27,572)	0		0
Depreciation, amortisation and impairment		190,810	54			190,864		190,864
Interest payments	17,965			(17,965)		0	29,765	29,765
Payments to Housing capital receipts pool						0	606	606
Gain or loss on disposal of fixed assets						0	(1,295)	(1,295)
Total operating expenses	**792,286**	**109,186**	**23,164**	**(56,067)**	**(54,318)**	**814,251**	**28,539**	**842,790**
Fees, charges & other service income	(201,711)		(25,486)	543	54,318	(172,336)	(90,699)	(263,035)
Surplus/Deficit on Associates and Joint Ventures			21			21		21
Interest and investment income	(1,964)		(14)	1,964		(14)	(1,964)	(1,978)
Income from council tax						0	(91,344)	(91,344)
Government grants and contributions	(362,636)			35,815		(326,821)	(166,046)	(492,867)
Total income	**(566,311)**	**0**	**(25,479)**	**38,322**	**54,318**	**(499,150)**	**(350,053)**	**(849,203)**
(Surplus) or deficit on the provision of services	**225,975**	**109,186**	**(2,315)**	**(17,745)**	**0**	**315,101**	**(321,514)**	**(6,413)**

	Service analysis	Not reported to management	Net expenditure of subsidiaries not included in analysis	Reported to management but not included in cost of services	Allocation of recharges	Net cost of services	Corporate Amounts	Surplus or deficit on the provision of services
	2009/10 £000s	2009/10 £000s	2009/10 £000s	2009/10 £000s	2009/10 £000s	2009/10 £000s	2009/10 £000s	2009/10 £000s
Employee expenses	246,524	17,573	7,133	(22,800)	(15,314)	233,116		233,116
Other service expenses	486,380	(3,716)	17,878	(14,021)	(8,501)	478,020	144	478,164
Support service recharges	26,695				(26,695)	0		0
Depreciation, amortisation and impairment		120,568	53			120,621	0	120,621
Interest payments	20,738			(20,738)		0	36,838	36,838
Payments to Housing capital receipts pool						0	301	301
Gain or loss on disposal of fixed assets				(7)		(7)	7,105	7,098
Total operating expenses	**780,337**	**134,425**	**25,064**	**(57,566)**	**(50,510)**	**831,750**	**44,388**	**876,138**
Fees, charges & other service income	(212,051)		(24,862)	528	50,510	(185,875)	(72,804)	(258,679)
Surplus/Deficit on Associates and Joint Ventures			55			55		55
Interest and investment income	(2,576)		(13)	2,576		(13)	(2,576)	(2,589)
Income from council tax						0	(89,916)	(89,916)
Government grants and contributions	(327,784)					(327,784)	(154,854)	(482,638)
Total income	**(542,411)**	**0**	**(24,820)**	**3,104**	**50,510**	**(513,617)**	**(320,150)**	**(833,767)**
(Surplus) or deficit on the provision of services	**237,926**	**134,425**	**244**	**(54,462)**	**0**	**318,133**	**(275,762)**	**42,371**

Part IV other information

This part is for information only. It does not form part of the audited financial statements.

General statistics

31 March 10		31 March 11
	People	
	Population (estimated by the Registrar General from the 2001 census)	
12,205	Under 5	12,205
35,146	5-17	35,146
134,933	18-64	134,933
18,179	65-74	18,179
15,896	75 and over	15,896
216,359	Total	**216,359**
	Place	
97	Area (square kilometres)	**97**
	Politics	
	Political make-up of the Council as at 31 March	
36	Labour	39
13	Conservative	13
7	Liberal Democrat	5
4	Independent	3
60		**60**
	Political make-up of the Council following the local election	**6 May 11**
	Labour	44
	Conservative	11
	Liberal Democrat	3
	Independent	2
		60

Glossary

This section is intended to provide an easily understandable guide to what may be unfamiliar terms used in this document and other Council financial publications. Descriptions of accounting terms may therefore be simplified and not be in strict accordance with their true accounting meaning as used in the audited statements.

Actuarial gains and losses

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because (a) events have not coincided with the actuarial assumptions made for the last valuation or (b) the actuarial assumptions have changed.

Agency services

Services which are performed by or for another authority or public body, where the principal (the authority responsible for the service) reimburses the agent (the authority doing the work) for the cost of the work carried out.

Aggregate external finance (AEF)

The financial support provided by Government for revenue expenditure on services that impact on the council tax. AEF comprises revenue support grant, redistributed national non-domestic rates, and specific grants.

Amortisation

The accounting technique of recognising a cost in the revenue account over a period of years rather than when the initial payment is made. Its purpose is to charge the cost over the accounting periods that gain the benefit of the item paid for.

Appointed auditors

External auditors of local authorities appointed by the Audit Commission. In the Council's case they are from the Commission's own operations division.

Area-based grant (ABG)

To increase local flexibility over the use of resources and reduce reporting requirements, the government consolidated a number of former service-specific grants into ABG. ABG is a non-ring-fenced general grant that currently runs for three years from 2008/09 to 2010/11.

Arms-length management organisation (ALMO)

An ALMO is a company set up to manage and improve council housing stock. It is owned by the local authority but operates "at arms-length" under a management agreement between it and the local authority.

Assets

Items of worth which are measurable in money terms. Current assets are ones that may change in value on a day-to-day basis (e.g. stocks). Non-current, or “fixed”, assets are tangible assets that yield benefit to the Council and the services it provides for a period of more than one year.

Audit

See external audit.

Associate

An entity other than a subsidiary or joint venture in which the reporting authority has a participating interest and over whose operating and financial policies the reporting authority is able to exercise significant influence.

Budget requirement

The estimated revenue expenditure on general fund services that need to be financed from the council tax after deducting income from fees and charges, certain specific grants and any funding from reserves. It is referred to by the Secretary of State for Communities and Local Government when deciding the criteria for capping local authority revenue expenditure.

Business improvement districts (BIDs)

A Government initiative whereby additional services or improvements which are of benefit to the community in a particular area can be funded by a levy raised by an addition to the non-domestic rate. The Council does not have any BIDs.

Business rates

See under national non-domestic rates (NNDR)

Cabinet

The Cabinet comprises the Leader of the Council, Deputy Leader plus the eight Lead Members. The Council constitution sets out the roles of individual Cabinet members and details of their respective portfolios.

Capital expenditure

Expenditure on the acquisition of a fixed asset, or expenditure which adds to, and not merely maintains, the value of an existing fixed asset. Capital expenditure is charged to the revenue account over a number of years via a capital financing charge.

Capital financing charges

The annual charge to the income & expenditure account in respect of the minimum revenue provision and interest on money borrowed together with leasing rentals.

Capital financing requirement (CFR)

A measure of an authority's underlying need to borrow to finance its investment. Calculated by aggregating fixed assets, revenue expenditure funded from capital under statute, fixed asset restatement account, capital financing account and government grants deferred from the balance sheet.

Capital grants

Grants received towards capital expenditure on a particular service or project.

Capital receipts

Money received from the sale of land or other capital assets, a proportion of which may be used to finance new capital expenditure, subject to the provisions contained within the Local Government Act 2003.

With effect from 1 April 2004 75% of housing dwelling capital receipts and 50% of other housing receipts must be paid to the Secretary of State; the balance is available for financing capital expenditure.

Capping

A system of controlling the spending of local authorities whereby the Government limits a local authority's budget requirement and hence the council tax it sets either because it is deemed excessive or is deemed to show an excessive increase over the previous year.

CIPFA

The Chartered Institute of Public Finance and Accountancy, the professional accountancy body for public services.

Code of practice on local authority accounting in the UK (“the Code”)

Published by CIPFA, this document interprets the application of IFRSs to local authority accounting.

Collection fund

The transactions of the Council as a charging authority in relation to non-domestic rates and council tax.

Community assets

Assets that the Council intends to hold in perpetuity, which have no determinable finite useful life and in addition may have restrictions on their disposal. Examples include parks, historical buildings not used for operational purposes, works of art, museum exhibits and statues.

Comprehensive spending review (CSR)

The Government's three-year forecast of planned expenditure, including overall provision for local authorities.

Council tax

The main source of local taxation to local authorities. Council tax is levied on households within its area by the billing authority and the proceeds are paid into its collection fund for distribution to precepting authorities and for use by its own general fund.

Council tax benefit

Assistance provided by billing authorities to adults on low incomes to help them pay their council tax bill. The cost to authorities of council tax benefit is largely met by government grant.

Creditors

Amounts owed by the Council for goods and services provided where payment has not been made at the date of the balance sheet.

Current service costs

The increase in the present value of a defined benefit pension scheme's liabilities expected to arise from employee service in the current period, ie the ultimate pension benefits "earned" by employees in the current year's employment.

Debt charges

A term sometimes used to refer to capital financing costs.

Debtors

Sums of money due to the Council but not received at the date of the balance sheet.

Defined benefit scheme

A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

Defined contribution scheme

A pension or other retirement benefit scheme into which an employer pays regular contributions as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

DEFRA

Government Department for Environment, Food and Rural Affairs.

Depreciation

The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, the passage of time or obsolescence through technological or other changes.

Derecognition

Where an asset or liability has previously been held (“recognised”) on the balance sheet, but proper practice now requires that it be removed, it is “derecognised”.

Direct revenue financing

The method of financing capital expenditure directly from revenue. The Council may determine that certain capital schemes should be financed in this way or alternatively may include a prescribed sum in the revenue budget for this purpose.

Discretionary benefits

Retirement benefits which the employer has no legal, contractual or constructive obligation to award and which are awarded under the Council’s discretionary powers.

External audit

The independent examination of the activities and accounts of local authorities to ensure the accounts have been prepared in accordance with legislative requirements and proper practices and to ensure the authority has made proper arrangements to secure value for money in its use of resources.

Fair value

The price at which an asset could be exchanged in an arm’s length transaction, less any grants receivable towards the purchase or use of the asset.

Finance lease

A lease of land, buildings or equipment where the substance of the transaction is that the balance of risks and rewards of holding the asset is borne by the lessee. It is accounted for in a similar manner to borrowing.

Financial regulations

A written code of procedures approved by the authority, intended to provide a framework for proper financial management. Financial regulations usually set out rules on accounting, audit, administrative and budgeting procedures.

Financial reporting standards (FRSs)

The Council's accounts are now prepared under International financial reporting standards (IFRSs). See that entry.

General fund

The total revenue services of the Council except for the housing revenue account. The net cost is met by the collection fund, government grants and re-distributed NNDR. Any accumulated surplus is known as the general fund balance, a useable reserve.

Housing benefit

An allowance to persons on low income (or none) to meet, in whole or part, their rent. Benefit is allowed or paid by local authorities but Government refunds part of the cost of the benefits and of the running costs of the services to local authorities. Benefits paid to the authority's own tenants is known as rent rebate and that paid to private tenants as rent allowance.

Housing investment programme (HIP)

Annual submissions by local authorities to Government which outline the strategy for meeting housing needs and details capital spending plans. HIP submissions are used by the Department for Communities and Local Government as the basis for issuing annual capital guidelines for housing to local authorities.

Housing revenue account (HRA)

Local authorities are required to maintain a separate account - the housing revenue account - which sets out the expenditure and income arising from the provision of council housing. Other services are charged to the general fund.

HRA Subsidy

A government grant paid to some housing authorities towards the cost of providing, managing and maintaining dwellings and paying housing benefits to tenants.

Income

Amounts due to the Council for goods supplied or services rendered of either a capital or a revenue nature. This does not necessarily involve a cash payment - income is deemed to have been earned once the goods or services have been supplied even if the payment has not been received (in which case the recipient is a debtor to the Council).

Infrastructure assets

These are assets which generally cannot be sold, from which benefit can be obtained only by continued use of the asset created. Examples of such assets are highways, footpaths, bridges, and water and drainage facilities.

International financial reporting standards (IFRSs)

Statements prepared by the International Accounting Standards Board to ensure consistency in accountancy matters. Local government accounts follow these standards which are interpreted through the Code of practice on local authority accounting in the UK, published by CIPFA.

Joint venture

An entity in which the reporting authority has an interest on a longer term basis and is jointly controlled by the reporting authority and one or more other entities under a contractual or other binding arrangement.

Liquid resources

Current asset investments that are readily disposable by the Council without disrupting its activities and are readily convertible to known amounts of cash.

Loan charges

A term sometimes used to refer to capital financing charges.

LOBO ("lender offer borrower option")

A LOBO is a type of loan instrument. The borrower borrows a principal sum for the duration of the loan period (typically 20 to 50 years), initially at a fixed interest rate. Periodically (typically every six months to 3 years), the lender has the ability to alter the interest rate. Should the lender make this offer, the borrower then has the option to continue with the instrument at the new rate or alternatively to terminate the agreement and pay back the principal sum with no other penalty.

Local area agreements

Government initiative to improve co-ordination between Government and local authorities and their partners, working through local strategic partnerships.

Local authority business growth incentives (LABGI)

A grant to stimulate economic development by allowing local authorities to retain a share of extra revenue raised through national non domestic rates from new business property. The grant is linked to the increase in the total rateable value.

Local authority finance settlement (LAFS)

The product of the annual consultation process between central and local government which sets funding levels for local government in the following year. LAFS is announced in late November/early December following the Chancellor of the Exchequer's November statement on public expenditure.

Local improvement finance trust (LIFT)

A health sector programme similar to the private finance initiative (PFI). Salford NHS PCT has a number of LIFT schemes in the city of Salford and the Council has a shared interest in some of these under the "Gateway" banner. The Gateway centres provide health, library and one-stop shop services under one roof.

Local public service agreements (LPSAs)

Agreements between the government and local authorities to deliver improved outcomes in key areas in return for greater flexibility and rewards for success.

Local schools budget (LSB)

This includes all planned expenditure on maintained schools, ie the expenditure managed centrally by the local education authority and that delegated to schools via the individual schools budget (ISB) funding formula.

Material/ity

The accounts are prepared so that significant – or "material" – aspects are reported. Materiality is a judgement that is determined usually by virtue of the monetary value of the item, but also by other factors, for example public interest in officers' remuneration. An item that is not material is one that would not affect the interpretation of the accounts by an informed reader. The Code's disclosure requirements are therefore lifted for items where transactions and balances are not material.

Minimum revenue provision (MRP)

The minimum amount which must be charged to an authority's income & expenditure account each year and set aside as provision to repay debt, as determined by a policy set by the Council each year.

National non domestic rate (NNDR) (also known as business rates)

A levy on business property, based on a national rate in the pound applied to the 'rateable value' of the property. The Government determines a national rate poundage each year which is applicable to all local authorities. Local authorities collect the non-domestic rate but the proceeds are pooled and distributed by the Government on the basis of an authority's population.

Neighbourhood renewal fund (NRF)

A government initiative introduced in 2001/02 to assist local communities to deliver better outcomes for their most deprived areas.

Net current replacement cost

The cost of replacing or recreating a particular asset in its existing condition and in its existing use, i.e., the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

Net debt

The Council's borrowings less cash and liquid resources.

Net realisable value

The open market value of the asset in its existing use (or open market value in the case of non-operational assets) less the expenses to be incurred in realising the asset.

Office for Standards in Education (Ofsted)

A non-ministerial government department, independent from the Department for Education.

Operating lease

A type of lease, typically of computer equipment, office equipment, furniture, vehicles etc where the balance of risks and rewards of holding the asset remains with the lessee. It is accounted for as a simple rental.

Past service costs

The annual cost of discretionary pension benefits awarded on previous early retirements.

Pension fund

An employees' pension fund maintained by an authority, or group of authorities, in order to make pension payments on the retirement of participants. It is financed from contributions from the employing authority and the employee and from investment income.

Precept

The amount levied by various authorities (e.g. the Greater Manchester Police Authority) which is collected by the Council on their behalf.

Precepting authorities

Those authorities which are not billing authorities, ie do not collect the council tax and non-domestic rate. County councils, police authorities and joint authorities are 'major precepting authorities' and parish, community and town councils are 'local precepting authorities'. The Council does not have any in the latter category.

Private finance initiative (PFI)

A Government initiative which aims to increase the level of funding available for public services by attracting private sources of finance. The PFI is supported by a number of incentives to encourage authorities' participation and is normally delivered via a public private partnership (PPP). Typically, the private sector partner designs, builds and finances an asset and the public sector partner pays a unitary charge, similar to a lease, to use the asset.

Projected unit method

The method used by the actuary to value the Council's pension liability at a particular date. The method makes assumptions about mortality rates, salary levels etc and values the liability for:

- the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases and
- the accrued benefits for members in service on the valuation date.

Provisions

These are sums set aside to meet liabilities or losses which it is anticipated will be incurred but where the amount and/or the timing of such costs is uncertain.

Prudential limits

The means by which the Council controls its level of borrowing. The limits set must be prudent, affordable and sustainable in the long term.

Prudential borrowing

See unsupported borrowing.

Public private partnership (PPP)

Generic term for the relationships formed between the private sector and public bodies often with the aim of introducing private sector resources and/or expertise in order to help provide and deliver public sector assets and services.

Public service agreement (PSA)

Statements of the aims, objectives and targets to be achieved by public bodies with the funding provided through the comprehensive spending review.

Public works loans board (PWLB)

An independent statutory body which can make loans to local authorities and other prescribed bodies. Monies are provided by acts of parliament and drawn from the national loans fund.

Related parties

For the purposes of the Council's accounts related parties are the Government, other local authorities, precepting and levying bodies, subsidiary and associated companies, elected members, senior officers and the pension fund. For individuals identified as related parties, the following are also presumed to be related parties:

(i) Members of the close family, or the same household; and

(ii) Partnerships, companies, trusts or other entities in which the individual, or member of their close family or the same household, has a controlling interest.

Reserves

These are sums set aside to meet possible future costs where there is no certainty about whether or not the costs will actually be incurred.

Revenue expenditure

Expenditure incurred on the day to day running of the Council; the costs principally include employee expenses, capital financing charges and general running costs.

Revenue support grant (RSG)

A grant paid by the Government to every local authority to help to finance its expenditure generally and not specific services. The grant helps to bridge the gap between council tax and NNDR income on one hand and the total assessment of the Council's need to spend on the other (as measured by the standard spending assessment). The payment of RSG attempts to ensure that differences in spending needs and resources between authorities are equalised, in order to permit each authority to support a standard level of spending.

Section 137 expenditure

Under section 137 of the Local Government Act 1972 local authorities are allowed to spend a limited amount to do things they are not otherwise empowered to do, but which they consider to be in the interests of their area or its inhabitants, and which will produce a benefit commensurate with the expenditure involved.

Service concession

These arrangements typically involve an authority allowing an operator the right to provide services that give the public access to major economic and social facilities.

Simple investment

Where, in group accounts, the reporting authority's interest does not qualify the entity as a subsidiary, associate or a joint venture because the reporting authority has limited influence or its interest is not long-term.

Specific grants

Government grants to local authorities in support of particular services or schemes.

Standing orders

The set of rules adopted by the authority which establish the procedures by which it should conduct its business. In particular, there must be standing orders relating to tendering and contract procedures.

Statement of recommended practice (SORP)

Statements prepared by the Accounting Standards Board to provide further guidance (beyond that in other standards like SSAPs & FRSs) to particular sectors. From 2010/11, local authority accounting has followed the Code rather than the SORP.

Statements of standard accounting practice (SSAPs)

Statements prepared by the Accounting Standards Board to ensure consistency in accountancy matters. More recently issued standards have been redesignated FRSs.

Subsidiary

An entity over which the reporting authority is able to exercise control over operating and financial policies and is able to gain benefits from the entity or is exposed to the risk of potential losses arising from this control.

Supported capital expenditure

Government support for capital investment can be described as supported capital expenditure (revenue), known as SCE(R), or supported capital expenditure (capital grant), known as SCE(C). Under the Prudential

Capital Finance System, local authorities are free to make their own borrowing decisions subject to an overall national limit. Government support for borrowing through the revenue support grant (RSG) and housing revenue account subsidy (HRAS) is given on the basis of a specified amount of capital expenditure which the borrowing will support.

Total standard spending (TSS)

The total amount which the government determines local authorities should spend to be consistent with national economic guidelines. It is used for calculating the total amount of Government support to local authorities.

Treasury management

The process by which the authority controls its cash flow and its borrowing and lending activities.

Treasury management policy statement

A statement which sets out the parameters which the local authority has approved for the management of treasury activities during the year.

Trust funds

Funds administered by the Council on behalf of charitable organisations and/or specific organisations.

UK GAAP

United Kingdom generally–accepted accounting practice.

Unsupported borrowing ("Prudential borrowing")

Borrowing for which no financial support is provided by Government. The borrowing costs are to be met from current revenue budgets.

VAT shelter

In relation to large scale voluntary transfers of housing stock, a "VAT shelter" is an arrangement allowed by Her Majesty's Revenue and Customs (HMRC) enabling housing associations receiving transfers of housing stock from local authorities to reclaim VAT on their investment programmes. It puts housing associations receiving stock via a transfer on a VAT-level playing field with local authorities.

Virement

The transfer of resources between budget heads. Virement must be properly authorised by the appropriate committee or officers under delegated power.

Further information and contacts

Corporate accountancy team

If you would like further information or to comment on this document, please contact the team.

- telephone 0161 793 3245
- email council.finances@salford.gov.uk
- or write to

Budget Consultation
FREEPOST-RLUE-CELG-RHST
Unity House
Salford Civic Centre
M27 5FJ

Audit Commission

The Audit Commission are the Council's appointed auditors.

- Web site http://www.audit-commission.gov.uk
- Or write to

Audit Commission
2nd Floor, Aspinall House
Aspinall Close
Middlebrook
Horwich
Bolton
BL6 6QQ

Communities and local government

CLG is the government department responsible for local government affairs. Its web site is at http://www.communities.gov.uk

Councillors

Find your councillor at http://www.salford.gov.uk/findyourcouncillors.htm

Council publications

You are recommended to review the **annual governance statement** in conjunction with the statement of accounts. You can find this in the statement of accounts archive at http://www.salford.gov.uk/accounts.htm. Until 2009/10 the annual governance statement (or its predecessor the statement on internal control) was included in the statement of accounts.

For a wider understanding of the Council's operations and performance, the statement of accounts should be read in conjunction with the Council's **corporate plan**. Recent years' plans can be found on our website at http://www.salford.gov.uk/perform.htm.

Comprehensive details of the Council's annual **budget** can be found at http://www.salford.gov.uk/budget.htm

Statutory disclosures of **council expenditure over £500** can be found at http://www.salford.gov.uk/council-expenditure.htm

Statutory disclosures of **senior officer salaries** can be found at http://www.salford.gov.uk/senior-officer-salaries.htm

APPENDIX 3 (2011/2012 FINANCIAL STATEMENTS OF SALFORD CITY COUNCIL)

Salford City Council

Statement of accounts 2011/12

Contents

Part I introductory statements

Foreword by the Chief Financial Officer

1. Introduction

Welcome to the Council's accounts for 2011/12, covering the period from 1 April 2011 to 31 March 2012. Thank you for your interest in our financial affairs. We hope you find the accounts interesting and informative.

These accounts are extremely detailed and technical, so hopefully this foreword will provide an easily understandable guide to the most significant matters reported.

2. Description of the various statements of account

In general, income, expenditure and balances are measured under international financial reporting standards, essentially the same accounting conventions that a large company would use in preparing its audited annual financial statements.

There are two sets of accounts in this document: at Part II the accounts for Salford City Council as a single entity and at Part III the accounts for the Salford City Council group, incorporating the Council's share of its subsidiaries, associates and joint ventures. At the core of each is a set of six financial statements. [Figures below relate to the single entity accounts]

- **Movement in reserves statement (MiRS)**

  This shows how the surplus on the CIES is adjusted to give the true cost to the taxpayer. It shows a headline increase in the Council's general fund balance of £3.7m to £11.9m.

- **Comprehensive income and expenditure statement (CIES)**

  This shows the make-up of the net deficit on the provision of services during the year of £33.3m, which is adjusted in the MiRS to give the true cost to the taxpayer.

- **Balance sheet (BS)**

  This shows the net worth of the Council at the year end of £68m. It shows the total value of the Council's assets to be £1,101 million and its liabilities to be £1,033 million including a pension liability of £324 million.

- **Cash flow statement (CF)**

  This shows the movement in cash through the year and that the Council holds £29.2m in cash and cash equivalents at the year end.

- **Notes to the accounts**

  These comprise mandatory disclosures in accordance with proper practice, and additional material items of interest, with the purpose of providing the reader with sufficient information to have a good understanding of the Council's financial activities.

An introductory paragraph on the face of each of the above statements further explains their purpose and the relationship between them.

In addition to the core financial statements, the single entity accounts include two subsidiary statements, both with accompanying notes.

- Housing revenue account (HRA)

  This reflects the statutory requirement for authorities to maintain separate records for the income and expenditure on council housing.

- Collection fund

  This reflects the statutory requirement for a billing authority to maintain a separate fund showing its transactions relating to non-domestic rates and council tax, and illustrates the way in which these have been distributed to precepting authorities and the Council's general fund.

Another key document which is not part of these accounts but is presented alongside them is the **annual governance statement**, illustrating the context in which the accounts have been prepared. This statement reflects the statutory requirement to conduct an annual review of the effectiveness of corporate governance, including the system of internal control.

3. Financial performance 2011/12

We set a 2011/12 net budget in March 2011 at £228.5m.

The budget is revised throughout the year to reflect the latest forecasts. The Council's budget scrutiny committee are updated on a monthly basis with spend against budget, savings monitoring, risk assessment and prudential indicator information. This regular monitoring allows the early identification of spending pressures and a suitable corrective response.

The table below gives a summary of how expenditure compared with the original budget:

	Original estimate	Actual	Variance
	£m	£m	£m
Net Expenditure			
• Council Services	181.7	178.0	(3.7)
• Levies and charges paid to other bodies	31.1	31.4	0.3
• Interest payable	19.9	21.2	1.3
General government grants within budget requirement			
• Council tax freeze grant	(2.3)	(2.3)	0.0
• New Homes Bonus	(2.0)	(2.4)	(0.4)
• Local services support grant	(1.1)	(1.1)	0.0
Contribution to (/from) general fund balances	1.2	3.7	2.5
	228.5	228.5	0.0
Funded by:			
General Government Grants			
• RSG	(32.0)	(32.0)	0.0
• NNDR	(103.6)	(103.6)	0.0
Local taxpayers	(92.9)	(92.9)	0.0
	(228.5)	(228.5)	0.0

4. Material assets acquired and liabilities incurred

A list of the major capital projects carried out during the year is set out below which includes the significant assets acquired in the year.

Private Housing	**£m**
Disabled Facilities Grants	2.4
Urban Renewal	1.8
Lower Broughton	1.5
Higher Broughton	0.8
Public Housing	
Broughton/Blackfriars	10.5
Ordsall / Langworthy	8.5
New Build	3.3
City-wide	2.9

Disabled Facilities Grants	1.4
Childrens' Services	
BSF	21.4
Wheatersfield School	4.6
Barton Moss Secure Accommodation	2.5
Capital Devolved to Schools	1.6
Holy Family	0.5
Culture and Leisure	
Buile Hill Park	1.8
Fit City Irlam	1.3
Ordsall Hall	1.1
Community Health and Social Care	
Higher Broughton Hub	3.0
Other	
CosCos Loan	15.3
URC Business Plan (Greengate/Chapel St)	11.1
Chapel Street Acquisition Fund	7.8
VER and redundancy payments	5.5
Investment in the highways	4.8
Office Moves	2.8
Media City	2.5
Transport Block 3	2.4
Irwell City Park	2.2
Media Enterprise Centre	1.5

In 2011/12 the Council spent £144.7m in total on capital projects (2010/11 £156.7m). The method of financing is described in note 41 to the core statements. The Council's planned capital expenditure for 2012/13 is £148.2m of which £62.8m relates to major contractually committed schemes as at March 2012, referred to in note 12 to the core statements.

Full details of the capital programme are included in the revenue and capital estimates page of the Council's website.

5. Pension liability and the council as a going concern

The pension liability has risen significantly this year, primarily due to a reduction in the rate at which future liabilities have been discounted and investment returns being less than expected. These effects have been partially offset by the extension of public sector pay restrictions to 2015.

The net pension liability is £323.6m (31 March 11 £204.8m). However, statutory arrangements for funding the deficit through increasing contributions over the remaining working life of employees, as assessed by an independent actuary, mean that the financial position of the Council remains healthy.

Overall, the annual local government finance settlement and the Council's budget process provide the resources required to meet the Council's net service expenditure up to 2011/12. Future settlements, although predicted to fall, accompanied by our budget process driving through efficiency savings, will provide sufficient resources to finance future liabilities. It is therefore appropriate to adopt a going concern basis for the preparation of these financial statements.

6. Material and unusual charges

Our accounts conform to proper practice and contain full and frank disclosures of all material amounts. In 2011/12 there were no material and unusual charges worthy of note.

7. Changes in accounting policies

From 2010/11, the Code of Practice on Local Authority Accounting in the United Kingdom ("the Code") has adopted international financial reporting standards (IFRSs). Heritage assets valued at £30.5m have been recognised for the first time in the balance sheet. Comprehensive coverage is given in disclosure note 13.

8. Changes in statutory functions

There has been no change in statutory functions which might have had an impact on the accounts.

9. Borrowing

Our level of long-term borrowing as at 31 March 2012 was £296m (31 March 2011 £343m), short-term borrowing stood at £168m net of investments (31 March 2011 £144m). The underlying need to borrow is measured by the capital financing requirement, or CFR (see note 41), which increased to £621m (£496m at 31 March 2011). CFR differs from actual borrowing for a number of reasons, including timing differences.

The Council borrows money to finance its non-current assets (where not otherwise financed through asset sales, grants, etc), so the level of borrowing needs to be viewed in the light of a net long term asset value of £962m (2010/11 £962m).

From a prudency perspective, statutory arrangements for minimum revenue provision ensure that money is set aside for the repayment of debt over an appropriate period, and the Council is statutorily obliged to maintain its borrowing within affordable limits, in particular to ensure that the impact upon its future council tax/rent levels is acceptable.

10. Capital financing

The Council manages a capital programme, spending monies on the creation and acquisition of assets that will give benefit to the area beyond the present. In 2011/12 we spent £144.7m on capital projects (2010/11 156.7m) and the categories and methods of financing are shown in the property, plant and equipment note 12. The budgeted capital programme for 2012/13 is £128.0m.

The Council has adequate sources to fund its planned capital expenditure including:

- "supported" borrowing, where government grants cover the debt charges
- unsupported (or "prudential") borrowing, where the Council uses its own revenue resources to cover the debt charges within affordable limits
- capital grants
- usable capital receipts arising from the sale of some of the Council's other assets
- such amounts as the Council decides to fund direct from the revenue budget.

Full details of the capital programme are included in the revenue and capital estimates page of our website.

11. Significant provisions or contingencies and material write-offs

The Council sets aside provisions for known liabilities and these are described in note 23.

12. Material events after 31 March

These accounts record the Council's financial position at 31 March. Where significant events occur after that date, they are recorded in Note 6.

13. Effects of the recession

The recession has badly affected people and businesses in the city of Salford. Demands on our services are therefore higher than ever before while the resources available to the Council have fallen through cuts in government grants and a desire to avoid council tax increases. Wherever possible, we are making the necessary savings through efficiency measures to avoid an impact on front-line services, while at the same time trying to safeguard people's jobs.

Stagnation in the real estate sector means that we are unable to generate high levels of income from sales of council houses and other assets. In previous years such capital receipts would have financed the capital programme. Instead we are relying on additional borrowing, within affordable "Prudential" limits to finance new works. When new receipts are generated, they are being used first to repay this additional debt.

The net budget for 2012/13 has been set at £221.3m, a 3.2% decrease on the comparable 2011/12 budget of £228.5m. However, in real terms the reduction in resources has been much larger owing to the effects of inflation, additional service pressures and funding changes, and the Council has had to make budget reduction and efficiency savings of £18.1m to balance the budget. We have been able to achieve a nil% increase in council tax for the Council's services (2011/12 also nil%), continuing our record of being amongst the lower increases in the country.

Independent auditor's report to the members of Salford City Council

Opinion on the financial statements

I have audited the financial statements of Salford City Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Salford City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My 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 me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Salford City Council as at 31 March 2012 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Salford City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Delay in certification of completion of the audit

I cannot formally conclude the audit and issue an audit certificate until I have completed the work necessary to issue my assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. I am satisfied that this work does not have a material effect on the financial statements or on my value for money conclusion.

Mick Waite
Officer of the Audit Commission
Aspinall House
Aspinall Close
Middlebrook, Horwich
Bolton, BL6 6QQ
28 September 2012

Statement of responsibilities

1. The Council's responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. For the Council that officer is the Chief Financial Officer;
- manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets;
- consider and approve the statement of accounts.

2. The Chief Financial Officer's responsibilities

The Chief Financial Officer is responsible for the preparation of the Council's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom 2011/12* [the Code].

In preparing this statement of accounts, the Chief Financial Officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code.

The Chief Financial Officer has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certification

I certify that the statement of accounts that follows presents a true and fair view of the financial position of the Council as at 31 March 2012 and its income and expenditure for the year to 31 March 2012.

Neil Thornton
Chief Financial Officer
24 September 2012

Approval of the statement of accounts

In accordance with Regulation 8(3) of the Accounts and Audit Regulations 2011, I certify that the statement of accounts was considered and approved by the Audit and Accounts Committee at its meeting of 26 September 2012.

Councillor Robin Garrido
Chair of Audit and Accounts Committee
26 September 2012

Part II single entity accounts

Movement in reserves statement (MiRS)

This statement shows the movement in the year on the different reserves held by the Council, analysed into usable reserves, ie those that can be applied to fund expenditure or reduce local taxation, and other reserves. The surplus or (deficit) on the provision of services line shows the true economic cost of providing the Council's services, more details of which are shown in the comprehensive income and expenditure statement. These are different from the statutory amounts required to be charged to the general fund balance and the housing revenue account for council tax-setting and dwellings rent-setting purposes. The Net increase/decrease before transfers to earmarked reserves line shows the statutory general fund balance and housing revenue account balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

2011/12	General fund balance	Earmarked general fund reserves	Housing revenue account	Earmarked HRA reserves	Capital receipts reserve	Major repairs reserve	Capital grants unapplied	**Total usable reserves**	Unusable reserves	**Total authority reserves**
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2011	**8,192**	**13,915**	**1,305**	**0**	**0**	**0**	**13,534**	**36,946**	**159,620**	**196,566**
Movement in reserves during 2011/12										
Surplus or (deficit) on the provision of services	(73,341)		39,661					**(33,680)**		(33,680)
Other comprehensive income and expenditure									(95,279)	(95,279)
Total comprehensive income and expenditure	**(73,341)**	**0**	**39,661**	**0**	**0**	**0**	**0**	**(33,680)**	**(95,279)**	**(128,959)**
Adjustments between accounting basis and funding basis under regulations (Note 7)	95,044	0	(40,021)	0	0	0	2,310	**57,333**	(57,333)	**0**
Net increase/decrease before transfers to earmarked reserves	**21,703**	**0**	**(360)**	**0**	**0**	**0**	**2,310**	**23,653**	**(152,612)**	**(128,959)**
Transfers to/from earmarked reserves (note 8)	(17,993)	17,993	0	0	0	0	0	**0**		
Increase/decrease in 2011/12	**3,710**	**17,993**	**(360)**	**0**	**0**	**0**	**2,310**	**23,653**	**(152,612)**	**(128,959)**
Balance at 31 March 2012	11,902	31,908	945	0	0	0	15,844	60,599	7,016	67,615

2010/11	General fund balance £000	Earmarked general fund reserves £000	Housing revenue account £000	Earmarked HRA reserves £000	Capital receipts reserve £000	Major repairs reserve £000	Capital grants unapplied £000	**Total usable reserves** £000	Unusable reserves £000	**Total authority reserves** £000
Balance at 31 March 10	**7,626**	**24,546**	**1,267**	**0**	**0**	**0**	**5,126**	**38,565**	**(85,634)**	**(47,068)**
Move school balances to earmarked reserves	1,936	(1,936)						**0**		0
Heritage assets adjust bfwd balance								**0**	30,492	30,492
revised balance sheet at 31 March 2010	**9,562**	**22,611**	**1,267**	**0**	**0**	**0**	**5,126**	**38,566**	**(55,141)**	**(16,575)**
Movement in reserves during 2010/11										
Surplus or (deficit) on the provision of services	96,101		(92,002)					**4,099**		4,099
Other comprehensive income and expenditure									209,044	209,044
Total comprehensive income and expenditure	**96,101**	**0**	**(92,002)**	**0**	**0**	**0**	**0**	**4,099**	**209,044**	**213,143**
Adjustments between accounting basis and funding basis under regulations (Note 7)	(106,166)	0	92,040	0	0	0	8,408	**(5,718)**	5,718	**0**
Net increase/decrease before transfers to earmarked reserves	**(10,065)**	**0**	**38**	**0**	**0**	**0**	**8,408**	**(1,619)**	**214,762**	**213,143**
Transfers to/from earmarked reserves (note 8)	8,693	(8,693)	0	0	0	0	0	**0**		
Increase/decrease in 2010/11	**(1,372)**	**(8,693)**	**38**	**0**	**0**	**0**	**8,408**	**(1,619)**	**214,762**	**213,143**
Balance at 31 March 2011	**8,190**	**13,918**	**1,305**	**0**	**0**	**0**	**13,534**	**36,947**	**159,621**	**196,568**

The general fund balance receives surpluses from and meets deficits on the general fund revenue account. Earmarked reserves contributions and service underspends and overspends are transferred to and from the account during the year. Within the general fund balance are schools' balances detailed in note 24.
Earmarked reserves are amounts set aside from the general fund to meet a specific future purpose. They are further analysed in note 8.
The housing revenue account balance represents the accumulated surplus or deficit on the HRA.
The capital receipts reserve holds the share of income from the sale of the Council's assets that is available to finance future capital spend.
The major repairs reserve is a discretionary reserve to which a council's major repairs allowance may be transferred, used to finance major repairs to maintain housing stock in its current condition
Capital grants unapplied reserve holds grants which have been recognised in the comprehensive income and expenditure statement but not applied in capital financing.
Unusable reserves are further analysed in note 25.

Comprehensive income and expenditure statement (CIES)

This statement shows the accounting cost in the year of providing services in accordance with generally-accepted accounting practices, rather than the amount to be funded from taxation. Local authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the movement in reserves statement.

2010/11 Gross Expenditure £000	2010/11 Gross Income £000	2010/11 Net Expenditure £000		Note	2011/12 Gross Expenditure £000	2011/12 Gross Income £000	2011/12 Net Expenditure £000
33,596	(31,072)	2,524	Central services to the public		31,951	(30,677)	1,274
20,679	(5,984)	14,695	Cultural and related services	56	23,602	(5,722)	17,880
42,440	(14,344)	28,096	Environmental and regulatory services	56	46,213	(16,229)	29,984
73,379	(8,865)	64,514	Planning services	56	72,986	(28,111)	44,875
290,499	(205,511)	84,988	Education and children's services	38	295,536	(210,173)	85,363
47,426	(10,161)	37,265	Highways and transport services		42,812	(8,979)	33,833
36,022	(35,201)	821	Local authority housing (HRA)		54,798	(38,111)	16,687
88,300	0	88,300	Exceptional item reduction in social housing factor		0	0	0
140,028	(119,545)	20,483	Other housing services		138,543	(126,739)	11,804
110,337	(42,576)	67,761	Adult social care		105,333	(49,551)	55,782
5,730	(412)	5,318	Corporate and democratic core		8,469	(704)	7,765
8,551	0	8,551	Non-distributed costs		5,094	0	5,094
(105,900)	0	(105,900)	Non-distributed costs: pension past service costs	48	1,100	0	1,100
791,087	**(473,671)**	**317,416**	**Cost of services**	29	**826,437**	**(514,996)**	**311,441**
		(688)	Other operating expenditure	9			36,794
		26,721	Financing and investment income and expenditure	10			21,404
			Premium – HRA self financing settlement	HRA 8			21,205
		0	Surplus or deficit of discontinued operations				0
		(347,548)	Taxation and non-specific grant income	11			(274,903)
			Capital grant – HRA self financing settlement	HRA 8			(82,261)
		(4,099)	**(Surplus) or deficit on provision of services**				**33,680**
		(30,844)	(Surplus) or deficit on revaluation of property, plant and equipment assets	12			(19,721)
		0	(Surplus) or deficit on revaluation of available for sale financial assets				0
		(178,200)	Actuarial (gains)/losses on pension assets / liabilities	48			115,000
		(209,044)	**Other comprehensive income and expenditure**				**95,279**
		(213,143)	**Total comprehensive income and expenditure**				**128,959**

Balance sheet (BS)

The balance sheet shows the value at the balance sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves is usable reserves, ie those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use; for example the capital receipts reserve may only be used to fund capital expenditure or repay debt. The second category of reserves is those that the Council is not able to use to provide services. This category includes reserves that hold unrealised gains and losses, for example the revaluation reserve, where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the movement in reserves statement as adjustments between accounting basis and funding basis under regulations.

01 April 10 £000	31 March 11 £000		Notes	31 March 12 £000	31 March 12 £000
900,792	869,088	Property, plant and equipment	12	867,796	
30,514	30,514	Heritage assets	13	30,514	
7,410	7,914	Investment property	14	7,545	
8	93	Intangible assets	15	150	
0		Assets held for sale	21	0	
27,735	34,628	Long term investments	16	18,895	
16,096	19,750	Long term debtors	16	38,263	
982,555	**961,987**	**Long term assets**			**963,163**
12,128	20,482	Short term investments	16	40,743	
334	790	Assets held for sale	21	3,951	
778	789	Inventories	17	750	
78,870	86,037	Short term debtors	19	63,459	
46,025	18,242	Cash and cash equivalents	20	29,182	
138,135	**126,340**	**Current assets**			**138,085**
(187,853)	(175,023)	Short term borrowing	16	(208,354)	
(64,199)	(69,935)	Short term creditors	22	(67,860)	
(14,579)	(9,519)	Grants Receipts in Advance – Revenue	39	(2,891)	
(16,549)	(8,079)	Grants Receipts in Advance – Capital	39	(5,646)	
(283,180)	**(262,556)**	**Current liabilities**			**(284,751)**
(71,159)	(66,701)	Long term creditors	16	(118,876)	
(15,858)	(14,838)	Provisions	23	(10,776)	
(293,965)	(342,861)	Long term borrowing	16	(295,684)	
(473,100)	(204,800)	Other long term liabilities	48	(323,566)	
(854,082)	**(629,200)**	**Long term liabilities**			**(748,902)**
(16,572)	**196,572**	**Net assets**			**67,595**
38,567	36,944	Usable reserves	24		60,583
(55,139)	159,628	Unusable reserves	25		7,012
(16,572)	**196,572**	**Total Reserves**			**67,595**

Cash flow statement

The cash flow statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (ie borrowing) to the Council.

Originally stated 2010/11 £000	Restated (Note 26) 2010/11 £000		2011/12 £000
(4,099)	(4,099)	Net (surplus) or deficit on the provision of services	33,680
28,717	(111,008)	Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 26)	(207,537)
(3,189)	105,478	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 26)	124,525
21,429	**(9,629)**	Net cash flows from Operating Activities	**(49,332)**
45,020	65,981	Investing Activities (Note 27)	91,210
(38,666)	(28,569)	Financing Activities (Note 28)	(52,818)
27,783	**27,783**	Net (increase) or decrease in cash and cash equivalents	**(10,940)**
46,025	46,025	Cash and cash equivalents at the beginning of the reporting period	18,242
(27,783)	**(27,783)**	Net increase/(decrease) in cash and cash equivalents	10,940
18,242	**18,242**	Cash and cash equivalents at the end of the reporting period (Note 20)	**29,182**

Notes to the accounts

Index to notes

1. Accounting policies

i. General principles

The statement of accounts summarises the Council's transactions for the 2011/12 financial year and its position at the year end of 31 March 2012. The Council is required to prepare an annual statement of accounts by the Accounts and Audit Regulations 2003, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the *Code of Practice on Local Authority Accounting in the United Kingdom 2011/12* [the Code] and the *Service Reporting Code of Practice 2011/12* [SERCOP], supported by International Financial Reporting Standards [IFRSs] and statutory guidance issued under section 12 of the 2003 Act.

The accounting convention adopted in the statement of accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

Underlying assumptions

The accounts are maintained on an *accruals* basis (see policy below). Rather than focusing on establishing relationships between income and expenditure and determining the year in which they can be matched, the focus is on defining precisely when assets, liabilities, income, expenditure and reserves should be recognised.

The accounts are prepared on a *going concern* basis. That is, the Council will continue in operation for the foreseeable future and has neither the need nor the intention to liquidate or curtail materially the scale of its operations.

Local authorities derive their powers from statute and their financial and accounting framework is closely controlled by primary and secondary legislation. To the extent that treatments are prescribed by law the accounting concepts outlined above may not apply in all cases. It is a fundamental principle of local authority accounting that, where specific legislative requirements and accounting principles conflict, *legislative requirements are primary*. However, such conflicts would usually be dealt with in the Code by showing the position required by following the accounting concepts in the comprehensive income and expenditure account, and showing the effect of the legislative requirements in the movement in reserves statement.

Qualitative characteristics

The accounts are prepared on a basis that is relevant, reliable, comparable and understandable.

- They allow readers to evaluate past, present and future events.

- They are free from material error and reflect the reality or substance of the transactions and activities underlying them rather than their formal legal character.
- Consistent accounting policies are applied both within the year and between years. Where an accounting policy changes, the reason and effect is disclosed.
- They are designed to be understandable by readers with a reasonable knowledge of business, economics and accounting, and a willingness to study the information presented.

Materiality

The concept of materiality has been applied in the process of preparing the accounts, such that insignificant items are excluded and fluctuations under an acceptable level of tolerance are permitted, provided that in aggregate they would not affect the interpretation of the accounts by an informed reader.

Where estimating techniques are required to enable the accounting practices to be applied, then the techniques that have been used are appropriate and consistently applied. Where the effect of a change to an estimation technique is material, a description of the change and, if practicable, the effect on the results for the current period is disclosed.

The majority of figures in this document have been rounded to the nearest £1,000. This means that there may be very minor inconsistencies between tables and notes, due to rounding adjustments.

ii. Accruals of income and expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the balance sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

iii. Acquisitions and discontinued operations

Not applicable in 2011/12.

iv. Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are non-fixed term investments that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the cash flow statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

v. Exceptional items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the comprehensive income and expenditure statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

vi. Prior period adjustments, changes in accounting policies and estimates and errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, ie in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

vii. Charges to revenue for non-current assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the revaluation reserve against which the losses can be written off
- amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement, equal to a minimum revenue provision (MRP) amount calculated on a prudent basis determined by the Council in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the general fund balance (MRP), by way of an adjusting transaction with the capital adjustment account in the movement in reserves statement for the difference between them.

viii. Employee benefits

Benefits payable during employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, eg time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the surplus or deficit on the provision of services, but then reversed out through the movement in reserves statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the comprehensive income and expenditure statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the general fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the movement in reserves statement, appropriations are required to and from the pensions reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-employment benefits

Employees of the Council are members of three separate pension schemes:

- the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE)
- the Local Government Pensions Scheme, administered in the region by Tameside Metropolitan Borough Council as the Greater Manchester Pension Fund.

- the NHS pension scheme, administered by the Department of Health

All these schemes provide defined benefits to members in the form of retirement lump sums and pensions, earned as employees worked for the Council. However, the arrangements for the teachers' scheme and the NHS scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. Those schemes are therefore accounted for as if they were defined contribution schemes and no liability for future payments of benefits is recognised in the balance sheet. The Children's and education services line in the comprehensive income and expenditure statement is charged with the employer's contributions payable to Teachers' Pensions in the year and the Adult social care line is charged with the employer's contributions payable to the NHS pension scheme.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Greater Manchester Pension Fund attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method. That is, an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 4.8% (2010/11 5.5%). The 2010/11 rate was based on the indicative rate of return on the iboxx Sterling Corporates index, AA over 15 years (an index of high quality corporate bonds). However, this does not reflect the longer-term nature of LGPS liabilities (typically around 20 years). In 2011/12, the rate is based on the rate of return available on UK government 20 year bonds, with an adjustment to reflect the increased risk of AA corporate bonds. The adjustment is based on the mean credit spread on stock in the iboxx index.
- The assets of the Greater Manchester Pension Fund attributable to the Council are included in the balance sheet at their fair value:
    - quoted securities at current bid price
    - unquoted securities at professional estimate
    - unitised securities at current bid price
    - property at market value.
- The change in the net pensions liability is analysed into seven components:
    - *current service cost* – the increase in liabilities as a result of years of service earned this year. This is allocated in the comprehensive income and expenditure statement to the services for which the employees worked.
    - *past service cost* – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years. This is debited to the surplus or deficit on the provision of services in the comprehensive income and expenditure statement as part of non-distributed costs.
    - *interest cost* – the expected increase in the present value of liabilities during the year as they move one year closer to being paid. This is debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement.
    - *expected return on assets* – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return. This is credited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement.
    - *gains or losses on settlements and curtailments* – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees. These are debited or credited to the surplus or deficit on the provision of services in the comprehensive income and expenditure statement as part of non-distributed costs.
    - *actuarial gains and losses* – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions. This is debited to the Pensions Reserve
    - *contributions paid to Greater Manchester Pension Fund* - cash paid as employer's contributions to the pension fund in settlement of liabilities is not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the general fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the movement in reserves statement, this means that there are appropriations to and from the pensions reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the pensions reserve thereby measures the beneficial impact to the general fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

ix. Events after the balance sheet date

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period. The statement of accounts is adjusted to reflect such events
- Those that are indicative of conditions that arose after the reporting period. The statement of accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the statement of accounts.

x. Financial instruments

Financial liabilities

Financial liabilities are recognised on the balance sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The *effective interest rate* is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For simple borrowings such as the Council’s issued stock, this means that the amount presented in the balance sheet is the outstanding principal repayable plus accrued interest; and interest charged to the comprehensive income and expenditure statement is the amount payable for the year according to the loan agreement.

However, the Council has a significant portfolio of market LOBO loans with interest rates “stepped” over time. These are carried at a higher amortised cost than the outstanding principal; and interest is charged at a marginally higher *effective interest rate* than the actual rate payable.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the comprehensive income and expenditure statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the comprehensive income and expenditure statement, regulations allow the impact on the general fund balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. For discounts arising after 31 March 2007, the gain is spread over 10 years as required by Regulation. The reconciliation of amounts charged to the comprehensive income and expenditure statement to the net charge required against the general fund balance is managed by a transfer to or from the financial instruments adjustment account in the movement in reserves statement.

Financial assets

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and receivables

Loans and receivables are recognised on the balance sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

For most of the loans that the Council has made, this means that the amount presented in the balance sheet is the outstanding principal receivable plus accrued interest; and interest credited to the comprehensive income and expenditure statement is the amount receivable for the year in the loan agreement.

However, the Council has made a number of loans to third parties (typically home swap or equity loans to residents inconvenienced in regeneration areas) at less than market rates (soft loans). When soft loans are made, a loss is recorded in the comprehensive income and expenditure statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement at a marginally higher effective rate of interest than the rate receivable from the third party, with the difference serving to increase the amortised cost of the loan in the balance sheet. Statutory provisions require that the impact of soft loans on the general fund balance is the interest receivable for the financial year, so the reconciliation of amounts debited and credited to the comprehensive income and expenditure statement to the net gain required against the general fund balance is managed by a transfer to or from the financial instruments adjustment account in the movement in reserves statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the financing and investment income and expenditure line in the comprehensive income and expenditure statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement.

Available-for-sale assets

Available-for-sale assets are recognised on the balance sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (eg dividends) is credited to the comprehensive income and expenditure statement when it becomes receivable by the Council.

Assets are maintained in the balance sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices are valued at the market price
- other instruments with fixed and determinable payments are valued by discounted cash flow analysis
- equity shares with no quoted market prices are valued by independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the available-for-sale reserve and the gain/ loss is recognised in the surplus or deficit on revaluation of available-for-sale financial assets. The exception is where impairment losses have been incurred: these are debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement, along with any net gain or loss for the asset accumulated in the available-for-sale reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the financing and investment income and expenditure line in the comprehensive income and expenditure statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument, net of any principal repayment and amortisation.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement, along with any accumulated gains or losses previously recognised in the available-for-sale reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

xi. Foreign currency translation

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the financing and investment income and expenditure line in the comprehensive income and expenditure statement.

xii. Government grants and contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the comprehensive income and expenditure statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the balance sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or taxation and non-specific grant income (non-ring-fenced revenue grants and all capital grants) in the comprehensive income and expenditure statement.

Where capital grants are credited to the comprehensive income and expenditure statement, they are reversed out of the general fund balance in the movement in reserves statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the capital grants unapplied reserve. Where it has been applied, it is posted to the capital adjustment account. Amounts in the capital grants unapplied reserve are transferred to the capital adjustment account once they have been applied to fund capital expenditure.

xiii. Heritage assets

The Council's heritage assets are held in the Council's museums and art galleries. These house a variety of collections which are held with the primary objective of enhancing quality of life, by promoting an understanding and appreciation of the cultural heritage and history of the locality and the wider human experience.

Heritage assets are recognised and measured in accordance with the Council's policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below. The accounting policies in relation to heritage assets that are deemed to include elements of intangible heritage assets are also presented below. The Council's collections of heritage assets are accounted for as follows:

Art Collections

The art collections include paintings (both oil and watercolour) and sketches and are reported in the balance sheet at market value based on detailed insurance valuations carried out by external valuers who are specialists in the field of fine arts and antiques. The assets within the art collection are deemed to have indeterminable lives and a high residual value, hence the Council does not consider it appropriate to charge depreciation.

Acquisitions are made by purchase or donation. Acquisitions are initially recognised at cost (subject to a de minis level of £5,000) and donations are recognised at valuation with valuations provided by the external valuers and with reference to appropriate commercial markets for the paintings using the most relevant and recent information from sales at auctions.

Mayoral regalia, sculptures, ceramics, glassware, metal work, coins and medals, arms and armour, ethnological collections and other miscellaneous exhibits not identified individually.

The items in this collection are reported in the balance sheet at insurance valuation based on market values. It should be noted that only items with a value in excess of £500 are identified individually. These valuations are not subject to scheduled revaluations but the insurance schedule is updated to reflect acquisitions and donations (subject to a de minimis level of £5,000). The assets within this collection are deemed to have indeterminable lives and a high residual value, hence the Council does not consider it appropriate to charge depreciation.

The collection is relatively static and acquisition and donations are rare. Where they do occur, acquisitions are initially recognised at cost and donations are recognised at valuation ascertained by the museums' collection's managers in accordance with the Council's policy on valuations.

Other assets not held within museums and galleries

The Council does not consider that reliable cost or valuation information can easily be obtained for these items and therefore obtaining valuations would involve a disproportionate cost in comparison to the benefits to the users of the Council's financial statements. This is because of the diverse nature of the assets held and the lack of comparable values.

General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment, for example where an item has suffered physical deterioration or breakage, or doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment**.**

xiv. Intangible assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (eg software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Internally-generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the comprehensive income and expenditure statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired; any losses recognised are posted to the relevant service line(s) in the comprehensive income and expenditure statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the other operating expenditure line in the comprehensive income and expenditure statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, then amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the general fund balance. The gains and losses are therefore reversed out of the general fund balance in the movement in reserves statement and posted to the capital adjustment account and (for any sale proceeds greater than £10,000) the capital receipts reserve.

xv. Interests in companies and other entities

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates and jointly-controlled entities and require it to prepare group accounts. In the Council's single entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

xvi. Inventories and long term contracts

Inventories are included in the balance sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the *FIFO*, "first-in, first-out", costing formula.

Long term contracts are accounted for on the basis of charging the surplus or deficit on the provision of services with the value of works and services received under the contract during the financial year.

xvii. Investment property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year end. Gains and losses on revaluation are posted to the financing and investment income and expenditure line in the comprehensive income and expenditure statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited, if material, to the financing and investment income line (if not material, they are credited to services) and result in a gain for the general fund balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the general fund balance. The gains and losses are therefore reversed out of the general fund balance in the movement in reserves statement and posted to the capital adjustment account and (for any sale proceeds greater than £10,000) the capital receipts reserve.

xviii. Jointly-controlled operations and jointly-controlled assets

Jointly-controlled operations are activities undertaken by the Council in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Council recognises on its balance sheet the assets that it controls and the liabilities that it incurs and debits and credits the comprehensive income and expenditure statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

Jointly-controlled assets are items of property, plant or equipment that are jointly controlled by the Council and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Council accounts for only its share of the jointly-controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

xix. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the balance sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment, applied to write down the lease liability on the balance sheet, and
- a finance charge, debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement.

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the general fund balance, by way of an adjusting transaction with the capital adjustment account in the movement in reserves statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the comprehensive income and expenditure statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a rent-free period at the commencement of the lease).

The Council as lessor

Finance leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the balance sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the balance sheet (whether property, plant and equipment or assets held for sale) is written off to the other operating expenditure line in the comprehensive income and expenditure statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the comprehensive income and expenditure statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal), matched by a lease (long term debtor) asset in the balance sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property, applied to write down the lease debtor on the balance sheet (together with any premiums received), and
- finance income, credited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement.

The gain credited to the comprehensive income and expenditure statement on disposal is not permitted by statute to increase the general fund balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the general fund balance to the capital receipts reserve in the movement in reserves statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the general fund balance to the deferred capital receipts reserve in the movement in reserves statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the capital receipts reserve.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the capital adjustment account from the general fund balance in the movement in reserves statement.

Operating leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the balance sheet. Rental income is credited to the other operating expenditure line in the comprehensive income and expenditure statement. Credits are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

xx. Overheads and support services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Reporting Code of Practice 2011/12* (SERCOP). The total absorption costing principle is used; the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and democratic core, costs relating to the Council's status as a multifunctional, democratic organisation.

- Non-distributed costs, the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on assets held for sale.

These two cost categories are defined in SERCOP and accounted for as separate headings in the comprehensive income and expenditure statement, as part of net expenditure on continuing services.

xxi. Property, plant and equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as property, plant and equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (ie repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (ie it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the taxation and non-specific grant income line of the comprehensive income and expenditure statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the donated assets account.

Where gains are credited to the comprehensive income and expenditure statement, they are reversed out of the general fund balance to the capital adjustment account in the movement in reserves statement.

Assets are then carried in the balance sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost
- dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH)
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

For non-property assets that have short useful lives or low values (or both), for example vehicles, depreciated historical cost basis is used as a proxy for fair value.

Assets included in the balance sheet at fair value are revalued sufficiently regularly, as a minimum every five years, to ensure that their carrying amount is not materially different from their fair value at the year-end. Increases in valuations are matched by credits to the revaluation reserve to recognise unrealised gains. Exceptionally, gains might be credited to the comprehensive income and expenditure statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the revaluation reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the comprehensive income and expenditure statement.

The revaluation reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the capital adjustment account.

Impairment

Assets are assessed at each year end as to whether there are indications that an asset may be impaired. Where reliable and consistent indications exist and differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the revaluation reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the comprehensive income and expenditure statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the comprehensive income and expenditure statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (ie freehold land and certain community assets) and assets that are not yet available for use (ie assets under construction).

Deprecation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer, typically averaging to about 32 years
- vehicles, plant, furniture and equipment – straight-line allocation over the useful life of the asset, typically averaging to about 5 years
- infrastructure – straight line allocation over 10 years.

Where an item of property, plant and equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. In practice, the Council achieves the correct accounting effect by maintaining records for the main asset and calculating its equated life span for depreciation purposes based on the relative life spans of its various components.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the revaluation reserve to the capital adjustment account.

Disposals and non-current assets held for sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an asset held for sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the other operating expenditure line in the comprehensive income and expenditure statement. Gains in fair value are recognised only up to the amount of any previously-recognised losses in the surplus or deficit on provision of services. Depreciation is not charged on assets held for sale.

If assets no longer meet the criteria to be classified as assets held for sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale (adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as held for sale) and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as assets held for sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the balance sheet (whether property, plant and equipment or assets held for sale) is written off to the other operating expenditure line in the comprehensive income and expenditure statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the comprehensive income and expenditure statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the revaluation reserve are transferred to the capital adjustment account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the government. The balance of receipts is required to be credited to the capital receipts reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the reserve from the general fund balance in the movement in reserves statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the capital adjustment account from the general fund balance in the movement in reserves statement.

xxii. Private Finance Initiative (PFI) and similar contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its balance sheet as part of property, plant and equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. For PFI scheme 2, the liability was written down by an initial capital contribution of £6m.

Non-current assets recognised on the balance sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to PFI operators each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the comprehensive income and expenditure statement
- finance cost – an interest charge (at 9% for PFI scheme 1, 8% for PFI scheme 2 and 4% on LIFT schemes) on the outstanding balance sheet liability, debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement
- payment towards liability – applied to write down the balance sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease)
- life cycle replacement costs – proportion of the amounts payable is posted to the balance sheet as a prepayment and then recognised as additions to property, plant and equipment when the relevant works are eventually carried out.

xxiii. Provisions, contingent liabilities and contingent assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the comprehensive income and expenditure statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the balance sheet. Estimated settlements are reviewed at the end of each financial year; where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (eg from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Provision for back pay arising from unequal pay claims

The Council has made a provision for the costs of settling claims for back pay arising from discriminatory payments incurred before the Council implemented its equal pay strategy.

However, statutory arrangements allow settlements to be financed from the general fund in the year that payments actually take place, not when the provision is established. The provision is therefore balanced by an equal pay back pay account created from amounts credited to the general fund balance in the year the provision was made or modified. The balance on the equal pay back pay account will be debited back to the general fund balance in the movement in reserves statement in future financial years as payments are made.

Contingent liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the balance sheet but disclosed in a note to the accounts.

Contingent assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

xxiv. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the general fund balance in the movement in reserves statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the surplus or deficit on the provision of services in the comprehensive income and expenditure statement. The reserve is then appropriated back into the general fund balance in the movement in reserves statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement benefits and employee benefits and do not represent usable resources for the Council. These reserves are explained in the relevant policies.

xxv. Revenue expenditure funded from capital under statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the comprehensive income and expenditure statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the movement in reserves statement from the general fund balance to the capital adjustment account then reverses out the amounts charged so that there is no impact on the level of council tax.

xxvi. VAT

VAT (value-added tax) payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

xxvii. Council tax and non-domestic rate income

Council tax and non-domestic rate income are accounted for as agency arrangements.

xxviii. Group accounts

The group accounts include the Council's share of the operating results, assets and liabilities of each group entity's accounts, rather than just the historical cost of the investment. Subsidiaries are accounted for on an acquisition basis and incorporated line-by-line, writing out inter-group transactions. Associates and joint ventures are incorporated by accounting for the Council's share of their operating results in the group income and expenditure account and of their assets in the group balance sheet.

Group accounts are internally consistent, ie each group entity's accounts are adjusted so that all are presented adopting the same policies. The policies adopted are those that apply to the Council, as set out in this section.

Interim financial statements have been used for any entities with a financial year that differs from the Council's of 1 April to 31 March. These interim statements are produced using the entities' annual financial statements and relevant management accounting information.

2. Accounting standards that have been issued but have not yet been adopted

The Code of Practice on Local Council Accounting in the United Kingdom 2012/13 introduces a change in accounting policy in relation to the treatment of IFRS 7 Financial Instruments:Disclosures (transfers of financial assets), which will need to be adopted fully by the Council in the 2012/13 financial statements.

The 2012/13 Code introduces detailed disclosures that are designed to assist users of the financial statements in evaluating the risk of exposures relating to transfers of financial assets. Such transfers are not common transactions for local authorities and the Council has not entered into any transactions covered by the changes in the 2011/12 financial year.

3. Critical judgements in applying accounting policies

In applying its accounting policies, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in the statement of accounts are:

- There is a degree of uncertainty about the effect of future levels of funding for local government. However, the Council has determined that this uncertainty is not sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- The Council is deemed to control the services provided under the outsourcing agreement for social care provision in two residential homes and also to control the residual value of the homes at the end of the agreement. The accounting policies for PFI schemes and similar contracts have been applied to the arrangement and the homes are recognised as property, plant and equipment on the balance sheet.
- The Council is deemed to control a portion of the services provided under the LIFT agreement for three Gateway centres and to control the residual value of the centres at the end of the agreement. The accounting policies for PFI schemes and similar contracts have been applied to the arrangement and the centres are recognised as property, plant and equipment on the Council’s balance sheet.

4. Assumptions made about the future and other major sources of estimation uncertainty

The statement of accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council’s Balance Sheet at 31 March 2012 for which there is a significant risk of material adjustment in the forthcoming financial year are set out below.

Item	Uncertainties	Effect if actual results differ from assumptions
Property, plant and equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £1.3m for a 1 year reduction in average useful lives.
Pensions liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £101.7m and a 1 year increase in member life expectancy would increase the liability by £31.7m. 0.5% increases in the rate of increase of salaries and pensions paid would result in increases of £27.8m and £73.2m on the pension liability. However, the assumptions interact in complex ways. During 2011/12, the pension fund's actuaries advised of actuarial gains as follows: that the net pensions liability had increased by £50.4m as a result of estimates being corrected as a result of experience and by £61.3m that was attributable to updating of the assumptions.

This list does not include assets and liabilities that are carried at fair value based on a recently-observed market price.

5. Material items of income and expense

In 2010/11 there were two material items worthy of note that are shown in the prior year comparator on the comprehensive income & expenditure statement. These were a credit of £105.9m in relation to pension past service costs and an expense of £88.3m in relation to impairment on council house valuation.

In 2011/12 there are no material items of material significance that are not otherwise disclosed on the face of the income and expenditure statement.

6. Events after the balance sheet date

The statement of accounts was authorised for issue by the chief financial officer on 29 June 2012. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2012, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

7. Adjustments between accounting basis and funding basis under regulations

This note details the adjustments that reconcile the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice with the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

The following paragraphs describe the reserves that the adjustments are made against.

General fund balance

The general fund is the statutory fund into which all the receipts of an authority are required to be paid and out of which all liabilities of the authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the general fund balance which is not necessarily in accordance with proper accounting practice. The general fund balance therefore summarises the resources that the council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the council is required to recover) at the end of the financial year. However, the balance cannot be applied to fund HRA services.

Housing revenue account balance

The housing revenue account balance reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI of the local government and housing act 1989. It contains the balance of income and expenditure as defined by the 1989 act that is available to fund future expenditure in connection with the council's landlord function or (where in deficit) that is required to be recovered from tenants in future years.

Major repairs reserve

The authority is required to maintain the major repairs reserve, which controls the application of the major repairs allowance (MRA). The MRA is restricted to being applied to new capital investment in HRA assets or the financing of historical capital expenditure by the HRA.

Capital receipts reserve

The capital receipts reserve holds the proceeds from the disposal of land or other assets which are restricted by statute form being used other that not fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance e on the reserve shows the resources that have yet to be applied for these purposes at the year end.

Capital grants unapplied

The capital grants unapplied account (reserve) holds the grants and contributions received towards capital projects for which the council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure, the balance is restricted by grant terms as to the capital expenditure against which it can be applied and /or the financial year in which this can take place.

2011/12	General fund balance £000	Housing revenue account £000	Capital receipts reserve £000	Major repairs reserve £000	Capital grants unapplied £000	Movement in unusable reserves £000
Adjustments primarily involving the capital adjustment account						
Reversal of items debited or credited to the comprehensive income and expenditure statement:						
Charges for depreciation and impairment of non-current assets	74,589	23,541	0	0	0	(98,130)
Revaluation losses on property plant and equipment						0
Movements in the market value of investment properties	292	68	0	0	0	(360)
Amortisation of intangible assets	43	0	0	0	0	(43)
Capital grants and contributions applied						0
Movement in the donated assets account						0
Revenue expenditure funded from capital under statute	53,298	0	0	0	0	(53,298)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the comprehensive income and expenditure statement						0
Insertion of items not debited or credited to the comprehensive income and expenditure statement:						0
Statutory provision for the financing of capital investment	(14,296)	0	0	0	0	14,296
Capital expenditure charged against the general fund and HRA balances	0	0	0	0	0	0
Adjustments primarily involving the capital grants unapplied account:						
Capital grants and contributions unapplied credited to the comprehensive income and expenditure statement	(2,310)				2,310	0
Application of grants to capital financing transferred to the capital adjustment account	(54,225)	0	0	0	0	54,225

Adjustments primarily involving the capital receipts reserve						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the comprehensive income and expenditure statement	34,958	1,332	6,934	0	0	(43,224)
Use of the capital receipts reserve to finance new capital expenditure			(6,541)			6,541
Contribution from the capital receipts reserve towards administrative costs of non-current asset disposals						0
Contribution from the capital receipts reserve to finance the payments to the government capital receipts pool.	393	0	(393)	0	0	0
Transfer from deferred capital receipts reserve upon receipt of cash						0
HRA settlement grant		(82,261)				82,261
HRA premuim payment contribution from capital receipts		21,205				(21,205)
Adjustments primarily involving the deferred capital receipts reserve (england and wales):						
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the comprehensive income and expenditure statement	0	0	0	0	0	0
Adjustment primarily involving the major repairs reserve:						
Reversal of major repairs allowance credited to the HRA						0
Use of the major repairs reserve to finance new capital expenditure						0
Adjustment primarily involving the financial instruments adjustment account:						
Amount by which finance costs charged to the comprehensive income and expenditure statement are different from finance costs	(933)	(3,889)	0	0	0	4,822

Adjustments primarily involving the pensions reserve						
Reversal of items relating to retirement benefits debited or credited to the comprehensive income and expenditure statement (see note 47)	26,180	485	0	0	0	(26,665)
Employer's pensions contributions and direct payments to pensioners payable in the year	(22,398)	(502)				22,900
Adjustments primarily involving the collection fund adjustment account						
Amount by which council tax income credited to the comprehensive income and expenditure statement is different from council tax income calculated for the year in accordance with statutory requirements	557	0	0	0	0	(557)
Adjustment primarily involving the unequal pay back pay adjustment account						
Amount by which amounts charged for equal pay claims to the comprehensive income and expenditure statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements	264	0	0	0	0	(264)
Adjustment primarily involving the accumulated absences account						
Amount by which officer remuneration charged to the comprehensive income and expenditure statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(1,368)	0	0	0	0	1,368
Total adjustments	95,044	(40,021)	0	0	2,310	(57,333)

2010/11	**General fund balance £000**	**Housing revenue account £000**	**Capital receipts reserve £000**	**Major repairs reserve £000**	**Capital grants unapplied £000**	**Movement in unusable reserves £000**
Adjustments primarily involving the capital adjustment account						
Reversal of items debited or credited to the comprehensive income and expenditure statement:						
Charges for depreciation and impairment of non-current assets	31,498	97,696	0	0	0	(129,194)
Revaluation losses on property plant and equipment						0
Movements in the market value of investment properties	(510)	(26)	0	0	0	536
Amortisation of intangible assets	32	0	0	0	0	(32)
Capital grants and contributions applied						0
Movement in the donated assets account						0
Revenue expenditure funded from capital under statute	62,120	0	0	0	0	(62,120)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the comprehensive income and expenditure statement						0
Insertion of items not debited or credited to the comprehensive income and expenditure statement:						0
Statutory provision for the financing of capital investment	(14,317)	0	0	0	0	14,317
Capital expenditure charged against the general fund and HRA balances	(116)	0	0	0	0	116
Adjustments primarily involving the capital grants unapplied account:						
Capital grants and contributions unapplied credited to the comprehensive income and expenditure statement	(8,408)				8,408	0
Application of grants to capital financing transferred to the capital adjustment account	(81,748)	0	0	0	0	81,748
Adjustments primarily involving the capital						

receipts reserve						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the comprehensive income and expenditure statement	(1,465)	12	15,330	0	0	(13,877)
Use of the capital receipts reserve to finance new capital expenditure			(14,724)			14,724
Contribution from the capital receipts reserve towards administrative costs of non-current asset disposals						0
Contribution from the capital receipts reserve to finance the payments to the government capital receipts pool.	606	0	(606)	0	0	0
Transfer from deferred capital receipts reserve upon receipt of cash						0
Adjustments primarily involving the deferred capital receipts reserve (england and wales):						
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the comprehensive income and expenditure statement	231	0	0	0	0	(231)
Adjustment primarily involving the major repairs reserve:						
Reversal of major repairs allowance credited to the HRA						0
Use of the major repairs reserve to finance new capital expenditure						0
Adjustment primarily involving the financial instruments adjustment account:						
Amount by which finance costs charged to the comprehensive income and expenditure statement are different from finance costs	(928)	(4,123)	0	0	0	5,051
Adjustments primarily involving the pensions reserve						
Reversal of items relating to retirement benefits debited or credited to the comprehensive	(88,581)	(1,519)	0	0	0	90,100

income and expenditure statement (see note 47)						
Employer's pensions contributions and direct payments to pensioners payable in the year						0
Adjustments primarily involving the collection fund adjustment account						
Amount by which council tax income credited to the comprehensive income and expenditure statement is different from council tax income calculated for the year in accordance with statutory requirements	(957)	0	0	0	0	957
Adjustment primarily involving the unequal pay back pay adjustment account						
Amount by which amounts charged for equal pay claims to the comprehensive income and expenditure statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements	(1,831)	0	0	0	0	1,831
Adjustment primarily involving the accumulated absences account						
Amount by which officer remuneration charged to the comprehensive income and expenditure statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(1,792)	0	0	0	0	1,792
Total adjustments	(106,166)	92,040	0	0	8,408	5,718

8. Transfers to/from earmarked reserves

This note sets out the amounts set aside from the general fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet general fund and HRA expenditure.

	Balance 31-Mar-10 £000	Transfers to reserves during the year 2010/11 £000	Transfers from reserves during the year 2010/11 £000	Balance 31-Mar-11 £000	Transfers to reserves during the year 2011/12 £000	Transfers from reserves during the year 2011/12 £000	Balance 31-Mar-12 £000
Barton Moss trading	43	28	0	71	0	(71)	0
Community committee reserve	581	423	(581)	423	470	(423)	470
Community initiatives reserve	2,671	597	(2,671)	597	0	(597)	0
DSO appropriation account	119	0	0	119	0	(119)	0
Insurance fund reserve	7,274	337	(1,806)	5,805	6,209	0	12,014
Investment reserve	215	227	(442)	0	1,208	0	1,208
LABGI reserve	263	0	0	263	0	(263)	0
Liabilities reserve	4	0	(4)	0	7,750	0	7,750
Media city regeneration reserve	592	708	(592)	708	0	(708)	0
PFI capital reserve	0	0	0	0	0	0	0
PFI reserve	93	307	(16)	384	375	0	759
Pooled budget reserve	338	42	(338)	42	0	(42)	0
Social services reserve	1,238	1,087	(1,088)	1,237	303	(634)	906
Customer and support services reserve	66	91	0	157	1,627	(91)	1,693
VER reserve	981	295	(1,181)	95	0	0	95
Children's services reserve	0	0	0	0	500	0	500
IFRS revenue grants reserve	10,069	5,083	(10,069)	5,083	1,342	(4,440)	1,985
LMS schools	(1,936)	868	0	(1,068)	5,596	0	4,528
Total earmarked reserves	**22,611**	**10,093**	**(18,788)**	**13,916**	**25,380**	**(7,388)**	**31,908**
HRA							
Housing Repairs account	0	10,258	(10,258)	0	10,759	(10,759)	0
Major repairs reserve	0	7,547	(7,547)	0	8,504	(8,504)	0
Total earmarked HRA reserve	**0**	**17,805**	**(17,805)**	**0**	**19,263**	**(19,263)**	**0**

LMS Schools balances are those to be held by schools under a scheme of delegation. In the 2010/11 accounts this was included in the general fund reserve but is now correctly shown as a separate earmarked reserve.

The VER reserve was established to cover potential costs relating to early retirements.

The local authority business growth incentive (LABGI) reserve was set up in 2005/06 from the proceeds of the grant received from the government in recognition of the increase in business activity in the city. The reserve will be used to promote economic development activities and encourage investment in the city.

The Media City regeneration reserve was created in 2009/10 to fund work associated with the opening of Media City at Salford Quays.

The community committee reserve represents unused balances on sums delegated to community committees, to be used for the for the benefit of the relevant area.

The DSO appropriation account was established in 1981/82 to receive and distribute profits and to cover any losses made by the Council's direct service organisations.

The investment reserve was set up in 2006/07 to bridge the gap between investment in a savings project and the return on that project.

The Barton Moss trading reserve was set up in 1996/97 to meet any deficits arising on the trading account and to support specific items of expenditure.

The pooled budget reserve holds funds earmarked for pooled budgets with Salford NHS PCT. Each year, pooled budget surpluses are redistributed to the Council and the PCT; the reserve holds the Council's share of any surplus, which is used to meet future pooled budget shortfalls.

The customer and support services reserve was established in 2003/04 to assist in providing for the implementation of new systems under the e-government initiative.

The PFI reserve The funding available for the PFI schemes from special grant and Council revenue contributions will exceed the payments of unitary charge in the early years of the contract and then be less in subsequent years due to reducing grant support. The Council has therefore created an interest bearing reserve during the year, which will be effective over the life of the contracts and will ensure that the estimated unitary charge payments are provided for over the life of the contract. A contribution has also been made to the PFI reserve from the general fund, which will be used to meet set up costs for the Building Schools for the Future scheme.

The PFI capital reserve was set up to match the prepayment provision on schools' PFI schemes. With the change to the accounting treatment for PFI contracts this year, the reserve and the associated long term debtor were written out of the accounts.

The social services reserve was set up in 2004/05. Its purpose is to meet demographic cost pressures and personalisation developments across health and social care.

The insurance fund reserve provides an additional contingency to meet any further claims, in addition to the amount provided for under long-term liabilities.

The community initiatives reserve was created in 2008/09 to fund schemes designed to assist community development.

IFRS revenue grants reserve has been set up for grants and contributions which have been recognised in the income and expenditure account but which will be used in the future.

The HRA repairs account reserve has been set up in the housing revenue account to meet the repair, maintenance and improvement programme expenditure.

The future liabilities reserve was set up in 2011/12 from the previously named risk management fund.

9. Other operating expenditure

	2010/11 £000	2011/12 £000
Payments to the government housing capital receipts pool	606	393
Levy: Environment Agency	0	111
(Gains)/losses on the disposal of non-current assets	(1,295)	36,290
Total	**(689)**	**36,794**

In 2010/11 the Environment Agency levy was £109,000 and was included in the Environmental and regulatory services line in the comprehensive income and expenditure account.

10. Financing and investment income and expenditure

	2010/11 £000	2011/12 £000
Interest payable and similar charges	19,027	21,228
Pensions interest cost and expected return on pensions assets	11,800	3,200
Interest receivable and similar income	(3,026)	(2,838)
Income and expenditure in relation to investment properties and changes in their fair value	(1,080)	(186)
Total	**26,721**	**21,404**

11. Taxation and non-specific grant income

	2010/11 £000	2011/12 £000
Council tax	(91,344)	(92,371)
Non-domestic rates	(113,718)	(103,607)
Non-ring-fenced government grants		
Revenue support grant	(16,513)	(32,025)
Area based grant	(35,815)	0
Council Tax freeze grant	0	(2,323)
New homes bonus	0	(2,365)
Local services support grant	0	(1,073)
Early intervention grant		(13,175)
Capital grants and contributions	(90,156)	(27,964)
Total	**(347,546)**	**(274,903)**

12. Property, plant and equipment

Movements on Balances

Movements in 2011/12	Council dwellings £000	Other land & buildings £000	Vehicles, plant etc. £000	Infra-structure £000	Community assets £000	Surplus assets £000	Assets under construction £000	Total £000
Cost or valuation								
Gross book value at 31 March 2011	266,314	462,306	71,624	231,023	3,351	13,009	33,246	1,080,873
Additions	26,585	73,230	13,516	8,618	953	38	7,625	130,565
Donations	0	0	0	0	0	0	0	0
Accumulated depreciation and impairment written off on revaluation	(7,029)	(6,696)	(2,265)	0	0	(334)	0	(16,324)
Revaluation increases/(decreases) recognised in the revaluation reserve	(23)	12,720	3,432	0	0	3,592	0	19,721
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	(21,669)	(44,645)	(1,346)	0	0	(1,533)	0	(69,193)
Derecognition - disposals	(1,672)	(28,164)	(1,723)	(5,416)	0	(72)	0	(37,047)
Assets reclassified (to)/from held for sale	0	(8,805)	0	0	0	(7,940)	0	(16,745)
Assets reclassified (to)/from investment property	0	9	0	0	0	0	0	9
Assets reclassified (to)/from Assets under construction	2,265	26,928	59	0	73	0	(29,325)	0
Other	0	(4,484)	(677)	0	0	5,152	0	(9)
Gross book value at 31 March 2012	**264,771**	**482,399**	**82,620**	**234,225**	**4,377**	**11,912**	**11,546**	**1,091,850**
Accumulated depreciation and impairment								
Depreciation at 31 March 2011	(6,984)	(12,732)	(32,822)	(159,151)	(1)	(94)	0	(211,784)
Depreciation for year	(7,770)	(10,694)	(9,643)	(7,530)	0	(239)	0	(35,876)
Accumulated depreciation and impairment written off on revaluation	7,029	6,696	2,265	0	0	334	0	16,324
Derecognition - disposals	0	1,587	1,079	4,603	0	3	0	7,272
Other	0	88	175	0	0	(252)	0	11
Depreciation at 31 March 2012	**(7,725)**	**(15,055)**	**(38,946)**	**(162,078)**	**(1)**	**(248)**	**0**	**(224,053)**
Net book value at 31 March 2012	**257,046**	**467,344**	**43,674**	**72,147**	**4,376**	**11,664**	**11,546**	**867,797**

Movements in 2010/11	**Council dwellings £000**	**Other land & buildings £000**	**Vehicles, plant etc. £000**	**Infra-structure £000**	**Community assets £000**	**Surplus assets £000**	**Assets under construction £000**	**Total £000**
Cost or valuation								
Gross book value at 01 April 2010	341,713	460,842	36,932	219,447	2,783	8,854	24,536	1,095,107
Opening balance adjustment reflecting the recognition of heritage assets					(21)			(21)
Revised Gross book value at 01 April 2010	341,713	460,842	36,932	219,447	2,762	8,854	24,536	1,095,086
Additions	29,127	13,930	11,479	11,576	567	375	17,551	84,605
Donations	0	0	0	0	0	3,478	0	3,478
Accumulated depreciation and impairment written off on revaluation	(6,745)	(8,596)	0	0	0	(78)	0	(15,419)
Revaluation increases/(decreases) recognised in the revaluation reserve	(4,234)	35,054	0	0	0	24	0	30,844
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	(92,968)	(9,338)	0	0	0	(807)	0	(103,113)
Derecognition - disposals	(632)	(6,117)	(18)	0	0	(397)	0	(7,164)
Assets reclassified (to)/from held for sale	0	(6,958)	0	0	0	(516)	0	(7,474)
Assets reclassified (to)/from investment property	0	0	0	0	0	33	0	33
Other	54	(16,511)	23,231	0	22	2,045	(8,841)	0
Gross book value at 31 March 2011	**266,314**	**462,306**	**71,624**	**231,023**	**3,351**	**13,009**	**33,246**	**1,080,873**
Accumulated depreciation and impairment								
Depreciation at 1 April 2010	(6,745)	(13,299)	(22,419)	(151,765)	0	(63)	0	(194,291)
Depreciation for year	(7,002)	(10,337)	(8,451)	(7,386)	(1)	(47)	0	(33,224)
Accumulated depreciation and impairment written off on revaluation	6,745	8,596	0	0	0	78	0	15,419
Derecognition - disposals	19	287	6	0	0	1	0	313
Other	0	2,021	(1,957)	0	0	(64)	0	0
Depreciation at 31 March 2011	**(6,984)**	**(12,732)**	**(32,822)**	**(159,151)**	**(1)**	**(94)**	**0**	**(211,784)**
Net book value at 31 March 2011	**259,330**	**449,574**	**38,802**	**71,872**	**3,351**	**12,915**	**33,246**	**869,090**

Capital commitments and other financial commitments

At 31 March 2012, the Council has entered into a number of contracts for the construction or enhancement of property, plant and equipment in 2012/13 and future years budgeted to cost £62.8m. The major commitments are:

	£m
Port Salford	30.0
Public Sector Housing Programme	17.0
BSF – ICT Managed Service	8.0
Media Enterprise Centre	2.0
BSF – OASIS Academy	1.5
Higher Broughton Hub	1.0
Fit City Irlam	1.0
Greengate	1.0
Chapel St Acquisitions	0.8
Ordsal Hall	0.3
Pendleton Way Improvements	0.2

Effects of changes in estimates

In 2011/12, the Council made one change to its accounting estimates for property, plant and equipment.

The method of measuring depreciation on council dwellings was amended. The Council no longer uses the major repairs allowance as a proxy for depreciation on these assets. Instead depreciation is charged using an equated useful life which is considered to give a more accurate cost of the annual amount of the asset consumed in the service of social housing. In 2011/12 this has increased the amount of depreciation charged by £696,000. The impact of this change will carry forward into future years.

Revaluations

The Council carries out a rolling programme that ensures that all property, plant and equipment required to be measured at fair value is revalued at least every five years. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset.

The significant assumptions applied in estimating the fair values are:

- For existing use values, that the asset will continue to be owner-occupied, or let pursuant to the delivery of a service, for the existing use for the foreseeable future
- That no high alumina cement, asbestos, or other deleterious material was used in the construction of any property and that none has been subsequently incorporated.
- That the properties are not subject to any unusual or especially onerous restrictions, encumbrances or outgoings and that good title can be shown.
- That the properties and their values are unaffected by any matters which would be revealed by a local search or inspection of any register and that the use and occupation are both legal.
- That inspection of those elements of any of the building’s parts which have not been examined would not alter the estimation of value.
- That the land and properties are not contaminated.
- That no allowances have been made for any rights, obligations or liabilities arising from the Defective Premises Act 1972.

	Council dwellings £000	Other land & buildings £000	Vehicles, plant, furniture and equipment £000	Surplus Assets £000	Total £000
Carried at historical cost	0	0	57,200	0	57,200
Valued at fair value in :					
31 March 2012	264,861	143,232	12,109	11,167	431,369
31 March 2011	0	113,120	5,372	430	118,922
31 March 2010	0	124,680	4,054	316	129,050
31 March 2009	0	96,857	3,760	0	100,617
31 March 2008	0	4,510	125	0	4,635
Total	264,861	482,399	82,620	11,913	**841,793**

The valuer is R. Wynne MRICS (Urban Vision Partnership Ltd.)

13. Heritage assets

	Art Collections		Mayoral regalia and other assets	Total
	Lowry Centre	Salford Museum and Art Gallery		
	£000	£000	£000	£000
Cost or Valuation				
1 April 2010	21,384	6,684	2,449	30,514
Additions	0	0	0	0
Disposals	0	0	0	0
Revaluations	0	0	0	0
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0
Impairment losses/(reversals) recognised in Surplus or deficit on the provision of services	0	0	0	0
31 March 2011	**21,384**	**6,684**	**2,449**	**30,514**
Cost or Valuation				
1 April 2011	21,384	6,684	2,449	30,514
Additions	0	0	0	0
Disposals	0	0	0	0
Revaluations	0	0	0	0
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0
Impairment losses/(reversals) recognised in Surplus or deficit on the provision of services	0	0	0	0
31 March 2012	**21,384**	**6,684**	**2,449**	**30,514**

Art Collections

The Council's art collections are reported in the balance sheet at insurance valuation which is based at market values. The collection held at the Lowry Centre is updated every three years with the last valuation carried out in April 2009. The collection held at the Salford Museum and Art Gallery was last revalued in December 2008 and is considered fit for purpose for ten years.

Mayoral regalia and other assets

These assets are reported in the balance sheet at insurance valuation based on market values. This is based on an insurance schedule dated May 2007 which is updated to reflect acquisitions and disposals as notified by the collections manager. In practice the collection is of a static nature and material acquisitions (in excess of £5,000) and disposals are extremely rare.

14. Investment properties

The following items of income and expense have been accounted for in the financing and investment income and expenditure line in the comprehensive income and expenditure statement:

	2010/11 £000	2011/12 £000
Rental income	(542)	(546)
Direct operating expenses	0	0
Net gain/(loss)	**(542)**	**(546)**

The Council's investment property includes its share of rental from ground leases relating to industrial units located at Manchester Airport as part of the agreement on the abolition of the former Greater Manchester Council and therefore the Council has limited influence on the investment activities related to the asset and incurs no direct operating expenses. The assets are revalued each year.

The remaining assets within the investment portfolio relate to properties used to site telecommunications equipment for third parties. The agreements ensure that all the associated costs are met by the user.

The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year.

	2010/11 £000	2011/12 £000
Balance at start of the year	7,411	7,914
Additions (purchases)	0	0
Disposals	0	0
Net gains/(losses) from fair value adjustments	536	(360)
Transfers		
to/from property, plant and equipment	(33)	(9)
Balance at end of the year	**7,914**	**7,545**

15. Intangible assets

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of property, plant and equipment. Intangible assets include both purchased licenses and internally-generated software. The carrying amount of intangible assets is amortised on a straight-line basis over its estimated useful life. The transactions are not material to the accounts.

16. Financial instruments

Categories of financial instruments

The following categories of financial instrument are carried in the Balance Sheet.

Investments	**Long term**		**Current**	
	31 March 2011 £000	**31 March 2012 £000**	**31 March 2011 £000**	**31 March 2012 £000**
Loans and receivables				
Investments in the financial market	15,709	0	20,482	40,743
Available-for-sale financial assets	0	0	0	0
Unquoted equity investments at cost				
Manchester airport plc	10,214	10,214		
City of Salford Community Stadium Ltd	6,666	6,666		
Trinity ICP	1,571	1,571		
MaST LIFT Ltd	167	142		
Manchester science park	252	252		
BSF TCP	49	50		
	18,919	18,895	0	0
Total investments	**34,628**	**18,895**	**20,482**	**40,743**

Debtors	**Long term**		**Current**	
	31 March 2011 £000	**31 March 2012 £000**	**31 March 2011 £000**	**31 March 2012 £000**
Loans and receivables				
Manchester airport group	8,852	8,852		
Equity loans	3,356	3,671		
Homeswops	1,563	1,563		
Salford reds	1,000	800		200
Loan for Salford Stadium	3,449	20,033		171
Other	1,530	1,923		
Financial assets carried at contract amounts				
Other Debtors (as per note 19)	0	384	54,185	42,780
Total debtors	**19,750**	**37,226**	**54,185**	**43,151**

Borrowings	**Long term**		**Current**	
	31 March 2011 £000	**31 March 2012 £000**	**31 March 2011 £000**	**31 March 2012 £000**
Financial liabilities at amortised cost				
Money market	(329,069)	(281,934)	(174,765)	(208,054)
PWLB	0	0	0	0
Stock	(13,567)	(13,567)	(169)	(169)
Transferred debt	(225)	(183)		(42)
Other	0	0	(89)	(89)
	(342,861)	(295,684)	(175,023)	(208,354)
Liabilities at fair value through profit and loss	0	0	0	0
Total borrowings	**(342,861)**	**(295,684)**	**(175,023)**	**(208,354)**

Other long term liability	**Long term**	
	31 March 2011 £000	**31 March 2012 £000**
Pensions Liability	(204,800)	(323,565)
Total other long-term liabilities	(204,800)	(323,565)

Creditors	**Long term**		**Current**	
	31 March 2011 £000	**31 March 2012 £000**	**31 March 2011 £000**	**31 March 2012 £000**
Financial liabilities at amortised cost				
Developers contributions	(6,029)	(6,418)		
Lowry Rcpt In Adv	(1,209)	(1,156)		
Transferred Debt	(11,015)	(10,191)		(814)
Private Street Works	(6)	(5)		
Financial liabilities carried at contract amount				
Short term creditors			(64,857)	(50,128)
Total creditors	**(18,259)**	**(17,770)**	**(64,857)**	(50,942)

Soft loans

There are no material soft loans (loans made at less than market terms) made by the authority.

Reclassifications

There were no reclassifications between categories**.**

Income, expense, gains and losses

	2010/11					2011/12				
	Financial liabilities measured at amortised cost £000	**Financial assets loans and receivables £000**	**Financial assets: available for sale £000**	**Assets and liabilities at fair value through profit and loss £000**	**Total £000**	**Financial liabilities measured at amortised cost £000**	**Financial assets loans and receivables £000**	**Financial assets: available for sale £000**	**Assets and liabilities at fair value through profit and loss £000**	**Total £000**
	£000									
Interest expense	17,965				17,965	21,228				21,228
Losses on derecognition										
Reductions in fair value										
Impairment losses										
Fee expense										
Total expense in surplus or deficit on the provision of services	**17,965**				**17,965**	**21,228**				**21,228**
Interest Income		(960)			(960)		(1,825)			(1,825)
Interest income accrued on impaired financial assets										
Increases in fair value										
Gains on derecognition										
Fee income										
Total income in surplus or deficit on the provision of services		**(960)**			**(960)**		**(1,825)**			**(1,825)**
Gains on revaluation										
Losses on revaluation										
Amounts recycled to the surplus or deficit on the provision of services after impairment										
Surplus/deficit arising on revaluation of financial assets in other comprehensive income and expenditure										
Net gain/(loss) for the year	**17,965**	**(960)**			**17,005**	**21,228**	**(1,825)**			**19,403**

Fair values of assets and liabilities

Financial liabilities and financial assets represented by loans and receivables are carried in the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments. The Council's treasury management advisors, Sector, have assisted in the preparation of this disclosure, using the following assumptions:

- interest rates at 31 March 2012 based on the comparable new borrowing/deposit rate for the same financial instrument from a comparable lender. A consistent approach has been applied to assets and liabilities;
- no early repayment or impairment is recognised;
- where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to fair value.
- the fair value of trade and other receivables is taken to be the invoiced or billed amount

The fair values calculated are set out below:

The fair value of the liabilities is higher than the carrying amount primarily because the Council's portfolio of loans includes a number of stepped LOBO loans where the interest rate payable is currently higher than the rate available for a similar instrument on the valuation date. Had these loans been replaced with the similar instruments at that time this would have given rise to significant premiums.

The available-for-sale asset category includes the Council's investments in companies. None are quoted on the stock market, nor is there a satisfactory evidence base on which to determine a reliable fair value. They are therefore valued at cost less any impairment. Further details concerning shareholdings are included in the note on related businesses and companies.

Short term debtors and creditors are carried at cost as this is a fair approximation of their value.

	31 March 2011		**31 March 2012**	
	Carrying amount £000	**Fair value £000**	**Carrying amount £000**	**Fair value £000**
Financial liabilities				
Commercial loans	517,527	566,632	489,988	507,594

	31 March 2011		**31 March 2012**	
Financial assets	**Carrying amount £000**	**Fair value £000**	**Carrying amount £000**	**Fair value £000**
Loans and receivables	54,811	54,949	40,743	40,799
Money market funds included in cash equivalents			21,822	21,780
Available for sale financial assets	18,919	18,919	18,895	18,895

17. Inventories

	2010/11 Consumable stores £000	2010/11 Maintenance materials £000	2010/11 Total £000	2011/12 Consumable stores £000	2011/12 Maintenance materials £000	2011/12 Total £000
Balance outstanding at start of the year	665	113	778	659	131	789
Purchases	1,315	411	1,727	1,373	296	1,669
Recognised as an expense in the year	(1,322)	(386)	(1,708)	(1,402)	(304)	(1,705)
Written off balances	0	(8)	(8)	0	(3)	(3)
Balance outstanding at end of the year	**659**	**131**	**789**	630	121	751

18. Construction contracts

The Council is not undertaking construction contracts on behalf of other parties.

19. Debtors

31 March 2011 £000	31 March 2011 £000		31 March 2012 £000	31 March 2012 £000
49,135		Central Government Bodies	20,028	
0		Less impairment allowance	0	
	49,135			20,028
589		Other local authorities	2,443	
0		Less impairment allowance	0	
	589			2,443
0		NHS Bodies	38	
0		Less impairment allowance	0	
	0			38
0		Public corporations and trading funds	238	
0		Less impairment allowance	0	
	0			238
35,074		Other entities and individuals	40,549	
(10,894)		Less impairment allowance	(10,298)	
	24,180			30,251
20,396		Local taxpayers	23,644	
(8,263)		Less impairment allowance	(12,020)	
	12,133			11,625
	86,037			**64,623**

The Code allows for a standard or a more detailed disclosure of debtors. In order to improve a user's understanding of the accounts, the more detailed option has been adopted for 2011/12. 2010/11 comparators have been adjusted accordingly. The differences are:

- Disclosure of impairment (provision for bad debts)
- Re-classification of £13.797m from "NHS and other public bodies" into Government departments
- Separation of local taxpayer debt from "other entities and individuals"

20. Cash and cash equivalents

The balance of cash and cash equivalents is made up of the following elements:

	31 March 2011 £000	31 March 2012 £000
Cash held by the Council	159	150
Bank current accounts	(537)	7,210
Other Short-term deposits	18,620	21,822
	18,242	**29,182**

21. Assets held for sale

	Current assets 31 March 2011 £000	Current assets 31 March 2012 £000
Balance outstanding at start of year	**334**	**790**
Assets newly classified as held for sale :		
• Property, plant and equipment	7,482	16,745
• Newly acquired assets	0	0
• Revaluation losses	0	(134)
Assets declassified as held for sale		
• Property, plant and equipment	(8)	0
• Investment properties	0	0
Assets sold	(7,018)	(13,450)
Balance outstanding at year end	**790**	**3,951**

22. Creditors

	31 March 2011 (original) £000	31 March 2011 (amended) £000	31 March 2012 £000
Government departments	(8,880)	(8,983)	(8,684)
Other local authorities	(6,052)	(2,340)	(8,010)
NHS bodies	(4,577)	0	(330)
Public Corporation and trading funds	(4,016)	0	(133)
Other entities and individuals	(55,929)	(58,612)	(52,818)
	(79,454)	**(69,935)**	**(69,975)**

The amended analysis of the 2010/11 comparator figures differs from that previously reported because:

- Creditors previously analysed as NHS bodies and Public Corporations have been reclassified following a reappraisal of the Code requirements.
- In 2010/11, £9.519m revenue grant receipts in advance were included in creditors. The Code now requires that they are disclosed separately on the balance sheet.

23. Provisions

	Insurance provision £000	Other £000	Total £000
Balance at 31 March 2011	**(11,772)**	**(3,066)**	(14,838)
Additional provisions made in 2011/12	(3,472)	(3,091)	**(6,563)**
Amounts used in 2011/12	3,261	1,154	**4,415**
Unused amounts reversed in 2011/12	6,209	0	**6,209**
Balance at 31 March 2012	**(5,774)**	**(5,003)**	**(10,777)**

Insurance Provision

The Council maintains an insurance fund to meet the excess amount of any liability and fire claims not covered by its external insurers. The fund meets liability claims that are settled for amounts of less than £250,000 with external insurers covering the remainder. It meets fire claims up to £10,000 for dwellings, £25,000 for corporate properties and up to £100,000 for schools, with external insurers covering the balance.

The fund consists of this provision which covers actual claims made and also a reserve to provide a contingency against potential future claims. The claims will be paid out over a number of years.

Other

This relates to provisions for repayments of grant, equal pay settlements and other minor provisions made by services. The majority of the other provisions are expected to be paid within the year.

24. Usable reserves

	31 March 2011 £000	31 March 2012 £000
General fund reserve	8,189	11,886
Earmarked reserves (as detailed in note 8)		
• Balances held by schools under a scheme of delegation	(1,068)	4,528
• VER reserve	95	95
• LABGI reserve	263	0
• Media city regeneration reserve	708	0
• Community committee reserve	423	470
• DSO appropriation account	119	0
• Investment reserve	0	1,208
• Barton Moss trading	71	0
• Liabilities reserve	0	7,750
• Pooled budget reserve	42	0
• Customer and support services reserve	157	1,693
• PFI reserve	384	759
• Children's services reserve	0	500
• Social services reserve	1,237	906
• Insurance fund reserve	5,805	12,014
• Community initiatives reserve	597	0
• IFRS revenue grants reserve	5,083	1,985
IFRS capital grants reserve	13,535	15,844
Housing Revenue Account reserve	1,304	946
	36,944	**60,584**

The movements in the Council's usable reserves are detailed in the movement in reserves statement. The movements in earmarked reserves are detailed in note 8.

Balances held by schools under a scheme of Delegation

Under the terms of the Education Act 1996, local authorities are required to delegate management responsibilities to the governing bodies of schools. All primary, secondary and special schools are formula funded and are included in the scheme of full delegation. Nursery schools are excluded from the scheme.

In accordance with the Council's approved scheme for delegating budgets to schools, the amount of any budget not spent in the year is available for future use by the schools, subject to the limits agreed by the Department for Education and prescribed in the scheme of delegation to schools. The balances are not available to the Council for general use.

The balances held are set out below. They are included within earmarked general fund reserves in the movement in reserves statement.

	31 March 2011 £000	31 March 2012 £000
Schools managed locally		
- surpluses carried forward	6,085	9,265
- deficits carried forward	(7,153)	(4,737)
Net underspend/(overspend) carried forward	**(1,068)**	**4,528**

25. Unusable Reserves

	Balance 31 March 2011 £000	Balance 31 March 2012 £000
Revaluation Reserve – published 2011/12	108,374	
Add opening balance adjustment relating to heritage assets	30,492	
Revaluation reserve revised	138,866	141,024
Available for sale financial instruments reserve	0	
Capital adjustment account	300,188	258,550
Financial instruments adjustment account	(68,391)	(63,570)
Deferred capital receipts reserve	2,022	2,019
Pensions reserve	(204,800)	(323,565)
Collection fund adjustment account	0	(557)
Unequal pay back pay account	0	0
Accumulated absences account	(8,257)	(6,889)
Total unusable reserves	**159,628**	**7,012**

Revaluation Reserve

The revaluation reserve is the store of gains made by the Council arising from increases in the value of its property, plant and equipment not yet realised through sales. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the capital adjustment account.

Revaluation reserve	Balance 31 March 2011 £000	Balance 31 March 2012 £000
Balance brought forward 1 April	85,792	
Opening balance adjustment reflecting the impact on the reserve of the recognition of Heritage assets	30,492	
Revised balance brought forward 1 April	116,284	138,866
Surplus or (deficit) on the revaluation of non-current assets not posted to the surplus or deficit on the provision of services		
- Surplus	39,735	33,959
- Deficit	(8,891)	(14,238)
Transfers to the capital adjustment account		
• Accumulated gains on assets sold or scrapped	(6,148)	(15,119)
• Difference between fair value depreciation and historical cost depreciation	(2,114)	(2,445)
Balance carried forward 31 March	**138,866**	**141,023**

Opening balance adjustment

The Code of Practice on Local Authority Accounting 2011/12 has introduced a change in accounting policy in relation to the treatment of heritage assets held by the Council. The Code requires that heritage assets are measured at valuation in the 2011/12 financial statements including the 2010/11 comparative information. The introduction of these assets has increased the Council’s property portfolio by a net £30.492m with a corresponding increase to the revaluation reserve.

Available for sale financial instruments reserve

The available for sale financial instruments reserve would contain gains arising from increases in the value of investments that have quoted market prices or otherwise do not have fixed or determinable payments. The Council does not have any such instruments.

Capital adjustment account

The capital adjustment account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the comprehensive income and expenditure statement (with reconciling postings from the revaluation reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The account contains accumulated gains and losses on investment properties and gains recognised on donated assets that have yet to be consumed by the Council.

The account also contains revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date that the revaluation reserve was created to hold such gains.

Note 7 provides details of the source of all the transactions posted to the account, apart from those involving the revaluation reserve.

Capital adjustment account	**Balance 31 March 2011 £000**		**Balance 31 March 2012 £000**	
Balance b/f 1 April		384,261		300,188
Asset restatement				
Reversal of items relating to capital expenditure debited or credited to the comprehensive income and expenditure statement				
• Depreciation charged in the year	(33,224)		(33,431)	
• Impairment charge	(102,577)		(69,688)	
• Amortisation of intangible assets	(32)		(43)	
• Total write down of revenue expenditure funded from capital under statute	(62,120)		(53,298)	
• Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the comprehensive income and expenditure statement	(13,869)		(43,221)	
		(211,822)		(199,681)
Adjusting amounts written out of the revaluation reserve		8,262		15,119
Net written out amount of the cost of non-current assets consumed in the year				
• HRA settlement grant			61,056	
• Use of capital receipts reserve to repay debt	14,723		6,541	
• Use of major repairs reserve to finance new capital expenditure	3,666		7,074	
• Capital grants and contributions credited to the comprehensive income and expenditure statement that have been applied to capital financing	81,111		54,225	
• Application of grants to capital financing from the capital grants unapplied account	637		0	
• Statutory provision for the financing of capital investment charges against the general fund and HRA balances	14,320		14,296	
• Capital expenditure charged against the general fund and HRA balances	116		0	
• Equal pay	1,436		(264)	
		116,009		142,928
Movement in the donated assets account credited to the comprehensive income and expenditure statement		3,478		0

Balance carried forward 31 March		**300,188**	**258,554**

Financial instruments adjustment account

The financial instruments adjustment account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

The Council uses the account to manage premiums paid on the early redemption of loans. Premiums are debited to the comprehensive income and expenditure statement when they are incurred, but reversed out of the general fund balance to the account in the movement in reserves statement. Over time, the expense is posted back to the general fund balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 12 will be charged to the general fund over the next 47 years.

	Balance 31 March 2011 £000	**Balance 31 March 2012 £000**
Balance at 1 April	73,443	68,392
Premiums incurred in the year and charged to the comprehensive income and expenditure statement	0	0
Proportion of premiums incurred in previous financial years to be charged to the general fund balance in accordance with statutory requirements	(5,523)	(5,117)
Discounts incurred in the year and credited to the comprehensive income and expenditure statement	0	0
Proportion of discounts incurred in previous financial years to be credited to the general fund balance in accordance with statutory requirements	435	263
Amount by which finance costs charged to the comprehensive income and expenditure statement are different from finance costs chargeable in the year in accordance with statutory requirements	37	33
Balance carried forward 31 March	**68,392**	**63,571**

Pensions reserve

The pensions reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the comprehensive income and expenditure statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the pensions reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	Balance 31 March 2011 £000	**Balance 31 March 2012 £000**
Balance brought forward 1 April	(473,100)	(204,800)
Net charges made for retirement benefits in accordance with FRS17	90,100	(3,765)
Actuarial gains/(losses)	178,200	(115,000)
Balance carried forward 31 March	**(204,800)**	**(323,565)**

Deferred capital receipts reserve

The deferred capital receipts reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the capital receipts reserve. For instance, in the case of home swaps, it becomes receivable upon a subsequent resale of a property sold by the Council on which a legal charge has been placed. In the case of council house sales, the amount represents outstanding mortgages with the Council.

	Balance 31 March 2011 £000	Balance 31 March 2012 £000
Balance brought forward 1 April	2,260	2,021
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the comprehensive income and expenditure statement		
Transfer to the capital receipts reserve upon receipt of cash	(239)	(3)
Balance carried forward 31 March	**2,021**	**2,018**

Collection fund adjustment account

The collection fund adjustment account manages the differences arising from the recognition of council tax income in the comprehensive income and expenditure statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the general fund from the collection fund. The collection fund shows the transactions of the Council as a billing authority and is discussed in detail in the relevant section of these accounts.

	Balance 31 March 2011 £000	Balance 31 March 2012 £000
Balance brought forward 1 April	(958)	0
Amount by which council tax income credited to the comprehensive income and expenditure statement is different from council tax income calculated for the year in accordance with statutory requirements	958	(557)
Balance carried forward 31 March	**0**	**(557)**

Unequal pay back pay account

The unequal pay back pay account compensates for the differences between the rate at which the council provides for the potential costs of back pay settlements in relation to equal pay cases and the ability under statutory provisions to defer the impact on the general fund balance until such time as cash might be paid out to claimants.

	Balance 31 March 2011 £000	Balance 31 March 2012 £000
Balance brought forward 1 April	(395)	**0**
Amount by which amounts charged for equal pay claims to the comprehensive income and expenditure statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements (cash settlements paid in the year)	395	0
Balance carried forward 31 March	**0**	**0**

Accumulated absences account

The accumulated absences account absorbs the differences that would otherwise arise on the general fund balance from accruing for compensated absences earned but not taken in the year, eg annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the general fund balance is neutralised by transfers to or from the account.

Accumulated absences account	**Balance 31 March 2011 £000**		**Balance 31 March 2012 £000**	
Balance b/f 1 April		(10,049)		**(8,257)**
Settlement or cancellation of accrual made at the end of the preceding year	10,049		8,257	
Amounts accrued at the end of the current year	(8,257)		(6,889)	
Amount by which officer remuneration charged to the comprehensive income and expenditure statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		1,792		1,368
Balance carried forward 31 March		**(8,257)**		**(6,889)**

26. Cash flow statement

The prior year comparators in the cash flow statement and notes 26 to 28 have been restated from those originally reported in the previous financial year following a reappraisal of the requirements of the Code during the preparation of the 2011/12 cash flow statement. The bottom line remains unchanged but the 2011/12 analysis and restatement of the 2010/11 analysis better reflect the nature of cash flow activities.

Adjustment to net surplus or deficit on the provision of services for non-cash movements

	31 March 11 £000	**31 March 12 £000**
Depreciation	(29,558)	(28,802)
Impairment and downward valuations	(103,114)	(69,328)
Amortisation	(62,152)	(53,041)
(Increase)/decrease in Creditors	(13,801)	2,953
Increase/(decrease) in Debtors including impairment for bad debts	17,405	(19,104)
Increase/(decrease) in Stock and other accruals	2,154	1,788
Movement in pension liability	90,100	(3,765)
Movement in provisions	(6,741)	1,634
Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	(13,869)	(43,224)
Other non-cash items charged to the net surplus or deficit on the provision of services	8,568	3,552
	(111,008)	(207,537)

Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities

	31 March 11 £000	**31 March 12 £000**
Proceeds from the sale of PP&E, investment property and intangible assets	15,322	6,934
Grants applied in the financing of capital expenditure or received to meet the principal repayments on borrowing		
• Premium payment – HRA self financing	0	(21,205)
• Capital grant – HRA self financing used to repay debt	0	82,261
• Capital grants and contributions – financing of capital expenditure	90,156	56,535
	105,478	124,525

Cash flows for operating activities

	Originally stated 31 March 11 £000	**Restated 31 March 11 £000**	**31 March 12 £000**
Interest received	(277)	(739)	(1,939)
Interest paid	14,829	18,908	20,845
Dividends received	(1,000)	(1,000)	(1,012)

27. Cash flow statement – investing activities

	Originally stated 31 March 11 £000	Restated 31 March 11 £000	31 March 12 £000
Purchase of property, plant and equipment, investment property and intangible assets	82,234	82,234	75,062
Purchase of short-term and long-term investments	6,667	94,029	98,395
Other payments for investing activities	64,158	63,552	69,593
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(15,323)	(15,323)	(6,934)
Capital grants	(84,049)	(84,049)	(57,511)
Proceeds from shot-term and long-term investments	(8,667)	(74,462)	(87,395)
Net cash flows from investing activities	45,020	65,981	91,210

28. Cash flow statement – financing activities

	Originally stated 31 March 11 £000	Restated 31 March 11 £000	31 March 12 £000
Cash receipts of short- and long-term borrowing	(213,053)	(1,238,630)	(1,124,395)
Other receipts from financing activities	(231)		
• Grants used to repay borrowing – HRA self financing	0	0	(82,261)
• The difference between cash collected from NNDR payers and the amount paid to the pool	0	0	(8,736)
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	2,749	2,749	2,535
Repayments of short- and long-term borrowing	176,929	1,202,506	1,138,974
Other payments for financing activities	(5,060)		
• Premium on the early repayment of debt – HRA self financing	0	0	21,205
• The difference between cash collected from NNDR payers and the amount paid to the pool	0	4,921	0
• The difference between the preceptors share of council tax collected and net cash paid to preceptors for their precept	0	(115)	140

Net cash flows from financing activities	(38,666)	(28,569)	(52,818)

29. Amounts reported for resource allocation decisions

The analysis of income and expenditure by service on the face of the comprehensive income and expenditure statement is that specified by the Service Reporting Code of Practice. However, decisions about resource allocation are taken by the Council cabinet on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the revaluation reserve and amortisations are charged to services in the comprehensive income and expenditure statement)
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year
- expenditure on some support services is budgeted for centrally and not charged to directorates.

The income and expenditure of the Council's principal directorates recorded in the budget reports for the year is set out overleaf.

Amounts reported for resource allocation decisions

Directorate	Children's Services	Community, Health & Social Care	Sustainable Regeneration	Chief Executive's & Customer & Support Services	Other direct services (Environment & Housing Revenue Account)	Other (capital financing, precepts & charges, inflation/ contingency)	Total
	2011/12	**2011/12**	**2011/12**	**2011/12**	**2011/12**	**2011/12**	**2011/12**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Employee expenses	124,556	28,498	18,664	36,776	18,812	3,816	231,122
Other services expenses	108,135	78,409	158,034	43,712	160,514	63,291	612,095
Support service recharges	6,419	6,242	3,717	12,960	2,951	717	33,006
Total operating expenses	**239,110**	**113,149**	**180,415**	**93,448**	**182,277**	**67,824**	**876,223**
Fees, charges & other service income	(19,257)	(42,848)	(39,413)	(43,771)	(84,093)	(6,498)	(235,880)
Government grants	(162,027)	(7,810)	(117,602)	(29,408)	(85,052)	(14,034)	(415,933)
Total income	**(181,284)**	**(50,658)**	**(157,015)**	**(73,179)**	**(169,145)**	**(20,532)**	**(651,813)**
Net cost of services	**57,826**	**62,491**	**23,400**	**20,269**	**13,132**	**47,292**	**224,410**

	2010/11	**2010/11**	**2010/11**	**2010/11**	**2010/11**	**2010/11**	**2010/11**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Employee expenses	137,776	28,336	21,368	36,482	20,508	3,711	248,181
Other services expenses	115,461	81,696	164,847	45,515	51,113	57,901	516,533
Support service recharges	4,729	6,916	2,732	9,411	3,022	762	27,572
Total operating expenses	**257,966**	**116,948**	**188,947**	**91,408**	**74,643**	**62,374**	**792,286**
Fees, charges & other service income	(25,583)	(40,004)	(42,834)	(37,371)	(62,194)	4,311	(203,675)
Government grants	(183,094)	(8,067)	(126,840)	(33,993)	(3,727)	(6,915)	(362,636)
Total income	**(208,677)**	**(48,071)**	**(169,674)**	**(71,364)**	**(65,921)**	**(2,604)**	**(566,311)**
Net cost of services	**49,289**	**68,877**	**19,273**	**20,044**	**8,722**	**59,770**	**225,975**

Reconciliation of directorate income and expenditure to cost of services in the comprehensive income and expenditure statement

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the comprehensive income and expenditure statement (CIES).

	2010/11 £000	2011/12 £000
Cost of services in service analysis	225,975	224,410
Add services not included in main analysis	0	0
Add notional amounts not reported to management	109,186	121,795
Remove amounts reported to management not included in CIES	(17,745)	(34,764)
Net cost of services in CIES	**317,416**	**311,441**

Reconciliation to subjective analysis

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the surplus or deficit on the provision of services included in the comprehensive income and expenditure statement.

	Service analysis	Not reported to management for decision making	Reported to management but not included in cost of services	Allocation of recharges	Net cost of services	Corporate Amounts	Surplus or deficit on the provision of services
	2011/12	**2011/12**	**2011/12**	**2011/12**	**2011/12**	**2011/12**	**2011/12**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Employee expenses	231,122	(1,104)	0	(13,058)	216,960	0	216,960
Other service expenses	582,668	300	(126,395)	(5,340)	451,233	22,430	473,663
Support service recharges	33,006	0	0	(33,006)	0	0	0
Depreciation, amortisation and impairment	7,074	151,170	0	0	158,244	360	158,604
Interest payments	22,353	0	(22,353)	0	0	24,428	24,428
Payments to Housing capital receipts pool	0	0	0	0	0	393	393
Gain or loss on disposal of fixed assets	0	0	0	0	0	36,290	36,290
Total operating expenses	**876,223**	**150,366**	**(148,748)**	**(51,404)**	**826,437**	**83,901**	**910,338**
Fees, charges & other service income	(233,043)	(28,571)	23,125	51,404	(187,085)	(29,625)	(216,710)
Interest and investment income	(2,837)	0	2,837	0	0	(2,837)	(2,837)
Income from council tax	0	0	0	0	0	(92,371)	(92,371)
Government grants and contributions	(415,933)	0	88,022	0	(327,911)	(236,829)	(564,740)
Total income	**(651,813)**	**(28,571)**	**113,984**	**51,404**	**(514,996)**	**(361,662)**	**(876,658)**
Surplus or deficit on the provision of services	**224,410**	**121,795**	**(34,764)**	**0**	**311,441**	**(277,761)**	**33,680**

	Service analysis	Not reported to management for decision making	Reported to management but not included in cost of services	Allocation of recharges	Net cost of services	Corporate Amounts	Surplus or deficit on the provision of services
	2010/11	**2010/11**	**2010/11**	**2010/11**	**2010/11**	**2010/11**	**2010/11**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Employee expenses	248,181	(79,792)	(23,900)	(17,427)	127,062	0	127,062
Other service expenses	498,568	(1,832)	(14,202)	(9,319)	473,215	(537)	472,678
Support service recharges	27,572	0	0	(27,572)	0	0	0
Depreciation, amortisation and impairment	0	190,810	0	0	190,810	0	190,810
Interest payments	17,965	0	(17,965)	0	0	29,765	29,765
Payments to Housing capital receipts pool	0	0	0	0	0	606	606
Gain or loss on disposal of fixed assets	0	0	0	0	0	(1,295)	(1,295)
Total operating expenses	**792,286**	**109,186**	**(56,067)**	**(54,318)**	**791,087**	**28,539**	**819,626**
Fees, charges & other service income	(201,711)	0	543	54,318	(146,850)	(90,699)	(237,549)
Interest and investment income	(1,964)	0	1,964	0	0	(1,964)	(1,964)
Income from council tax	0	0	0	0	0	(91,344)	(91,344)
Government grants and contributions	(362,636)	0	35,815	0	(326,821)	(166,046)	(492,867)
Total income	**(566,311)**	**0**	**38,322**	**54,318**	**(473,671)**	**(350,053)**	**(823,724)**
Surplus or deficit on the provision of services	**225,975**	**109,186**	**(17,745)**	**0**	**317,416**	**(321,514)**	**(4,098)**

30. Acquired and discontinued operations

Disclosure is required of the nature of acquired or discontinued operations and details of any outstanding liabilities in respect of discontinued operations. There were no acquired or discontinued operations in 2011/12.

31. Trading operations

The Council has no significant trading operations operating in a true commercial environment. Activities considered as trading undertakings under recommended accounting practice in previous years are all an integral part of one of the Council's services to the public and their income and expenditure is incorporated into the net cost of services in the comprehensive income and expenditure statement.

32. Agency services

The Council is the lead authority for the Greater Manchester Police Authority (GMPA). It provides legal, financial, personnel, administrative and valuation and estates services to the GMPA under the terms of an annually-negotiated service level agreement. The cost of these services is fully reimbursed. Included within the Council's income & expenditure account is £2.875m income and expenditure (£3.105m in 2010/11)

The Council was the lead authority for North West Learning Grid (NWLG), a consortium of seventeen local authorities in the North West of England with the aim of working in partnership with schools to improve the process and management of learning using the latest information and communication technologies. The cost of NWLG was fully met by subscriptions from member authorities. In 2010/11, NWLG had expenditure and income of £1.275m. NWLG was included in the Council's income & expenditure account, within the children's and education services line, only to the extent of the Council's own subscription, £45,000. The consortium disbanded 31 March 11 and the remaining surplus funds were returned to partners.

The Council acts as the agent of the major preceptors, the Greater Manchester Police Authority and the Greater Manchester Fire and Rescue Authority, when collecting council tax on their behalf. No fee is chargeable for this service.

The Council acts as the agent of the government in collecting national non-domestic rates. The government paid the Council an allowance for the cost of this collection of £0.440m in 2011/12 (£0.450m in 2010/11).

Levies

The net cost of services includes the following amounts which are charged by levy for services not directly provided by the Council.

	31 March 2011 £000	**31 March 2012 £000**
Highways, roads and transport services		
• Greater Manchester Integrated Transport Authority	14,953	15,955
Environmental services		
• Greater Manchester Waste Disposal Authority	11,132	14,025
• Environment Agency – flood defence	109	111
Association of Greater Manchester Authorities – county wide shared services	1,239	759
	27,433	**30,850**

33. Road charging schemes under the transport act 2000

Disclosure is required of road user charging schemes and/or licensing schemes for a workplace parking levy made under the Act. The Council does not operate any such scheme.

34. Pooled budgets

The pooled budget mechanism is a means by which the Council and Salford NHS Primary Care Trust (PCT) can bring resources together to both commission and provide services jointly, allowing flexible and integrated support and care to be offered.

The Council now acts as 'host' to four pooled budgets.

- Learning difficulties pool: to provide for Salford residents with learning disabilities a comprehensive range of services, including community social work and assessment together with nursing, residential, homecare, day care, supported employment and supported tenancy services and an adult placement scheme.

- Integrated Equipment Services pool: to provide an adaptations and equipment service for Salford residents of all ages to enable them to live as independently as possible. The service includes the assessment of individuals' needs by community occupational therapists and the provision of equipment, wheelchairs and adaptations to homes.
- Intermediate care pool: to provide intensive support for some older Salford residents to enable them to maintain their independence, either as an alternative to a hospital admission or prematurely entering long-term care, or to assist recovery after a period of significant illness. Services provided include social worker assessment, intermediate care rehabilitation and rapid response, provision of nursing and rehabilitation beds, and an intensive home support service.
- National treatment allocation adult pool: to provide for the commissioning of a range of services for Salford adults with drugs-related problems. This includes the assessment of needs and the provision of a range of services for prevention and rehabilitation of service users.

The income and expenditure for each pooled budget is set out overleaf. Pooled budgets a to c form part of the adult social care line on the consolidated income and expenditure statement, and d forms part of the environmental and regulatory services line.

	2010/11 £000	2011/12 £000
a) Learning difficulties pool		
Pooled fund income:		
Council contribution	13,491	18,722
Salford NHS PCT contribution	9,712	3,762
client & other non-pool income	5,921	4,496
Total pooled fund income	29,124	26,980
Gross pooled fund expenditure	(29,124)	(26,980)
Surplus for the year	**0**	**0**
b) Integrated equipment services pool		
Pooled fund income:		
Council contribution	1,413	947
Salford NHS PCT contribution	1,510	1,511
client & other non-pool income	129	57
Total pooled fund income	3,052	2,515
Gross pooled fund expenditure	(3,052)	(2,515)
Surplus for the year	**0**	**0**
c) Intermediate care pool		
Pooled fund income:		
Council contribution	2,643	2,339
Salford NHS PCT contribution	6,203	6,245
client & other non-pool income	1	0
Total pooled fund income	8,847	8,584
Gross pooled fund expenditure	(8,847)	(8,584)
Surplus for the year	**0**	**0**
d) National treatment allocation adult pool		
Pooled fund income:		
Council contribution	293	374
Salford NHS PCT contribution	2,554	2,908
client & other non-pool income	747	533
Total pooled fund income	3,594	3,815
Gross pooled fund expenditure	(3,594)	(3,815)
Surplus for the year	**0**	**0**

The Council's share of the pools' expenditure is included within adult social care in the CIES.

The Council and Salford NHS PCT budget for an annual contribution to each pool. In the event of this exceeding pool expenditure, the surplus is redistributed to the partners, so that income exactly meets expenditure. The redistribution is in the ratio of their contributions to the pool.

In the event of a budget shortfall, additional contributions are to be made by each partner so that pool income meets expenditure. The Council has earmarked a pooled budget reserve for the purpose of meeting any such shortfall in its share of contributions.

35. Members' allowances

The Council has 60 elected members and co-opted 8 independent members during 2011/12 (2010/11 8). In total, £0.912m was paid in allowances and £0.003m in travel and subsistence (2010/11 £0.904m and £0.004m)

Details are published at http://www.salford.gov.uk/memberallowances.htm.

36. Officers' remuneration

The remuneration paid to the Council's senior employees is set out overleaf.

2011/12 remuneration details, statutory and senior officers

Post title and name	Notes	Salary (including fees and allowances) 2011/12 £	Bonuses 2011/12 £	Expense allowances 2011/12 £	Compensation for loss of office 2011/12 £	Benefits in kind 2011/12 £	Total remuneration, excluding employer pension contributions 2011/12 £	Employer pension contributions 2011/12 £	Total remuneration, including employer pension contributions 2011/12 £
Senior officer's salary over £150,000 per year:									
B Spicer, Chief Executive	a	181,934	0	253	0	0	182,187	29,420	211,607
Senior officers' salary between £50,000 and £150,000 per year:									
Strategic Director of Customer and Support Services	b	106,970	0	236	0	0	107,206	17,140	124,346
Strategic Director of Community, Health and Social Care	c	114,990	0	265	0	0	115,255	18,522	133,777
Assistant Chief Executive	d	115,700	0	241	19,981	0	135,922	109,728	245,650
Former Strategic Director of Regeneration	e	115,524	0	245	68,826	0	184,595	18,522	203,117
Former City Treasurer	f	81,494	0	239	0	0	81,733	70,538	152,271
Strategic Director of Children's Services	g	108,194	0	235	0	0	108,429	17,337	125,766
Strategic Director of Environment and Community Safety	h	106,870	0	45	0	0	106,915	17,123	124,038
Development Director	i	100,586	0	227	0	0	100,813	16,132	116,945

2010/11 remuneration details, statutory and senior officers

Post title and name	Notes	Salary (including fees and allowances) 2010/11 £	Bonuses 2010/11 £	Expense allowances 2010/11 £	Compensation for loss of office 2010/11 £	Benefits in kind 2010/11 £	Total remuneration, excluding employer pension contributions 2010/11 £	Employer pension contributions 2010/11 £	Total remuneration, including employer pension contributions 2010/11 £
Senior officer's salary over £150,000 per year:									
B Spicer, Chief Executive	a	182,458	0	914	0	0	183,372	27,020	210,392
Senior officers' salary between £50,000 and £150,000 per year:									
Strategic Director of Customer and Support Services	b	89,706	0	927	0	0	90,633	13,491	104,124
Strategic Director of Community, Health and Social Care		116,121	0	1,080	0	0	117,201	17,480	134,681
Assistant Chief Executive		116,121	0	901	0	0	117,022	17,480	134,502
Former Strategic Director of Regeneration		116,121	0	901	0	0	117,022	17,480	134,502
Former City Treasurer		82,317	0	915	0	0	83,232	12,430	95,662
Strategic Director of Children's Services		97,863	0	896	0	0	98,759	14,777	113,536
Strategic Director of Environment and Community Safety	c	32,293	0	21	0	0	32,314	4,876	37,190

Notes to senior officers' remuneration tables on previous two sheets

2011/12

a) The Chief Executive provides services for the Authority and Greater Manchester Police Authority. The police authority is recharged for 20% of her salary and other remuneration. Salary includes £8,296, and pension contributions include £1,405, in respect of electoral duties at the May 2011 Alternative Vote Referendum, fully funded by the Electoral Commission.

b) The salary of the Strategic Director of Customer and Support Services includes £460 in respect of electoral duties at the May 2011 Alternative Vote Referendum, fully funded by the Electoral Commission.

c) The salary of the Strategic Director of Community, Health and Social Care includes £360 in respect of electoral duties at the May 2011 Alternative Vote Referendum, fully funded by the Electoral Commission.

d) The salary of the Assistant Chief Executive includes £1,000 in respect of electoral duties at the May 2011 Alternative Vote Referendum, fully funded by the Electoral Commission. The Assistant Chief Executive will leave the service of the council on 31 October 2012. The compensation for loss of office payment of £19,981 included in this disclosure was agreed in 2011/12 but will not actually be paid until 2012/13. The figure for employer pension contributions includes the capitalised cost of early retirement of £91,206.

e) The salary of the former Strategic Director of Regeneration includes £460 in respect of electoral duties at the May 2011 Alternative Vote Referendum, fully funded by the Electoral Commission. The Strategic Director of Regeneration left the service of the council on 30 April 2012. The figure for compensation for loss of office included in this disclosure was agreed in 2011/12 but not actually paid until May 2012.

f) The City Treasurer left the service of the council on 31 March 2012. The figure for employer pension contributions includes the capitalised cost of early retirement of £57,367.

g) The salary of the Strategic Director of Children's Services includes £460 in respect of electoral duties at the May 2011 Alternative Vote Referendum, fully funded by the Electoral Commission.

h) The salary of the Strategic Director of Environment and Community Safety includes £460 in respect of electoral duties at the May 2011 Alternative Vote Referendum.

i) The salary of the Development Director includes £100 in respect of electoral duties at the May 2011 Alternative Vote Referendum, fully funded by the Electoral Commission.

2010/11

a) The Chief Executive's remuneration includes an allowance of 20% of the total salary, for providing services to the Greater Manchester Police Authority, which is reimbursed to the Council. It also includes gross pay £7,361 and employer pension of £1,176 (2010/11) in relation to returning officer duties, fully funded by the Electoral Commission.

b) On 1 December 2010, the former Director of Change was appointed Strategic Director of Customer and Support Services at an annualised salary of £100,950

c) The Strategic Director of Environment and Community Safety was appointed 6 December 2010 at an annualised salary of £100,950.

Remuneration bands

The Council's employees including those officers already disclosed in the remuneration details of statutory and senior officers receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

Remuneration Band	2010/11	2010/11	2011/12	2011/12
	School staff	Non-school staff	School staff	Non-school staff
£50,000 - £54,999	67	21	54	8
£55,000 - £59,999	42	21	36	19
£60,000 - £64,999	27	20	22	15
£65,000 - £69,999	10	7	12	9
£70,000 - £74,999	4	10	5	10
£75,000 - £79,999	2	6	3	6
£80,000 - £84,999	3	3	2	3
£85,000 - £89,999	1		2	1
£90,000 - £94,999	2	1		
£95,000 - £99,999	2	1		
£100,000 - £104,999	2	1	2	1
£105,000 - £109,999		1		4
£110,000 - £114,999				
£115,000 - £119,999		4		1
£120,000 - £124,999				
£125,000 - £129,999				
£130,000 - £134,999				
£135,000 - £139,999				1*
£140,000 - £144,999				
£145,000 - £149,999				
£150,000 - £154,999				
£155,000 - £159,999				
£160,000 - £164,999				
£165,000 - £169,999				
£170,000 - £174,999				
£175,000 - £179,999				
£180,000 - £184,999		1		2**
Total	**162**	**97**	**138**	**80**

*Includes an officer in receipt of termination benefits who would otherwise have appeared in the band £115,000-£119,999 (see remuneration details, statutory and senior officers, earlier in this disclosure note)

** Includes an officer in receipt of termination benefits who would otherwise have appeared in the band £115,000-£119,999 (see remuneration details, statutory and senior officers, earlier in this disclosure note)

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Exit Packages

Exit packages include compulsory and voluntary redundancy costs, pension contributions in respect of added years, ex-gratia payments and other departure costs.

Exit package cost band (inc special payments)	Number of compulsory redundancies		Number of other departures agreed (VS/VER/Flexible Retirement)		Total number of exit packages by cost band	Cost of exit packages in each band		Total cost of exit packages by cost band
	non school staff	school staff	non school staff	school staff		non school staff	school staff	
	no.	no.	no.	no.	no.	£000	£000	**£000**
£0 - £20,000			532	35	567	3,577	312	**3,889**
£20,001 - £40,000	1		45	13	58	1,240	397	**1,637**
£40,001 - £60,000			14	2	16	665	95	**760**
£60,001 - £80,000			10	2	12	693	142	**835**
£80,001 - £100,000			5	0	5	426	-	**426**
£100,000 - £150,000			3	0	3	346	-	**346**
Total	**1**		**609**	**52**	**661**	**6,948**	**946**	**7,894**

Includes a provision for redundancies in 2012/13 for 361 staff at an estimated cost of £1.988m

37. External audit costs

The Council has incurred the following costs in relation to the audit of the statement of accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Council's external auditors:

Fees payable to the Audit Commission	2010/11 £000	2011/12 £000
• with regard to external audit services carried out by the appointed auditor	303	278
• in respect of statutory inspection	0	0
• for the certification of grant claims and returns	73	86
• in respect of other services provided by the appointed auditor	2	2
Total	**378**	**366**

38. Dedicated schools grant

[A part of Children's and educational services]

The Council's expenditure on schools is funded primarily by dedicated schools grant (DSG) monies provided by the Department for Education. DSG is ring-fenced and can only be applied to meet expenditure properly included in the schools budget. The schools budget includes elements for a range of educational services provided on a Council-wide basis and for the individual schools budget, which is divided into a budget share for each school.

Details of the deployment of the DSG receivable are set out below.

	Central expenditure £000	Individual schools budget £000	Total £000
Final DSG for 2011/12			**157,527**
Brought forward from 2010/11			**(3,533)**
Carry forward to 2012/13 agreed in advance			**0**
Agreed budgeted distribution in 2011/12	18,441	135,553	**153,994**
Actual central expenditure	(19,992)		**(19,992)**
Actual ISB deployed to schools		(135,553)	**(135,553)**
Council contribution for 2011/12	0	0	**0**
Carry forward to 2012/13	(1,551)	0	**(1,551)**

39. Grant income

The authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2011/12.

Credited to Taxation and non-specific grant income

	2010/11 £000	2011/12 £000
Council tax	(91,344)	(92,371)
Non-domestic rates	(113,718)	(103,607)
Non-ring-fenced government grants		
Revenue support grant	(16,513)	(32,025)
Area based grant	(35,815)	0
Council Tax freeze grant	0	(2,323)
New homes bonus	0	(2,365)
Local services support grant	0	(1,073)
Department for Transport	0	(3,229)
Department for Education	0	(27,870)

Department for Health	0	(246)
Homes and Communities Agency	0	(797)
Heritage Lottery Fund	0	(706)
Home Office	0	(2,467)
North West Regional Development Agency	0	(2,528)
Other	(90,156)	(1,778)
sport england	0	(159)
Department of Energy and Climate Change	0	(1,360)
Total	**(347,546)**	**(274,904)**

Credited to services

	2010/11 £000	2011/12 £000
Arts council		(196)
Department for Business Innovation and Skills	(1,526)	(830)
Department for Communities and Local Government	(44,125)	(1,602)
Department for Education	(173,969)	(181,227)
Department for Work and Pensions	(138,393)	(144,983)
Department of Health	(2,007)	(7,645)
home office	(3,250)	(1,284)
Homes and communities agency		(2,492)
North West Regional Development Agency		(7,793)
other	(2,858)	(3,437)
Young People's Learning Agency	(1,609)	(1,140)
youth justice board		(4,577)
Lottery	(289)	
Total	**(368,026)**	**(357,206)**

This table has been represented to show grants on an accruals basis and not a cash basis.

Current Liabilites

Grants receipts in Advance (Revenue Grants)

	2010/11 £000	**2011/12** £000
Department for Education	(2,605)	(67)
Department of Health	(503)	(296)
North West Regional Development Agency	(189)	(320)
Learning and Skills Improvement Service	0	(243)
Other contributions	(4,640)	(1,854)
Other Local Authorities	(1,582)	(111)
Total	**(9,519)**	**(2,891)**

Capital grants and receipts in advance

	2010/11 £000	**2011/12** £000
Department for Health	(180)	(624)
Department for Transport	(2,709)	(2,120)
other	(159)	(156)
Department for Education	(5,031)	(2,747)
Total	**(8,079)**	**(5,647)**

40. Related parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or influenced *by* the council. The disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government

Central government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (eg council tax bills, housing benefits). Grants from government departments are set out in the subjective analysis in note 29 on reporting for resources allocation decisions and in note 39 on grant income.

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2011/12 is shown in Note 35. Members' interests outside of the Council are recorded in the register of interests and the register of gifts and hospitality maintained by the monitoring officer. A number of members hold official positions in organisations independent of their role as elected members of the Council. Where the Council has contracts for services and/or has awarded grants to such organisations, the Council's standing orders were fully complied with proper consideration of any declarations of interests.

Members hold positions on the boards of various community and voluntary organisations in and around Salford. In 2011/12 £1.292m of the Council's expenditure related to such declared member interests (£0.449m in 2010/11).

One member also acts as chair of the board of Salford Royal NHS Foundation Trust. In 2011/12, £47,000 of the Council's expenditure and £445,000 of its income related to the Trust (2010/11, £40,000 expenditure and £244,000 income).

Four members sit on the board of City West Housing Trust, a registered social landlord. In 2011/12 £0.294m of the Council's expenditure and £3.803m of its income related to the Trust (2010/11 £0.235m expenditure and £3.926m income).

Officers

Officers may be in a position to influence financial or operational practices. There were no transactions in 2011/12 with bodies in which officers had a pecuniary interest and were able to exercise such an influence (2010/11 nil).

Other public bodies [subject to common control by central government]

Other public bodies which have a financial relationship with the Council through the ability to precept or levy are disclosed in the agency income and expenditure note and in the collection fund note. The Council also works in close partnership with the health service, and its joint financing of pooled budgets is disclosed in note 34.

Entities controlled or influenced by the Council

a. Salix Homes Ltd

Salix Homes Ltd is an ALMO (arms-length management organisation) of the Council, and was formed in July 2007. The company's principal activities are to manage and maintain the housing stock of the Council.

The parent board of Salix Homes Ltd comprises four tenant representatives, four Council nominees and four independent members. Salix Homes is incorporated into the group accounts of the Council as a subsidiary company.

At the year ended 31 March 2012, the company had net liabilities of £4.156m (net liabilities of £1.754m at 31 March 2011). In 2011/12 the surplus before tax was £269,000 (2010/11 surplus of £2.243m).

At the year ended 31 March 2012, the Council owed Salix £0.359m and was owed £0.162.

Further information and details of the financial statements of Salix Homes Ltd may be obtained from the Company Secretary, Salix Homes Ltd., Diamond House, Peel Cross Road, Salford M5 4DT.

b. Higher Broughton Partnership companies

The principal activity of these companies is to manage a real estate project regenerating the Higher Broughton area of the city.

The Council has a 19% interest in Higher Broughton Partnership LP and Higher Broughton (GP) Ltd. Higher Broughton (GP) Ltd has a board of directors of which 44% are Council representatives.

In 2011/12, the Council made £nil payments to the Higher Broughton Partnership companies (£nil in 2010/11) and received no payments (£nil in 2010/11).

c. Urban Vision Partnership Limited (UVPL)

Urban Vision Partnership Limited is a joint venture arrangement created between Capita Symonds, Morrison and Salford City Council and was formed on 1 February 2005. Salford City Council is a minority shareholder in this venture and current shareholdings are Capita Symonds 50.1%, Morrison 30% and SCC 19.9%. UVPL is considered to be a joint venture company and is treated in these accounts as an associate company.

The principal activity of the company is to provide a wide range of multi-disciplinary services to the Council which were previously performed by the Council itself. These services include engineering & highways, architectural services, property & development, planning & building control and business development & support.

At 31 December 2011 the company had net assets of £2.194m (net assets of £1.989m 31 December 2010) and for 2011 had a profit before tax of £0.286m (£0.224m profit before tax in 2010). The Council has a ten year agreement for the provision of services from UVPL and purchased £33.500m in 2011 (£30.400m in 2010). In 2011 the Council received £12.700m from UVPL as reimbursement of salary costs for seconded staff and other costs (£10.700m in 2010).

At year ended 31 March 2012, the Council owed Urban Vision £0.138m and was owed £0.049m.

Further information and details of financial statements can be obtained from the Company Secretary, Urban Vision Partnership Ltd., Emerson House, Albert Street, Eccles M30 0TE.

d. Central Salford URC Ltd.

Central Salford URC was incorporated as a private company, limited by guarantee with no share capital in August 2006. The principal activity of the company was to facilitate the regeneration of an area of central Salford.

In 2010/11 the Council had 18% of the directors and was restricted by the articles of association to at all times have less than 20% of the voting rights and so not exert significant influence. However, the company underwent voluntary liquidation on 28 April 2011.

In the year 2011/12 the Council made no payments to Central Salford URC (£261,000, in the form of a grant, in 2010/11) and received no income (£30,000, for financial and administrative support, in 2010/11).

e. Manchester Airport Group plc (MAG)

The principal activity of the company is the operation and development of an international airport. The Council holds 10,214,000 £1 ordinary shares, equivalent to 5% of share capital.

At 31 March 2012, the company had net assets of £761.9m (£817.0m in 2010/11). The 2010/12 loss before tax was £6.7m (2010/11 profit before tax £80.6m) and the loss after tax was £9.2m (2010/11 profit after tax was £84.7m).

A dividend of £1.000m was received in 2011/12 (£1.000m in 2010/11).

Further information and details of financial statements can be obtained from the Company Secretary, c/o Manchester Professional Services Ltd., PO Box 532, Town Hall, Manchester M60 2LA.

f. Lowry Centre Trust

The Lowry Centre Trust is a private company, limited by guarantee with no share capital. Its principal activity is the operation of the Lowry Centre art gallery and theatre. Two Council members and an officer sit on the Trust's board but the Council has no financial interest in its performance.

Under an agreement dated 19 March 1997, the Council has agreed with the Arts Council and the Trust that it will pay to the Trust each year an amount representing the planned deficit for the year in the Trust's revenue accounts in respect of the operation of the Lowry Centre, provided that the deficit has actually been incurred. The agreement came into operation on 1 April 2000 and the amount of the fixed annual contribution is to be reviewed every five years, beginning from the starting date and subject to a minimum sum of £350,000. The terms of the agreement are irrevocable except with the consent of the Arts Council.

The amount of the contribution was £0.677m for each of the two years 2000/01 and 2001/02. To secure additional external funding amounting to £16.250m, it was agreed that an extra £0.250m would be paid to the Trust for each of the five years commencing in 2003/04, raising the annual contribution rate to £0.927m. This arrangement is subject to an annual review taking into account the Trust's annual business plan. Contributions were maintained at £0.927m up to 2009/10, reduced to £0.877m in 2010/11 with a further reduction to £0.727m in 2011/12, and a planned contribution of £0.727 in 2012/13.

In return, the Trust provides the following services by way of a service level agreement: community education and outreach services to schools and Salford residents; publicity for the Council; conference facilities; housing of the Lowry collection under a 30 year lease until 2036. At the year ended 31 March 12, the Council was owed £236 by the Lowry Centre Trust (31 March 11, £44,547).

Further information may be obtained from the Company Secretary, The Lowry, Pier 8, Salford M50 3AZ.

g. Salford Community Leisure Limited (SCL)

The principal activity of the company is to provide a range of diverse sports and cultural activities within the City, which include sports centre, swimming pools, specialist sports facilities, sports development sports events, libraries and information service, heritage and museums, community centres and arts.

The company is a not-for-profit community organisation that has been incorporated under the Industrial and Provident Societies Act, and was formed on 1 October 2003. SCL is an independent organisation from the Council but works in partnership with the Council to achieve mutual strategic aims and objectives. The Council has a funding agreement in place for the provision of services from SCL and purchased £6.462m in 2011/12 (£6.717m in 2010/11).

Further information and details of the financial statements of SCL may be obtained from the Secretary to the Board, Susan Leonard, Salford Community Leisure Ltd, New Bridgewater House, 12 Bridgewater Street, Walkden, M28 3JE.

At year ended 31 March 2012, the Council owed SCL £2.096m (including £1.705m invested on behalf of SCL) and was owed £1.058m.

h. Manchester/Salford/Trafford Groundwork Ltd.

Manchester/Salford/Trafford Groundwork Ltd is a private company limited by guarantee without share capital. The Council holds 13% of the directorships and has a liability that is limited to £10.

In the year 2011/12 the Council made payments for services of £0.297m (2010/11 £0.567m) and received payments for services of nil (2010/11 nil).

i. MaST LIFT Company Ltd

The company was formed under the NHS Local Improvement Finance Trust (LIFT) initiative to develop and deliver health and social care estate. Its principal activity is as a holding company for a group providing accommodation and servicing of medical centres. Three of the LIFT developments within Salford include space leased by the Council in relation to library, community space and one stop shop provision. In 2011/12 the Council made lease payments of £0.613m (2010/11 £0.795m).

The principal shareholder is Primary Plus (Holdings) Limited, a company jointly owned equally by John Laing and HBOS (Bank of Scotland), which owns a 60% equity investment. The other shareholders are health and local authorities in the Manchester area.

The Council owns 200 class B shares (equivalent to a 2.22% investment) in MaST LIFT Company Limited. The Council has also invested in £0.167m long term subordinated loan stock of a subsidiary, MaST LIFT Project Company (No. 2) Limited.

No dividend was received in 2011/12 (2010/11 nil).

Further information can be obtained from the Company Secretary, Allington House, 150 Victoria Street, London SW1E 5LB

j. Trinity ICP

The principal activity of this joint venture company is to develop the 0.1 hectare site that was acquired from the Guardian Media Group by Bruntwood Ltd and Salford City Council with the support of the North West Regional Development Agency. The Council holds 1,570,500 "A" ordinary shares of £1 each which represents 50% of the share capital.

No profit was made in 2011/12 (2010/11 nil) and the net worth at 30 September 2011 was £3.148m (£3.148m at 30 September 2010).

Further information can be obtained from the Company Secretary, City Tower, Piccadilly Plaza, Manchester M1 4BD.

k. BBC Philharmonic

The Council has an agreement to sponsor the BBC Philharmonic Orchestra for eight years at a total cost of £20.4m. The amount of the sponsorship in 2011/12 was nil (£3.0m in 2010/11). It will return £3.0m in 2012/13 to 2014/15 and to £2.4m in 2015/16.

The partnership aims to help raise the profile of the city nationally and internationally and is enabling the orchestra to build active links with local communities and schools, creating opportunities for young musicians to develop their skills and career aspirations.

l. City of Salford Community Stadium Ltd (CoSCoS)

The principal activity of this joint venture company is to develop and operate a community stadium on a site in Barton adjacent to the Manchester Ship Canal. Peel Holdings and Salford City Council provided the site in exchange for shares. The Council holds 5,000,000 ordinary shares of £1 each, which represents 50% of the ordinary share capital, and 1,666,666 redeemable preference shares of £1 each.

The Council has entered into a development funding agreement with CoSCos. The Council has advanced £18.9m to fund the development of the stadium. The loan is repayable over a period of 25 years There is an additional loan of £1.3m for operational funding.

The company made a £680,996 loss in the year, and at 31 March 2012 the company had net assets of £10,968,173.

At year ended 31 March 2012, the Council was owed £14,863 by CoSCoS in respect of work undertaken by the Council.

Further information can be obtained from the Company Secretary, Cobbetts LLP, 58 Mosley Street, Manchester M2 3HZ.

m. Manchester Science Park

The City has a 2.8% shareholding and voting representation on the board of the company.

The City Council, as a part shareholder in Manchester Science Park Limited (MSPL), has a management contract to MSPL for the management of Salford University Business Park. Under this contract the council paid a management fee of £31k and received £302k in rent

41. Capital expenditure and capital financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI/PP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the capital financing requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed below.

	31-Mar-11	31-Mar-12
	£000	£000
Opening Capital Financing Requirement	455,381	496,495
Capital investment		
Property, Plant and Equipment	84,182	130,419
Investment Properties	0	0
Intangible Assets	116	101
Revenue Expenditure Funded from Capital under Statute	62,120	53,298
Other capital expenditure	10,274	16,596
Sources of finance		
Capital receipts	0	
Government grants and other contributions	(81,747)	(54,225)
Sums set aside from revenue		
Direct revenue contributions		
[MRP/loans fund principal]	(33,831)	(27,911)
Closing Capital Financing Requirement	496,495	614,773
Explanation of movements in year		
Increase in underlying need to borrowing (supported by government financial assistance)	12,411	13,625
Increase in underlying need to borrowing (unsupported by government financial assistance)	58,752	70,085
Assets acquired under PFI contracts		55,405
Provision for debt repayment	(30,049)	(20,837)
Increase(/decrease) in capital financing requirement	41,114	118,278

42. Leases

The Council as lessee has a number of finance leases and is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the vehicles acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	31 March 2011 £000	31 March 2012 £000
Finance costs payable in future years (net present value of minimum lease payments)	1153	867
Current	269	244
Non-current	884	623
Finance costs payable in future years	124	70
Minimum lease payments	1277	937

A lease was terminated early in 2011/12

The minimum lease payments will be payable over the following periods.

	min lease payments		finance lease liability	
	31-Mar-11	31-Mar-12	31-Mar-11	31-Mar-12
	£000	£000	£000	£000
not later than one year	324	282	269	244
later than one year and not later than five years	925	655	856	623
later than five years	28	0	28	0
total	**1,277**	**937**	**1,153**	**867**

Operating leases

Salford Council acting as a lessee

	min lease payments other land and buildings		min lease payments vehicles	
	31-Mar-11	31-Mar-12	31-Mar-11	31-Mar-12
	£000	£000	£000	£000
not later than one year	357	332	606	561
later than one year and not later than five years	1,253	1,217	1,070	509
later than five years	2,539	2,243	0	0
total	**4,149**	**3,792**	**1,676**	**1,070**

Salford Council acting as a lessor

	min lease payments other land and buildings	
	31-Mar-11	31-Mar-12
	£000	£000
not later than one year	1,632	1,237
later than one year and not later than five years	4,139	3,571
later than five years	18,846	18,177
total	**24,617**	**22,985**

The 2010/11 disclosures include a number of leases not shown in last years statement.

43. Private finance initiatives and similar contracts

The Council has entered into service concession contracts with providers for local improvement finance trust (LIFT) and private finance initiative (PFI) schemes. LIFT has delivered three health centres which include library, community space and one-stop shop provision. The three PFI contracts have delivered three new special high schools and five new high schools. The contract specifies minimum standards for the services to be provided by the contractor, with deductions from the fee payable being made if facilities are unavailable or performance is below the minimum standards. The contractor took on the obligation to construct the centres and maintain them in a minimum acceptable condition and to procure and maintain the plant and equipment needed to operate the centres. The buildings and any plant and equipment installed in them at the end of the contract will be transferred to the Council for nil consideration. The Council only has rights to terminate the contract if it compensates the contractor in full for costs incurred and future profits that would have been generated over the remaining term of the contract.

Property, plant and equipment

The PFI and similar assets used to provide services are recognised on the Council's balance sheet. Movements in their value over the year are detailed below.

	2010/11 Published figures	2010/11 Restated	2011/12
	£000	£000	£000
Net book value at 1 April	71,436	72,204	72,099
Additions	1,941	1,944	59,222
Revaluations	872	872	(4,317)
Depreciation	(2,750)	(2,921)	(4,075)

Disposals	0	0	0
Net book value at 31 March	**71,499**	**72,099**	**122,929**

The figures for 2010/11 have been restated to reflect the furniture and equipment assets associated with two of the Council's PFI assets which were omitted in error from the 2010/11 published figures.

The Council makes an agreed payment each year which is increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed. Payments remaining to be made under the PFI contract at 31 March (excluding any estimation of inflation and availability/ performance deductions) are as follows.

	Repayment of liability	**Interest**	**Payment for Services**	**Total**
	£000	**£000**	**£000**	**£000**
Payable in 2012/13	2,627	8,853	4,530	**16,010**
Payable within two to five years	10,354	33,277	19,047	**62,678**
Payable within six to ten years	15,759	35,910	26,635	**78,304**
Payable within eleven to fifteen years	19,881	28,346	30,158	**78,385**
Payable within sixteen to twenty years	27,362	18,306	32,018	**77,686**
Payable within twenty-one years to twenty five years	26,464	5,803	15,602	**47,869**
Payable within twenty six years to thirty years	662	12	195	**869**
Total	**103,109**	**130,507**	**128,185**	**361,801**

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The total outstanding liability to the contractor for capital expenditure incurred is as follows:

	2010/11	**2011/12**
	£000	**£000**
Balance outstanding at start of year	51,356	49,753
PFI 3 new scheme		55,605
PFI 3 prepayments		(200)
Payments during the year	(1,603)	(2,048)
Capital expenditure incurred in the year	0	
Balance outstanding at year-end	**49,753**	**103,110**

On 20 March 2003 the City Council entered into a 26 year Private Finance Initiative (PFI) arrangement with Eccles Special High School Company Ltd for the provision of 3 new Special High Schools. The first payment made under the terms of this contract was made in 2004/ 05 and the contract expires in 2029/30. Over the remaining 18 years of this contract the City Council is committed to making gross payments estimated at £47.854m (average payment per year is £2.658m). However, the net cost to the City Council after income from specific government grant is estimated at £22.479m (average payment per year is £1.249m). The actual payments made will depend upon ESHSCO's performance in provision of the services.

On 20 November 2006 the City Council entered into a 25 year Private Finance Initiative (PFI) arrangement with Salford Schools Solutions Ltd for the provision of 2 new High Schools. The first payment made under the terms of this contract was made in September 2008; the contract expires in 2033/34. Over the remaining 22 years and 5 months of this contract the City Council is committed to making gross payments estimated at £144.552m (average payment per year is £6.424m). However, the net cost to the City Council after income from specific government grant is estimated at £58.027m (average payment per year is £2.579m). The actual payments made will depend upon SSSL's performance in provision of the services.

On 8 December 2009 the City Council entered into a 25 year Private Finance Initiative (PFI) arrangement with S&W TLP(Project Co One) Ltd for the provision of 2 new High Schools. The first payment made under the terms of this contract was made in September 2011; the contract expires in 2036/37. Over the remaining 24 years and 5 months of this contract the City Council is committed to making gross payments estimated at £242.458m (average payment £9.435m). However, the net cost to the City Council after income from specific government grant is estimated at £99.337m (average payment per year is £4.054m). The actual payments made will depend upon S&W TLP's performance in provision of the services.

On 17 November 2011 the City Council entered into a 25 year Private Finance Initiative (PFI) arrangement with S&W TLP (Project Co Two) Ltd for the provision of 2 new High Schools and 1 new co-located Primary and High School. The first payment under the terms of this contract will be made in April 2013; the contract expires in 2038/39. Over the 25 years of this contract the City Council is committed to making gross payments estimated at £276.435m (average payment per year £11.057m). However, the net cost to the City Council after income from specific government grant is estimated at £100.929m (average payment per year is £4.037m). The actual payments made will depend upon S&W TLP's performance in provision of the services.

Indexation
Each April a proportion of the Unitary Charge (representing the Services element), is adjusted for the impact of inflation using the RPIX Table published by the Office of National Statistics based on the RPIX value for February each year.

Benchmarking / Market Testing
Market testing and or Benchmarking of soft services (cleaning, catering, grounds maintenance and waste management) is undertaken five years after service commencement. Where the cost of the soft services tested are above or below that quoted in the scheme's financial model, a corresponding adjustment is made to the schemes Unitary Charge to account for the difference.

The council has an option to purchase the Eccles Lift building at the end of the agreement for the residual value of £600k or to vacate the building.

44. Impairment losses

Except as otherwise disclosed in notes 12 (property, plant and equipment) and 15 (intangible assets), the Council has not charged impairment losses to the surplus or deficit on the provision of services and to other comprehensive income and expenditure, which would have required disclosure in this note.

45. Capitalisation of borrowing costs

Not relevant to Salford City Council.

46. Termination benefits

The council terminated the contracts of a number of employees in 2011/12. See the exit packages table in note 36 (officers' remuneration) for the number of exit packages and total cost per band. Within the total, payments were made to two directors, fully detailed within the senior officers remuneration table, again in note 36. Payments to the balance of the total were made to officers across the council's services. All exit packages were agreed as part of a managed rationalisation of services in response to reductions in the funding available to the council.

47. Pensions schemes accounted for as defined contribution schemes

Teachers' pension scheme

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Department for Education. The scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is technically a defined benefit scheme. However, the scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this statement of accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

The Council paid £8.360m to Teachers' Pensions in respect of teachers' retirement benefits (2010/11 £8.844m), based on 14.1% of employees' pensionable pay (2010/11 14.1%). There were no contributions remaining payable at the year-end.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in defined benefit pension schemes note.

NHS pension scheme

Employees who have transferred direct from the NHS to the Council in support of pooled budget arrangements (see the pooled budgets note) are allowed to choose to remain with the NHS pension scheme. At 31 March 2012, 159 employees (2011 80) of the Council were therefore members of the NHS pension scheme, administered by the Department of Health. The scheme provides members with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is technically a defined benefit scheme. However, the scheme is unfunded and the Department of Health uses a notional fund as the basis for calculating the employers' contribution rate. The Council is not able to identify its share of underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this statement of accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

The Council paid £0.497m to NHS Pensions in respect of members' retirement benefits (2010/11 £0.224m), based on 14% of employees' pensionable pay (2010/11 14%). There were no contributions remaining payable at the year-end.

There are no benefits awarded upon early retirement outside of the terms of the scheme.

48. Defined benefit pension schemes

Participation

As part of the terms and conditions of employment of its officers and members, the Council makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The LGPS is a funded scheme, meaning that the employer's and employees' contributions into the fund (the GMPF) are calculated at a level intended to balance the pension liabilities with investment assets.

The Council participates in the following schemes:

The Local Government Pension Scheme, administered locally as the Greater Manchester Pension Fund by Tameside MBC. This is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets. In 2011/12 the Council's employer's contribution to the GMPF was £17.3m (£18.7m in 2010/11), based on 16.0% of employees' pensionable pay (15.1% in 2010/11). In addition, accumulated pension strain of £1.8m relating to past service costs for unfunded capital costs of early retirements, not included by the actuary in his valuation, are payable; £0.3m of such costs were paid in 2011/12 and are included in the valuation of employer assets, the balance is deferred.In 2012/13, the Council expects to pay an employer's contribution of £17.7m, based on 16.9% of employees' pensionable pay.

- Arrangements under both the Greater Manchester Pension Fund and the Teachers' Pension Scheme for the award of discretionary post retirement benefits upon early retirement. These are unfunded defined benefit arrangements, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due. In 2011/12 the cost of discretionary benefits was £2.4m under the GMPF (2010/11 £2.4m) and £2.9m under the TPS (2010/11 £2.8m). In 2012/13, the Council again expects to pay £2.4m and £2.9m respectively.

Transactions

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the general fund via the movement in reserves statement. The following transactions have been made in the comprehensive income and expenditure statement and the general fund balance via the movement in reserves statement during the year:

	Local Government Pension Scheme		Teachers' Pension Scheme (added years element)	
	2010/11 £000	2011/12 £000	2010/11 £000	2011/12 £000
Comprehensive income and expenditure statement				
Within cost of services:				
Current service cost	24,100	18,100	-	-
Past service cost	(103,500)	1,100	(2,400)	-
Impact of settlements and curtailments	3,800	4,300	-	-
Within financing and investment income and expenditure:				
Interest cost	57,900	49,300	2,200	2,000
Expected return on scheme assets	(48,300)	(48,100)	-	-
Net charge to surplus or deficit on the provision of services	**(66,000)**	**24,700**	**(200)**	**2,000**
Other:				
Actuarial (gains) and losses	(176,600)	111,600	(1,600)	3,400
Total charge to the comprehensive income and expenditure statement	**(242,600)**	**136,300**	**(1,800)**	**5,400**
Movement in reserves statement				
Reversal of net charges made to surplus or deficit on the provision of services	87,100	(4,700)	3,000	900
Actual amount charged against council tax for pensions in year				
Employer's contributions payable to scheme	18,700	17,600	-	-
Discretionary awards benefits payable to pensioners	2,400	2,400	2,800	2,900
	21,100	**20,000**	**2,800**	**2,900**

Past service cost

The past service cost in 2010/11 was a significant and exceptional credit to the comprehensive income and expenditure statement and as such past service costs are disclosed separately from other non-distributed costs.

Cumulative actuarial gains and losses

The cumulative amount of actuarial gains and losses recognised in the comprehensive income and expenditure statement to the 31 March 2012 is a loss of £268.5m: £255.3m on the LGPS, £13.2m on the TPS (to 31 March 11 £153.4m: £143.6m and £9.8m).

Reconciliation of present value of the scheme liabilities (defined benefit obligation)

	Local Government Pension Scheme		Teachers' Pension Scheme (added years element)		Total	
	2010/11 £000	2011/12 £000	2010/11 £000	2011/12 £000	2010/11 £000	2011/12 £000
Opening balance	**(1,131,200)**	**(898,100)**	**(43,100)**	**(38,500)**	**(1,174,300)**	**(936,600)**
Current service cost	(24,100)	(18,100)	-	-	(24,100)	(18,100)
Interest cost	(57,900)	(49,300)	(2,200)	(2,000)	(60,100)	(51,300)
Contributions by members	(7,700)	(7,000)	-	-	(7,700)	(7,000)
Actuarial gains/(losses)	192,700	(74,100)	1,600	(3,400)	194,300	(77,500)
Past service costs	103,500	(1,100)	2,400	-	105,900	(1,100)
Losses on curtailments	(3,800)	(4,300)	-	-	(3,800)	(4,300)
Estimated unfunded benefits paid	2,400	2,400	2,800	2,900	5,200	5,300
Estimated benefits paid	28,000	30,500	-	-	28,000	30,500
Closing defined benefit obligation	**(898,100)**	**(1,019,100)**	**(38,500)**	**(41,000)**	**(936,600)**	**(1,060,100)**

Reconciliation of fair value of the scheme (plan) assets

	Local Government Pension Scheme		Teachers' Pension Scheme (added years element)		Total	
	2010/11 £000	2011/12 £000	2010/11 £000	2011/12 £000	2010/11 £000	2011/12 £000
Opening asset balance	701,200	731,800	-	-	701,200	731,800
Expected return on assets	48,300	48,100	-	-	48,300	48,100
Contributions by members	7,700	7,000	-	-	7,700	7,000
Employer contributions	18,700	17,600	-	-	18,700	17,600
Contributions in respect of unfunded benefits	2,400	2,400	2,800	2,900	5,200	5,300
Actuarial gains/(losses)	(16,100)	(37,500)	-	-	(16,100)	(37,500)
Unfunded benefits paid	(2,400)	(2,400)	(2,800)	(2,900)	(5,200)	(5,300)
Benefits paid	(28,000)	(30,500)	-	-	(28,000)	(30,500)
Closing asset balance	**731,800**	**736,500**	**-**	**-**	**731,800**	**736,500**

The Council has taken advice from the actuary and the expected return on assets is based on the long-term future expected investment return, net of investment expenses, for each asset class at the beginning of the period.

The actual return on scheme assets in the year was £10.6m (2010/11 £47.0m).

Scheme history

	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000
LGPS					
Fair value of employer assets	608,200	514,400	701,200	731,800	736,500
Present value of defined benefit obligation	(670,700)	(671,600)	(1,131,200)	(898,100)	(1,019,100)
Surplus/(deficit)	(62,500)	(157,200)	(430,000)	(166,300)	(282,600)
Teachers' pension					
Fair value of employer assets	-	-	-	-	-
Present value of defined benefit obligation	(35,400)	(34,400)	(43,100)	(38,500)	(41,000)
Surplus/(deficit)	(35,400)	(34,400)	(43,100)	(38,500)	(41,000)
Total defined benefit balance	**(97,900)**	**(191,600)**	**(473,100)**	**(204,800)**	**(323,600)**

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The total liability/deficit has a substantial impact on the net worth of the Council as recorded in the balance sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy:

- the deficit on the local government scheme will be made good by increasing contributions over the remaining working life of employees (ie before payments fall due), as assessed by the scheme actuary
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

Basis for estimating assets and liabilities

The pensions liability has been assessed on an actuarial basis using the projected unit method of valuation, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. Both the GMPF and the TPS added years element attributable to Salford Council teachers have been assessed by the GMPF's actuary, Hymans Robertson. The GMPF is formally valued every three years, with the value being rolled forward using certain assumptions in the interim periods. The most recent full actuarial valuation of the fund was as at the 31 March 2010. The principal assumptions are set out below.

Assumptions	31 March 2011	31 March 2012
Indexing	**% per annum**	**% per annum**
• Rate of increase in salaries	4.3	4.3
• Rate of increase in pensions in payment	2.8	2.5
• Discount rate	5.5	4.8
• Inflation assumptions (CPI)	2.8	2.5
Long-term expected rate of return on scheme assets:	**% per annum**	**% per annum**
• Equities	7.5	6.3
• Government Bonds	4.9	3.9
• Property	5.5	4.4
• Cash	4.6	3.5
Mortality assumptions, longevity at age 65:	**years**	**years**
• Current pensioners (male)	20.1	20.1
• Current pensioners (female)	22.9	22.9
• Future pensioners (male)	22.5	22.5
• Future pensioners (female)	25.0	25.0
Elections to convert annual pension to lump sum:	**%**	**%**
• Pre-April 2008 service	50	50
• Post-April 2008 service	75	75

Asset categories

The discretionary benefits arrangements have no assets to cover its liabilities. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held.

LGPS assets	Proportion of fair value of assets at 31 March 2011	Proportion of fair value of assets at 31 March 2012
	%	**%**
Equities	66	70
Bonds	17	18
Property	5	5
Cash	12	7
Total	100	100

History of experience gains and losses

Actuarial gains (and losses), measured as a percentage of assets and liabilities at the period end, are set out below.

	2007/08	2008/09	2009/10	2010/11	2011/12
	%	%	%	%	%
LGPS					
Difference between the expected and actual return on assets	(11.9)	(26.9)	21.8	(2.2)	(5.1)
Experience gains (/losses) on liabilities	(0.8)	(0.7)	(0.2)	8.8	(1.3)
TPS					
Difference between the expected and actual return on assets	-	-	-	-	-
Experience gains (/losses) on liabilities	(6.8)	(2.9)	(6.3)	2.6	(6.1)

49. Contingent liabilities

a. *Municipal Mutual Insurance*

In January 1994, the Council's then insurer, Municipal Mutual Insurance (MMI), made a Scheme of Arrangement with its creditors. Under the Scheme claims are initially paid out in full, but if the eventual winding up of the company results in insufficient assets to meet all liabilities, a claw back clause will be triggered. The main effect of the scheme would be the imposition of a levy against the Council on all claims paid on its behalf since 30 September 1993, to the extent that these are not fundable.

As at the 31 March 2012 claims paid on behalf of the Council were £8.923m (£8.833m at 31 March 2011), with 14 outstanding claims estimated at £0.275m (£0.312m at 31 March 2011). The estimated amount liable to the levy if the scheme is triggered is £9.148m (£9.095m at 31 March 2011).

The Greater Manchester Council's (GMC) former insurer was also MMI. As at 31 March 2012 £10.7m of claims relating to GMC had already been paid (£10.7m at 31 March 2011), with outstanding claims estimated at £0.025m (£0.025m at 31 March 2011). GMC ceased to exist on 31 March 1986 and any residual liabilities are shared between the ten local authorities of AGMA based on population. The Council's share of ex GMC claims paid and outstanding at 31 March 2012 is estimated at £0.931m (31 March 11 £0.894m).

As at June 2011 the MMI annual report and accounts stated that the directors are of the view that if a positive outcome can be achieved in the current litigation case a solvent run off with full payment of claims will be achieved. In the autumn of 2011, the litigation case had been considered by the Supreme Court and the judgment was released on 28 March 2012.

As at June 2012, MMI acknowledge the Supreme Court ruling and are "now seeking legal, financial and actuarial advice from…professional advisers in order to determine the full implications of the judgement and the most appropriate way forward". MMI has not determined whether or not to formally trigger the Scheme of Arrangement and the claw back clause.

As the likelihood, timing and amount of any claw back can not be determined, no provision for the potential liability has been made in the balance sheet. However, the Council maintains an insurance reserve and considers the claw back risk when determining the level of funds to be held in that reserve.

b. *Modesole Ltd.*

As a result of the Council receiving a distribution from the proceeds of Modesole's sale of its shares in the Midland Hotel & Conference Centre a liability may arise, the extent of which can not yet be determined, to repay its share of a grant given in 1986 towards the refurbishment of the hotel.

As a result of the Council receiving a distribution of proceeds from the sale of its entire shareholding in Modesole Ltd, an indemnity was given to the buyer against any future liabilities in Modesole prior to the date of the sale. This indemnity is limited to the value of the sale proceeds received £715,000 and will last until 9 August 2015, 10 years from the date of sale.

c. *Metrolink*

The Association of Greater Manchester Authorities (AGMA), the Greater Manchester Integrated Transport Authority (GMITA) and Greater Manchester Passenger Transport Executive (GMPTE), now known as Transport for Greater Manchester and the Department for Transport (DfT) have entered into a partnership funding approach for Metrolink phase 3a.

Within the agreement the DfT contribution is capped at £244m and AGMA, GMPTA and GMPTE are jointly and severally responsible for meeting all costs over and above that sum, on the understanding that the scheme is delivered as it was approved. The scheme is fully funded at present and the arrangement will only be operative if the costs exceed the DfT contribution. Monitoring arrangements will be put in place by all parties to minimise the risk of that happening.

d. *Salix Homes Ltd pension liability*

In addition to the Council's pension liability disclosed separately, the Council's ALMO (Salix) carries a pension liability estimated at £5.071m as at 31 March 2011 (£2.428m liability at 31 March 2010). In a similar fashion to the Council's own liability, any deficit on the local government pension scheme will be made good by increasing contributions over the remaining working life of employees, as assessed by the scheme actuary. The Council has indicated its current intention that, in the event of factors causing pension liabilities to fall due earlier than planned, the Council expects that it will ensure Salix is in a position to meet those liabilities.

e. *Warranties by the Council in favour of City West Housing Trust*

City West Housing Trust was the recipient of a large-scale voluntary transfer of council houses in 2008/09. Arrangements were agreed to meet costs associated with catastrophic events and essential repairs (but not betterment) for unadopted infrastructure. It was originally estimated that the total contingency for these items would be £23.1m up to 2038/39. City West were to meet the first £5m of costs. The next £10m were to be split on a 75:25 basis to the Council and City West respectively. The remaining £8.1m were to be split on a 50:50 basis. Any liabilities above £23.1m will be borne by City West Housing Trust. The arrangement would run for 30 years should it be necessary. The Council's maximum exposure is therefore £6.6m. The scheme is in its fourth year and costs so far have been £0.206m. No liability has yet been met by the Council.

It has also been agreed that City West will meet the first £13.246m (plus VAT and management costs) of costs associated with asbestos. The Council will underwrite any further costs including VAT and management costs above this figure. The arrangement will last for 35 years. This arrangement is in its fourth year and costs so far have been £2.017m. No liability has yet been met by the Council.

f. *Equal pay*

The Council has made a provision for the settlement of equal pay claims (see note 23). The provision is based on estimates of the settlement amount for known claims where it is considered that the Council is more likely than not to ultimately make a payment. In addition to the amount provided, there is the possibility of additional liabilities arising through further claims or through unprovided-for existing claims where the Council's current expectation is that they will be found in its favour. While it is not expected that additional liabilities will arise, their maximum extent is estimated to be £0.182m.

g. *Employment tribunal claims*

Former employees have lodged claims at the Employment Tribunal totalling approximately £300,000. The Council disputes these claims, which have not yet been heard.

h. *Urban Vision highways claim*

The Council's partner Urban Vision is preparing a claim for a cumulative underpayment on the highways contract over years 1 to 5. As the likelihood of an eventual payment, the amount and timing are uncertain, as yet no provision has been made in the Council's accounts.

i. *Commitment by the Council in favour of Ask Developments*

As part of proposed developments in Greengate, the Council has agreed to underwrite rental income on two office blocks to be built by its development partner Ask Developments. It is intended that tenants will be found and no liability incurred. As the likelihood of any eventual payment, its actual amount and timing are uncertain, no provision has been made in the Council's accounts.

j. *Land charges claims*

There is a possible group action against approximately 200 local authorities, including Salford, contending that fees charged for searches of the land charges register and provision of CON29 information were unlawful and in contravention of the Environmental Information Regulations 2005. It is not yet possible to determine the total value of the potential claim against the council at this stage but it is expected not to exceed £300,000. As the likelihood of an eventual payment, the amount and timing are uncertain, as yet no provision has been made in the Council's accounts.

50. Contingent Assets

a. *VAT shelter*

In 2008/09 the Council agreed an initial 10-year "VAT shelter" arrangement with City West Housing Trust. This has been approved by HMRC. In practice this will generate approximately £49m of VAT reclaim to be utilised by City West for the decent homes programme in West Salford. The Council has agreed to a 100% arrangement in favour of City West, ie all monies generated by the shelter will go to City West. This follows the Council strategy of maximising the cash flow opportunity for City West in the early years of its business plan and is expected and supported by DCLG.

There is an option to extend the VAT shelter for a further 5 years and both the Council and City West support this. The commercial agreement between the Council and City West Housing Trust has been built around receiving this confirmation. For the years 11 to 15 it is therefore expected that there will be a different sharing arrangement, with both the Council and City West receiving 50% at a value of £8.5m each.

b. *Right-to-buy receipts*

In 2008/09 the Council and City West Housing Trust agreed an arrangement on receipts generated through the right-to-buy (RTB) and right-to-acquire (RTA) dwellings by tenants wishing to purchase their council houses.

A right-to-buy tenant is one who was in tenancy at the point of transfer completion. The RTB arrangement will run for 15 years during which a contractually-calculated proportion of receipts will go to the council. Receipts generated by RTBs are not consistently received throughout the period and it is not possible to reliably estimate the total value of this arrangement. Up to 31 March 2012, £1.110m had been received (to 31 March 11 £1.110m). After the 15-year period, all RTB receipts will be retained by City West Housing Trust.

Right-to-acquire receipts are generated by sales of houses to tenants who came into tenancy or who took up a new tenancy after the date of transfer. City West Housing Trust will retain 100% of RTA receipts.

51. Nature and extent of risks arising from financial instruments

The Council's activities expose it to a variety of financial risks:

- *credit risk*, the possibility that other parties might fail to pay amounts due to the Council;
- *liquidity risk*, the possibility that the Council might not have funds available to meet its commitments to make payments;
- *market risk*, the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by the Council in the annual treasury management strategy. The Council maintains written principles for overall risk management, as well as written treasury management policy statements covering specific areas such as interest rate risk, credit risk, and the investment of surplus cash.

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. Deposits are not made with banks and financial institutions unless they are rated independently with a minimum score of [A-]. The Council has a policy of not lending more than £10m of its surplus balances to one institution.

Customers are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the Council. The following analysis summarises the Council's potential maximum exposure to credit risk, based on experience of default and un-collectability over the last five financial years, adjusted to reflect current market conditions.

	Estimated maximum exposure to default 31 March 11 £000	Balance 31 March 12 £000 A	Estimated maximum likelihood of default % B	Estimated maximum exposure to default 31 March 12 £000 (A x B)
Deposits with banks and financial institutions	55	61,780	0.1	61
Long term debtors	20	37,226	0.1	37
Customers	2,211	9,456	22.8	2,155
Total	**2,286**			**2,253**

The estimated maximum likelihood of default is based on historical experience, adjusted for market conditions at 31 March 2012, and having regard to the Council's treasury management policies. So, while market conditions have deteriorated, throughout the reporting period the counterparty list has been under review, and institutions have been removed from the list whenever their credit ratings have been downgraded to below the Council's minimum criteria. The likelihood of default is not therefore judged to have increased since last year. The Council is alerted to changes in credit ratings by its Treasury Management Advisors, Sector Treasury Services Ltd.

No credit limits were exceeded during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

The Council does not generally allow credit for customers. £3.735m of the trade and other debtor balance (31 March 2011 £2.636m) is past its due date for payment. The past due amount can be analysed by age as set out below.

Age of debt	31 March 2011 £000	31 March 2012 £000
Less than three months	692	913
Three to four months	124	132
Five months to one year	573	1,020
More than one year	1,247	1,670

	2,636	**3,735**

Liquidity risk

As the Council has ready access to borrowings from the Public Works Loans Board, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The strategy is to ensure that not more than 50% of loans are due to mature within any rolling three-year period through a combination of careful planning of new loans taken out and (where it is economic to do so) making early repayments.

The maturity analysis of financial liabilities is set out below (excluding interest).

	31 March 2011 £000	31 March 2012 £000
Less than one year	163,944	200,180
Between one and two years	30	
Between two and five years	52	
Between five and ten years	21,631	8,000
Between ten and fifteen years	48	
More than fifteen years	325,231	275,200
	510,936	**483,380**

All trade and other payables are due to be paid in less than one year.

Interest rate risk

The Council is exposed to significant risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- for borrowings at variable rates, the interest expense charged to the income and expenditure account would rise;
- for borrowings at fixed rates, the fair value of the liabilities borrowings would fall;
- for investments at variable rates, the interest income credited to the income and expenditure account would rise;
- for investments at fixed rates, the fair value of the assets would fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the comprehensive income and expenditure statement. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the surplus or deficit on the provision of services and have a commensurate effect on the general fund balance. Movements in the fair value of fixed rate investments will be reflected in other comprehensive income and expenditure.

The Council has a number of strategies for managing interest rate risk. Policy is to aim to keep a maximum of 50% of its borrowings in variable rate loans. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is ameliorated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the Council's cost of borrowing and provide compensation for a proportion of any higher costs.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget throughout the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

Price risk

The Council does not generally invest in equity shares, but does have shareholdings to the value of £18.895m (31 March 11 £18.919m) in a number of related businesses and companies. While classified as available for sale, in practice these shareholdings are pursued for service reasons. In each case there is no reliable evidence of fair value so they are held at cost less impairment in the balance sheet. The Council is not therefore exposed to losses arising from movements in the prices of the shares.

Foreign exchange risk

The Council has no financial assets or liabilities denominated in foreign currencies, and thus has no exposure to loss arising from movements in exchange rates.

52. Heritage assets two-year summary of transactions

The Council operates a de minimis value of £5,000 for the disclosure of disposals or acquisitions either by purchases or donations. The acquisition of items in excess of this value is extremely rare and the Council confirms that no items have met this criterion since April 2010. It is not practical to review periods prior to April 2010.

53. Heritage assets: Further information on the museum's collections

Salford Museum and Art Gallery holds a collection data base containing over 10,000 historical artefacts. It is devoted to the history of Salford and Victorian art and architecture. It holds these assets in its two permanent galleries, Lark Hill Place and the Victorian Gallery. Lark Hill Place consists of a recreated Victorian street with authentic period shops and rooms. The Victorian Gallery contains fine paintings, pottery and sculpture.

The collections are managed according to the standards and guidelines as laid down under an accreditation scheme. Accreditation is to the professional standard for museums and galleries in the UK and is administered by Arts Council England. Salford currently has full status to this scheme. These standards include the requirement of a Collections Management Plan which covers all our policies towards acquisition, conservation, management, storage and disposal of the museum collection.

The Council's Lowry collection is housed in the Lowry centre under a 30 year lease agreement until 2036. Under this lease agreement the collection is insured by the Lowry centre trust.

54. Heritage Assets: Change in accounting policy required by the code of practice for Local Authority Accounting.

For 2011/12 the Council is required to change its accounting policy for heritage assets and recognise them at valuation. Previously the heritage assets were recognised in the balance sheet under Community Assets but generally these were held at a nominal value of £1 as no historical cost records were available. The Council's accounting policies for recognition and measurement of heritage assets are set out in the Council's summary of significant accounting policies (see note xiii).

In applying the new accounting policy, the Council has identified that the assets that were previously held as community assets within property, plant and equipment at £21,368 will now be recognised as heritage assets and measured at £30.514m with an increase in the revaluation reserve of £30.492m. The substantial increase in value represents the insurance valuations based on market value as opposed to the notional £1 values given under the previous accounting policy. The 1 April 2010 and 31 March 2011 balance sheets and the 2010/11 comparative figures have thus been restated in the 2011/12 Statement of Accounts to apply the new policy.

The effects of the restatement are as follows:

- At April 2010 the carrying amount of Heritage Assets is presented at its valuation of £30.514m. The amount that was previously recognised in property, plant and equipment has been reclassified and written down by £0.021m. The revaluation reserve has increased by £30.492m.
- The fully restated 1 April 2010 balance sheet is shown in the main statements section of the accounts. The adjustments that have been made to that balance sheet over the version published in the 2010/11 Statement of Accounts are as set out below

Effect on opening balance sheet 1 April 2010 and closing balance sheet 31 March 2011

	Restatement opening balance 1 April 2010			Restatement closing balance 31 March 2011		
	Opening balance £000	Restated opening balance £000	Restate-ment required £000	As previously stated £000	As restated £000	Restate-ment required £000
Property, Plant and Equipment	900,815	900,793	(22)	869,110	869,088	(22)

Heritage Assets	0	30,514	30,514	0	30,514	30,514
Long term Assets	952,064	982,556	30,492	931,495	961,987	30,492
Total Net Assets	(47,063)	(16,571)	30,492	166,080	196,572	30,492
Unusable Reserves	(85,631)	(55,139)	30,492	129,136	159,628	30,492
Net Worth/Total Reserves	(47,063)	(16,571)	30,492	166,080	196,572	30,492

Comprehensive Income and Expenditure account

The restatement does not impact on any of the amounts previously shown in the comprehensive income and expenditure statement.

Movement in reserves statement

The restatement of the relevant lines of the Movement in Reserves Statement, as at 31 March 2011, as a result of the application of the new accounting policy is presented in the table below:

	As previously stated 31 March 2011 £000	As restated 31 March 2011 £000	Restatement 2011 £000
Balance at the end of the previously reporting period 31 March 2010	(47,063)	(16,571)	30,492
Surplus or deficit on the provision of services	4,099	4,099	0
Other comprehensive income and expenditure	209,044	209,044	0
Adjustments between the accounting basis and the funding basis under regulations	0	0	0
Increase/(decrease) in the year	213,143	213,143	0
Balance at the end of the reporting period 31 March 2011	166,080	196,572	30,492

55. Trust Funds

The authority is responsible for the administration of 7 individual trust funds (not as sole trustee).These funds are not owned by the authority and are used in accordance with the aims of the particular charity or trust. Any cash balances managed by the Council on behalf of trust funds are shown as current liabilities in the authority's balance sheet.

Fund	capital value 31 March 11	capital value 31 March 12
	£000	£000
Robert Cardwell Holiday Fund	1	1
Salford/Lunen Travelling Scholarship Trust	22	23
Salford Youth Sailing Trust – sailing opportunities for young people	52	50
Salford Children's Holiday Camp	82	61
Joule Medal Fund – commemorative medals for students	3	3
Relief of Distress Fund	21	20
Isaac Felix Sahal's Will Trust – to improve community facilities	501	210
	682	368

56. Culture, environment and planning

The standard classification of services used in the comprehensive income & expenditure statement is a requirement of the Code, reflecting the complementary Service Reporting Code of Practice. Under changes made to the latter for 2011/12, expenditure formerly categorised as cultural, environmental, regulatory and planning services has now been split into three distinct categories, (1) cultural and related services, (2) environmental and regulatory services and (3) planning services. These are now required to be shown separately in the comprehensive income and expenditure account. To provide a meaningful comparison of years, the amount shown as one service in the 2010/11 published accounts has likewise been separated in the prior year comparators in these accounts to show the applicable amount for each service. The total is unchanged.

Housing revenue account income and expenditure statement (HRA)

The HRA income and expenditure statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the movement on the HRA Statement.

2010/11 £000		2011/12 £000	Notes
	Income		
(32,003)	Dwelling rents (gross)	(33,004)	1
(369)	Non-dwelling rents (gross)	(319)	1
(3,202)	Charges for services and facilities	(3,181)	
373	HRA subsidy receivable (inc. MRA)	(1,607)	2,8
(35,201)	**Total income**	**(38,111)**	
	Expenditure		
10,258	Repairs and maintenance	10,759	
11,819	Supervision and management	12,283	
603	Rents, rates, taxes and other charges	580	
354	Increased provision for bad or doubtful debts	650	
101,239	Depreciation and impairment of fixed assets	30,455	5
49	Debt management costs	71	
124,322	**Total expenditure**	**54,798**	
89,121	**Net cost of HRA services as included in the whole authority Income and expenditure Account**	16,687	
123	Non-distributed costs	159	5,6
89,244	**Net cost of HRA services**	**16,846**	
12	(Gains) or loss on the disposal of fixed asset	1,242	7
2,671	Interest payable and similar charges	3,201	
	Settlement payments relating to the self financing of HRA		
	- Premium	21,205	8
	- Capital grants and contributions	(82,261)	8
153	Pensions interest cost and expected return on pensions assets	24	
(78)	Interest and investment income	(8)	
92,002	**(Surplus)/deficit for year on HRA services**	**(39,751)**	

Movement on the HRA statement

This statement takes the outturn on the HRA income and expenditure statement and reconciles it to the surplus or deficit for the year on the HRA balance, calculated in accordance with the requirements of the Local Government and Housing Act 1989.

2010/11 £000		2011/12 £000	Notes
92,002	Deficit (surplus) for the year on the HRA income and expenditure account	(39,751)	
(92,040)	Adjustments between accounting basis and funding basis under statute	40,111	* see below
(38)	Decrease/(increase) in the HRA balance for the year	360	
(1,267)	Housing revenue account surplus brought forward	(1,305)	
(1,305)	**Housing revenue account surplus carried forward**	(945)	

***Amounts included in the HRA income and expenditure account but excluded from the movement on the HRA balance for the year**

2010/11 £000		2011/12 £000	Notes
(3,881)	Excess of depreciation charged to HRA services over the major repairs allowance element of housing subsidy	(1,430)	9
(93,763)	Impairment of fixed assets	(22,111)	
(26)	Movement in the fair value of investment properties	(68)	
4,123	Interest payable and similar charges – difference between the SORP and statutory charges		
	• Interest payable	3,889	
	• Premium and capital grants re. Settlement Payment Determination 2012	61,056	
(12)	Net profit /(loss) on sale of fixed asset	(1,242)	
1,519	Net charges made for retirement benefits in accordance with IAS19	17	10
(92,040)		40,111	
0	**Items not included in the HRA income and expenditure account but included in the movement on HRA balance for the year**	0	
(92,040)	Net additional amount required by statute to be debited or (credited) to the HRA balance for the year	40,111	

Notes to the housing revenue account (HRA)

1. Gross rent income

This is the total rent income due for the year after allowance is made for vacant property etc. An analysis of gross rents and allowances is set out below.

2011/12	Dwellings £000	Shops £000	Other £000	Total £000
Gross rent income before allowances	(33,004)	(255)	(65)	(33,324)
Less: allowances for vacant properties				
Gross rent income after allowances	(33,004)	(255)	(65)	(33,324)

2010/11	Dwellings £000	Shops £000	Other £000	Total £000
Gross rent income before allowances	(32,003)	(287)	(82)	(32,372)
Less: allowances for vacant properties				
Gross rent income after allowances	(32,003)	(287)	(82)	(32,372)

During the year 1.2% of lettable properties were vacant (1.1% in 2010/11).

Average rents were £68.57 per week in 2011/12 (£64.16 in 2010/11).

2. Housing subsidy

Housing subsidy is payable by the government to the housing revenue account (HRA). The subsidy is calculated by reference to a notional account broadly comprising expenditure in respect of management and maintenance costs, capital charges income from rents and interest on receipts. Housing subsidy supports the difference between notional costs and income.

	2010/11 £000	2011/12 £000
Rent	(31,339)	(33,406)
Interest on receipts	(2)	(1)
Management and maintenance allowance	19,924	20,231
Major repair allowance	7,002	7,074
Charges for capital	7,376	7,608
Sub-total	2,961	1,506
Adjustment to previous years entitlement	(3,336)	100
Total housing subsidy	**(375)**	**1,606**

In 2012 the Government has removed the housing subsidy system. Please refer to note 9 below.

3. Related party transactions

During 2011/12 Salix Homes Ltd, an arms-length management organisation, managed and maintained the Council's housing stock.

Included in HRA expenditure is the payment of a management fee to Salix Homes Ltd as follows:

a. Contribution to housing repairs account £10.758m (2010/11 £10.258m)

b. Supervision and management £12.860m (2010/11 £10.931m)

4. Rent rebates

Assistance with rents is available to those on low income under the government's housing benefit scheme, which is administered by the Council. 65% of Council tenants received help with the cost of rent in 2011/12

(2010/11 68%). Rent rebates are included in the housing line of the income & expenditure account core statement.

5. Depreciation and Impairment

The HRA is charged an annual amount for the depreciation of assets and impairment losses relating to a decrease in the asset value for which there is no related balance held in the revaluation reserve. Details of the charges relating to assets used in the direct delivery of the services are shown below.

	2010/11 £000	2011/12 £000
Depreciation		
Council dwellings	7,002	7,770
Other operational assets	534	597
	7,536	8,367
Less grants released on depreciated assets	0	0
Total depreciation	7,536	8,367
Impairment		
Council dwellings	92,968	21,669
Other operational assets	735	419
Total impairment	93,703	22,088
	101,239	30,455
Charged to Non-distributed costs		
Depreciation	11	137
Impairment charges	112	22
	123	159
	101,362	30,614

The Council no longer uses the major repairs allowance as a proxy for depreciation on these assets. Instead depreciation is charged using an equated useful life which is considered to give a more accurate cost of the annual amount of the asset consumed in the service of social housing. The total cost of depreciation on all HRA properties is credited to the Major Repairs Reserve. Regulations require that where the total depreciation charges are less than the MRA the difference is transferred to the HRA from the major repairs reserve.

In 2010/11 impairment losses of £93.815m were incurred on the HRA. The charges were shown within total expenditure for assets used in the delivery of the service £93.703m and non distributed costs for surplus assets not held for sale £0.112m.

The majority of the impairment (about £88.3m) relates to council dwellings and reflects a reduction in the social housing adjustment factor from 48% up to 2009/10 to 35% in 2010/11. This factor is prescribed by the government and is applied to the vacant possession value of the assets to give the existing use value for social housing. The factor has been reduced to more accurately reflect the additional risk and liability the public sector landlords undertake when compared with private sector investors. Reductions in value are charged to the net cost of services if there are insufficient balances held for the assets in the revaluation reserve and reversed out to capital reserves to avoid having any impact on rent levels

Impairment charges are reversed out to the capital adjustment account to avoid having any impact on rent levels.

6. Non-distributed costs

The HRA has been charged with depreciation and impairment losses relating to non-operational assets. These charges are met from a contribution from the major repairs reserve and from the capital financing account so that they do not impact on rent levels. Details are shown in note 5 above.

7. Gains / (Losses) on the disposal of assets

This reflects the difference between the net book value of assets disposed of and the amount of income received from the sale. The gain is effectively reversed out in the statement of movement on the HRA balance to ensure that it has no impact on the level of housing rents.

8. Settlement payments in respect of the self financing of the HRA

During 2011 the Government introduced significant changes to the funding of the HRA. These changes replaced the subsidy system with self financing. In March 2012 the Government made a payment to the Council in lieu of the subsidy the Council will forego in order to exit the subsidy system. Regulations require that the sum is classed as a capital receipt and used to repay debt. The actual receipt was net of the premium paid in the early redemption of debt.

9. Major repairs reserve

Authorities are required to establish and maintain a major repairs reserve. The main credit to the reserve is an amount equivalent to the total depreciation charges for HRA dwellings. Authorities are able to charge capital expenditure directly to the reserve.

	2010/11 £000	2011/12 £000
Balance brought forward 1 April	0	0
Transfer from capital adjustment account		
a. Depreciation on operational assets	7,536	8,367
b. Depreciation on non-operational assets	11	137
	7,547	8,504
Transfer to HRA	(3,881)	(1,430)
Major repairs reserve used to fund capital expenditure	(3,666)	(7,074)
Balance carried forward 31 March	**0**	**0**

10. HRA share of contributions from the pension reserve

Proper accounting practices require that the HRA recognises a share of the full IAS19 costs borne by the Council for defined benefit pension schemes. These costs have been allocated in proportion to employee costs and are set out in the table below. In order to ensure that the costs have no impact on the net deficit or on the level of housing rents, the charges are reversed out of the HRA below net operating surplus.

Local Government Pension Scheme	2010/11 £000	2011/12 £000
Within net cost of services:		
Current service cost	367	371
Past service costs	(1,672)	4
Impact of settlements/curtailments	61	86
Within surplus/deficit for the year:		
Interest cost	926	986
Expected return on assets in the scheme	(773)	(962)
Impact on net operating surplus	**(1,091)**	**485**
HRA share of contributions to/(from) pension reserve	1,519	17
	428	502
Employer's contributions payable to scheme	281	355
Discretionary awards benefits payable to pensioners	147	147
	428	502

Note that the equivalent note in the 2010/11 accounts considered only the *net* current service cost (ie the difference between actual contributions and the gross current service cost), so was structured somewhat differently and did not fully comply with the Code. For comparison, the 2010/11 note is reproduced below.

Local Government Pension Scheme	2010/11 £000

Within net cost of services:	
Net current service cost	(61)
Past service costs	(1,672)
Impact of settlements/curtailments	61
Within surplus/deficit for the year:	
Interest cost	926
Expected return on assets in the scheme	(773)
Impact on net operating surplus	**(1,519)**
HRA share of contributions to/(from) pension reserve	1,519
	0

11. Housing stock - numbers and valuation

Housing stock numbers	2010/11		2011/12	
	no.	%	no.	%
Houses	5,203	49	5,265	50%
Flats	5,261	50	5,181	49%
Bungalows	125	1	129	1%
	10,589	**100**	**10,575**	**100%**

Housing stock movement	2010/11 no.	2011/12 no.
Stock at 1 April	10,522	10,589
Less: sales and demolitions	(43)	(61)
Add: acquisitions	9	31
Add: acquisitions (new build)	101	16
Stock at 31 March	**10,589**	**10,575**

Housing stock valuation	**Net book value 31 March 2011 £000**	**Net book value 31 March 2012 £000**
Property, plant and equipment		
a. Council dwellings	259,846	257,136
b. Other land and buildings	11,863	10,723
c. Infrastructure and community assets	2,194	1,903
d. Vehicles, plant, furniture and equipment	1,236	1,597
e. Surplus assets not held for sale	593	429
f. Work under construction	63	0
Investment property	468	399
Assets held for sale	320	110
Total	**276,583**	**272,297**

12. Vacant possession value

Council dwellings are included in the balance sheet at a value based on existing use value for social housing. This reflects a value for a property as if it were to be sold with sitting tenants, enjoying rents at less than open market value and rights including the option of ‘right to buy’. For comparison, the vacant possession value as at 1 April 2011 was £679m (1 April 2010 £679m).

13. Housing repairs account reserve

A HRA repairs account has been established to meet repairs and maintenance expenditure. The movement on the account is set out below.

	2010/11 £000	2011/12 £000
Balance brought forward 1 April	0	0
Add: net contribution in the year from HRA	10,258	10,759
Add: other income	0	0
Less: expenditure in the year	(10,258)	(10,759)
Balance carried forward 31 March	**0**	**0**

14. Capital expenditure and sources of funding

Capital expenditure	2010/11 £000	2011/12 £000
Dwellings	28,860	26,293
Other land and buildings	458	23
Infrastructure	15	0
Vehicles, plant, furniture and equipment	522	593
Assets under construction	63	0
Total	**29,918**	**26,909**

Source of funding	2010/11 £000	2011/12 £000
Major repairs allowance	3,666	7,074
Supported borrowing	17,162	13,500
Capital grants	8,949	2,173
Other	141	4,162
	29,918	**26,909**

15. Capital receipts

Under the Local Government Act 2003, local authorities are required to pay over to the Secretary of State specified amounts of any capital receipts derived from the disposal of an interest in housing land. The specified amounts are 75% in relation to the disposal of dwellings and 50% in relation to the disposal of any other interest in housing land, subject to capital allowances which allow 100% use of certain type of receipts.

	2010/11 Receipts £000	2010/11 Pooled £000	2010/11 Usable £000	2011/12 Receipts £000	2011/12 Pooled £000	2011/12 Usable £000
Dwellings	856	(601)	255	554	384	170
Land & other property	330	0	330	0	0	0
Mortgage repayments	8	(6)	2	3	2	1
Total	**1,194**	**(607)**	**587**	**557**	**386**	**171**

16. Rent arrears

	2010/11 £000	2011/12 £000
Arrears at 31 March	2,244	3,014
Arrears as a percentage of gross rent income	7%	9%
Amounts written off during the year	4,380	739
Contribution to a provision against potential future irrecoverable arrears	354	650
Gross rent income - dwellings	32,003	33,004

A bad debts provision has been made in the accounts in respect of potentially uncollectable rent. The value of the provision at 31 March 2012 is £1.326mm (£1.416m at 31 March 2011).

The movement in the year takes into account the value of write offs totalling £0.739m (£4.38m in 2010/11).

Collection fund

2010/11 £000s	2010/11 £000s		2011/12 £000s	2011/12 £000s	Notes
		Income			
(80,938)		Council tax payers	(82,919)		2
		Transfers from general fund			
(26,190)		- Council tax benefits	(26,281)		
	(107,128)			(109,200)	
	0	Contribution towards previous years collection fund deficit		0	4
	(69,344)	Non-domestic rate payers		(79,953)	5
	(176,472)			(189,153)	
		Expenditure			
		Precepts and demands			
9,836		- GM Police Authority	10,112		
3,588		- GM Fire and Rescue Authority	3,689		
90,387		- Salford City Council	92,928		
	103,811			106,729	
		Distribution of previous year's collection fund surplus			
0		- GM Police	0		
0		- GM Fire and Rescue Authority	0		
0		- Salford City Council	0		
	0			0	4
		Non-domestic rates			5
68,895		- Payment to national pool	79,511		
449		- Costs of collection	442		
	69,344			79,953	
		Adjustment to the provision for uncollectable amounts			3
	2,217	- Council tax		3,111	
	(1,100)	(Surplus)/deficit for the year		640	
		Movement of fund balance			
	1,100	Accumulated (surplus)/deficit at the beginning of the year		0	
	(1,100)	(Surplus)/deficit for the year		640	
	0	Fund balance at the end of the year		**640**	4

Notes to the collection fund

1. **General**

Each billing authority is required to maintain a separate collection fund, which shows the transactions of the billing authority in relation to non-domestic rates, council tax and residual community charges and illustrates the way in which these have been distributed to preceptors and the general fund.

2. **Council tax**

All domestic properties are placed in one of nine valuation bands. The government has determined that the council tax level for each of the bands is assessed as a proportion of the tax rate for a band D property.

Each year the Council must estimate the equivalent number of band D properties, after allowing for discounts, exemptions, losses on collection etc. For 2011/12, the calculation was as follows.

Valuation band	Total no. of dwellings (after discounts)	Proportion to band D	Band D equivalent
A-	120	$^5/_9$	67
A	47,660	$^6/_9$	31,773
B	19,551	$^7/_9$	15,206
C	13,238	$^8/_9$	11,767
D	6,525	1	6,525
E	2,974	$^{11}/_9$	3,635
F	1,276	$^{13}/_9$	1,844
G	766	$^{15}/_9$	1,276
H	69	$^{18}/_9$	139
	92,179		72,232
Less: allowance for losses on collection			(2,167)
Council tax base			70,065

The actual number of chargeable dwellings was 104,207 but, after allowing for single person discounts, empty properties etc., the figure is reduced to 92,179 (88,758 in 2010/11).

Individual charges are calculated by estimating the amount of income required for the services of the Council, the Greater Manchester Police and Fire and Rescue authorities, and dividing this by the council tax base. This gives the basic amount of council tax for a band D property of £1,523.29 in 2011/12 (£1, 523.29 in 2010/11). This is multiplied by the proportion specified for the particular band to give the individual amount due for a property.

Council Tax Income	**2011/12 £000s**
Estimated income before allowance for losses in collection (£1,523.29 x 72,232)	110,030
Less benefits	(26,281)
	83,749
Less: estimated provision for doubtful debts	(3,111)
	80,638
Add: net impact of changes in the property base, discounts, exemptions, etc.	2,281
	82,919

3. **Provision for uncollectable amounts**

	2010/11 £000s	**2011/12 £000s**
Provision at 1 April	9,238	9,490
Less: amounts written off in the year	(1,965)	(1,263)
Add: contribution to the provision in the year	2,217	3,111
Provision at 31 March	**9,490**	**11,338**

The provision is split between the Council and the precepting authorities in the proportions set out below.

	2010/11 £000s	2011/12 £000s
Salford City Council	8,263	9,872
Greater Manchester Police Authority	899	1,074
Greater Manchester Fire and Rescue Authority	328	392
Provision as at 31 March	**9,490**	**11,338**

4. **Collection fund surpluses and deficits**

Regulations require the Council to make estimates in January each year of the deficit or surplus likely to arise at the end of the financial year in respect of both community charge and council tax transactions. The amounts so estimated are to be transferred into or out of the collection fund in the following financial year. Any such balance relating to council tax is required to be distributed to/borne by the Council and the Greater Manchester Police and Fire and Rescue authorities in proportion to the value of their respective demand and precept.

The estimates for 2010/11 and 2011/12 both provided for a break even position on the fund at 31 March 2011 and 31 March 2012 respectively and therefore no associated distributions were made in 2011/12 or will be made in 2012/13.

The estimated fund balance is attributable to the Council and the major precepting authorities as follows.

Collection fund balance	**31 March 2011 £000**	**31 March 2012 £000**
Salford City Council	0	557
Greater Manchester Police Authority	0	61
Greater Manchester Fire and Rescue Authority	0	22
Total deficit/(surplus)	**0**	**640**

5. **Non-domestic rates**

The Council collects non-domestic rates for its area, based on local rateable values multiplied by a uniform rate. This rate is fixed by Government and in 2011/12 was 43.3p in the pound (2010/11 41.4p). For businesses qualifying for small business rate relief, the rate applied was 42.6p (2010/11 40.7p).

The total amount due, less certain reliefs and other deductions, is paid to a national pool administered by the Government. The pool is then redistributed to local authorities on the basis of a fixed amount per head of population.

The local rateable value of non-domestic properties at 31 March 2012 was £232.2m (£226.4m at 31 March 2011).

The amount of income in the year is significantly different to the yield from a simple multiplication of the rateable value by the rate in the pound. The difference is explained below.

	2010/11 £m	2010/11 £m	2011/12 £m	2011/12 £m
Anticipated charges based on the rateable value at preceding 31 March		**92.1**		**100.6**
(Less)/add:				
Exemptions and small business rate relief	(12.8)		(10.4)	
Net impact of changes in rateable values in the year	(5.1)		(2.5)	
Allowances and other reliefs	(3.7)		(5.4)	
Impact on collection of rate deferral scheme	0.1		(0.1)	
Net adjustment to the provision for bad debts	(1.3)		(2.3)	
		(22.8)		(20.7)
Income from business ratepayers		**69.3**		**79.9**
Less costs of collection		(0.4)		(0.4)
Contribution to the NNDR pool		**68.9**		**79.5**

Part III group accounts

The Salford City Council group of companies

The following pages contain the consolidated accounts of the Salford City Council group of companies, including its share in subsidiaries, associates and joint ventures for the financial year ending 31 March 2012.

Group undertakings can be of several types, and the accounting treatment for each is different. Each entity in which the Council has an interest has therefore been assessed to determine which category it falls under.

Subsidiaries are where the Council exercises control. Salix Homes Ltd is classified as a subsidiary of the Council and as such is incorporated into the accounts on a line-by-line basis.

Associates are where the Council exercises significant influence. Higher Broughton Partnership LP and Urban Vision Partnership Ltd are classified as associates and as such, are incorporated into the accounts on a equity basis.

Joint Ventures are where the Council exercises joint control with other entities. Higher Broughton (GP) Ltd, Trinity ICP Ltd and City of Salford Stadium are classified as joint ventures with the Council and as such, are incorporated into the accounts on an equity basis.

Subsidiaries

Salix Homes Ltd

Salix Homes Ltd is an ALMO (arms-length management organisation) of the Council and was formed in July 2007. The company's principal activities are to manage and maintain the housing stock of the Council.

The Parent Board of Salix Homes Ltd comprises four Customer Members, four Council Members and four Independent Members.

Further information and details of financial statements of Salix Homes Ltd maybe obtained from the Company Secretary, Salix Homes Ltd, Diamond House, Peel Cross Road, Salford M5 4DT.

Associates

Urban Vision Partnership Ltd

Urban Vision Partnership Ltd is a multi-disciplinary joint venture company which provides the full range of professional services in connection with the built environment and has the capacity and capability to deliver a wide range of professional development regeneration consultancy services.

The Council owns 199 £1 ordinary shares, equivalent to 19.9% of share capital. One of the seven directors on the board represents the Council. The Council also has certain powers of veto over the operation of Urban Vision. Urban Vision Partnership Ltd has been incorporated into the group accounts of the Council as an associate.

Further information and details of financial statements can be obtained from the Company Secretary, Urban Vision Partnership Ltd, Emerson House, Albert Street, Eccles, Manchester M30 0TE.

Higher Broughton Partnership LP

Higher Broughton Partnership LP is a Joint Venture Limited Partnership whose objective is to regenerate an area of the city of Salford.

The Council has a 19% stake in the partnership and has three of seven directors on the board. Higher Broughton Partnership has been incorporated into the group accounts of the Council as an associate and the published accounts have been used in the consolidation.

Further information and details of financial statements can be obtained from the Company Secretary, Higher Broughton Partnership LP, 35 St Pauls Square, Birmingham, B3 1QX.

Joint Ventures

Trinity

The principal activity of this joint venture company is to develop the quarter acre site that was acquired from the Guardian Media Group by Bruntwood Ltd and Salford City Council with the support of the North West Regional Development Agency. Two of the four directors on the board represent the council.

The company was incorporated on 17 September 2007 and the Council holds 1,570,500 "A" ordinary shares of £1 each which represents 50% of the share capital.

For the period ended 31 March 2011 no profit was made and the net worth was £3,147,523.

Further information can be obtained from the Company Secretary, City Tower, Piccadilly Plaza, Manchester, M1 4BT.

City of Salford Community Stadium Ltd

Salford City Council formed a joint venture company with Peel Holdings to develop and deliver a community stadium on the Barton site.

The company was incorporated on 16th April 2010 and the Council holds 5,000,000 ordinary shares of £1 each which represents 50% of the share capital. in addition, the Council also owns 1,666,666 preference shares at £1 each but these preference shares do not hold voting rights and are not redeemable.

For the period ended 31 March 2012 a loss of £680,996 was made and the company had a net worth of £10,968,173.

Higher Broughton (GP) Ltd

The principal activity of the company is to manage the business of the Higher Broughton Partnership LP.

The Council owns 19% of the shares in Higher Broughton (GP) Ltd. Three of the seven directors on the board represent the council.

The company's financial year runs from 1 January to 31 December, but to date all in-year transactions of the project go through the Limited Partnership accounts, so the accounts for this company have not changed between 31 December 2011 and 31 March 2012, and the published accounts have been used in consolidation.

Further information and details of financial statements can be obtained from the Company Secretary, Higher Broughton (GP) Ltd, Cornwall Buildings, 45 - 51 Newhall Street, Birmingham, Warwickshire, England, B3 3QR.

Council's share in its subsidiaries and associates

The following table identifies the Council's aggregate share in its subsidiary and associates.

	Subsidiaries £000s	Associates £000s
Turnover	24,506	7,228
Fixed assets	267	11
Current assets	5,435	2,441
Liabilities due within 1 year	(4,787)	(2,029)
Liabilities due after 1 year	0	0
Surplus/(Deficit)	**259**	**57**

Council's share in its joint ventures

The following table identifies the Council's share in each of its individual joint ventures and an aggregated total.

	Trinity ICP £000s	City of Salford Community Stadium Ltd £000s	Total £000s
Turnover	7	83	90
Expenses	(7)	(191)	(198)
Fixed assets	1,609	15,918	15,920
Current assets	7	188	195
Liabilities due within one year	(42)	(487)	(529)
Liabilities due after one year	0	(10,102)	(10,102)
Surplus/deficit	0	307	307

Group Movement in reserves statement (MiRS)

2011/12	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue account	Earmarked HRA Reserves	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	**Total Usable Reserves**	Unusable Reserves	**Total Authority Reserves**	Authority's Share of Reserves of Subsidiaries, Associates and Joint Ventures	**Total Reserves**
	£000	£000	£000	£000	£000	£000	£000	**£000**	£000	**£000**	£000	**£000**
Balance at 31 March 2011	8,190	13,918	1,305	0	0	0	13,534	**36,947**	159,621	196,568	(1,265)	**195,303**
Movement in reserves during 2011/12								0		0		
Surplus or (deficit) on the provision of services	(73,342)		39,661					(33,681)		(33,681)	9	**(33,672)**
Other Comprehensive Income and Expenditure								0	(95,279)	(95,279)	(2,661)	**(97,940)**
Total Comprehensive Income and Expenditure	**(73,342)**	**0**	**39,661**	**0**	**0**	**0**	**0**	**(33,681)**	**(95,279)**	**(128,960)**	**(2,652)**	**(131,612)**
Adjustments between Group Accounts and authority accounts								0		0		**0**
Net Increase/Decrease before Transfers	**(73,342)**	**0**	**39,661**	**0**	**0**	**0**	**0**	**(33,681)**	**(95,279)**	**(128,960)**	**(2,652)**	**(131,612)**
Adjustments between accounting basis and funding basis under regulations (Note 7)	95,044	0	(40,021)	0	0	0	2,310	57,333	(57,333)	0		**0**
Net Increase/Decrease before Transfers to Earmarked Reserves	**21,702**	**0**	**(360)**	**0**	**0**	**0**	**2,310**	**23,652**	**(152,612)**	**(128,960)**	**(2,652)**	**(131,612)**
Transfers to/from Earmarked Reserves (Note 8)	(17,992)	17,992	0	0	0	0	0	0		0		**0**
Increase/Decrease in 2011/12	**3,710**	**17,992**	**(360)**	**0**	**0**	**0**	**2,310**	**23,652**	**(152,612)**	**(128,960)**	**(2,652)**	**(131,612)**
Balance at 31 March 2012	**11,900**	**31,910**	**945**	**0**	**0**	**0**	**15,844**	**60,599**	**7,009**	**67,608**	**(3,917)**	**63,691**

2010/11	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue account	Earmarked HRA Reserves	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	**Total Usable Reserves**	Unusable Reserves	**Total Authority Reserves**	Authority's Share of Reserves of Subsidiaries, Associates and Joint Ventures	**Total Reserves**
	£000	£000	£000	£000	£000	£000	£000	**£000**	£000	**£000**	£000	**£000**
Balance at 31 March 2010	7,626	24,547	1,267	0	0	0	5,126	**38,566**	**(85,633)**	**(47,067)**	(6,371)	**(53,438)**
move school balances to earmarked reserves	1,936	(1,936)						0		**0**		**0**
heritage assets adjust bfwd balance								0	30,492	**30,492**		**30,492**
revised balance sheet 31 march 2010	**9,562**	**22,611**	**1,267**	**0**	**0**	**0**	**5,126**	**38,566**	**(55,141)**	**(16,575)**	**(6,371)**	**(22,946)**
Movement in reserves during 2010/11								0		0		
Surplus or (deficit) on the provision of services	96,101		(92,002)					4,099		4,099	2,413	**6,512**
Other Comprehensive Income and Expenditure								0	209,044	209,044	2,693	**211,737**
Total Comprehensive Income and Expenditure	**96,101**	**0**	**(92,002)**	**0**	**0**	**0**	**0**	**4,099**	**209,044**	**213,143**	**5,106**	**218,249**
Adjustments between Group Accounts and authority accounts								0		0		**0**
Net Increase/Decrease before Transfers	**96,101**	**0**	**(92,002)**	**0**	**0**	**0**	**0**	**4,099**	**209,044**	**213,143**	**5,106**	**218,249**
Adjustments between accounting basis and funding basis under regulations (Note 7)	(106,166)	0	92,040	0	0	0	8,408	(5,718)	5,718	0		**0**
Net Increase/Decrease before Transfers to Earmarked Reserves	**(10,065)**	**0**	**38**	**0**	**0**	**0**	**8,408**	**(1,619)**	**214,762**	**213,143**	**5,106**	**218,249**
Transfers to/from Earmarked Reserves (Note 8)	8,693	(8,693)	0	0	0	0	0	0		0		**0**
Increase/Decrease in 2010/11	**(1,372)**	**(8,693)**	**38**	**0**	**0**	**0**	**8,408**	**(1,619)**	**214,762**	**213,143**	**5,106**	**218,249**
Balance at 31 March 2011	**8,190**	**13,918**	**1,305**	**0**	**0**	**0**	**13,534**	**36,947**	**159,621**	**196,568**	**(1,265)**	**195,303**

Group comprehensive income and expenditure statement

2010/11 Gross Expenditure £000	2010/11 Gross Income £000	2010/11 Net Expenditure £000		2011/12 Gross Expenditure £000	2011/12 Gross Income £000	2011/12 Net Expenditure £000
33,596	(31,072)	2,524	Central services to the public	31,951	(30,677)	1,274
20,679	(5,984)	14,695	Cultural and related services	23,602	(5,722)	17,880
42,440	(14,344)	28,096	Environmental and regulatory services	46,213	(16,229)	29,984
73,379	(8,865)	64,514	Planning services	72,986	(28,111)	44,875
290,499	(205,511)	84,988	Education and children's services	295,536	(210,173)	85,363
47,426	(10,161)	37,265	Highways and transport services	42,812	(8,979)	33,833
31,594	(33,095)	(1,501)	Local authority housing (HRA)	54,522	(38,058)	16,464
88,300	0	88,300	Exceptional item reduction in social housing factor	0	0	0
140,028	(119,545)	20,483	Other housing services	138,543	(126,739)	11,804
110,337	(42,576)	67,761	Adult social care	105,333	(49,551)	55,782
5,730	(412)	5,318	Corporate and democratic core	8,469	(704)	7,765
8,551	0	8,551	Non-distributed costs	5,094	0	5,094
(105,900)	**0**	**(105,900)**	Non-distributed costs: pension past service costs	1,100	0	1,100
786,659	**(471,565)**	**315,094**	**Cost of Services**	**826,161**	**(514,943)**	**311,218**
		(688)	Other operating expenditure			36,794
		26,727	Financing and investment income and expenditure (Note 4)			21,447
		0	Premium – HRA self financing settlement			21,205
		0	Surplus or deficit of discontinued operations			0
		(347,547)	Taxation and non-specific grant income			(274,903)
		0	Capital grant – HRA self financing settlement			(82,261)
		(6,414)	**(Surplus) or Deficit on Provision of Services (Note 9)**			**33,500**
		(116)	Share of the surplus or deficit on the provision of services by associates (Note 5)			145
		4	Tax expenses of subsidiaries (Note 7)			10
		13	Tax expenses of associates (Note 8)			16
		(6,513)	**Group (Surplus)/Deficit**			**33,671**
		(30,844)	Surplus or deficit on revaluation of non-current assets			(19,721)
			Surplus or deficit on revaluation of available-for-sale financial assets			0
		(180,893)	Actuarial gains/losses on pension assets / liabilities			117,661
			Share of other comprehensive income and expenditure of associates and joint ventures			0
		(211,737)	**Other Comprehensive Income and Expenditure**			**97,940**
		(218,250)	**Total Comprehensive Income and Expenditure**			**131,611**

Group balance sheet (BS)

01 April 10	31 Mar 11		Notes	31 Mar 12	31 Mar 12
£000	£000			£000	£000
901,034	869,280	Property, plant and equipment)	10	868,063	
30,514	30,514	Heritage assets		30,514	
7,410	7,914	Investment property		7,545	
8	93	Intangible assets	11	150	
0	0	Assets held for sale		0	
26,160	26,386	Long term investments	13	10,653	
1,980	8,728	Investments in Associates and Joint Ventures	14	8,478	
16,096	19,750	Long term debtors		38,263	
0	0	Deferred Tax Asset		0	
983,202	962,665	**Long term assets**			**963,666**
12,128	20,482	Short term investments		40,743	
334	790	Assets held for sale		3,951	
778	789	Inventories		750	
78,535	86,106	Short term debtors		63,706	
48,415	21,025	Cash and cash equivalents	15	33,849	
0	0	Current Tax Asset		0	
140,190	129,192	**Current assets**	16		**142,999**
0	0	Cash and cash equivalents		0	
(187,853)	(175,023)	Short term borrowing		(208,354)	
(66,303)	(72,301)	Short term creditors		(72,116)	
(14,579)	(9,519)	Grants receipt in advance - revenue		(2,891)	
(16,549)	(8,079)	Grants receipt in advance - capital		(5,646)	
(4)	(4)	Current Tax Liability		(10)	
(285,288)	(264,926)	**Current liabilities**	17		**(289,017)**
(71,159)	(66,701)	Long term creditors		(118,876)	
(15,858)	(14,838)	Provisions		(10,776)	
(293,965)	(342,861)	Long term borrowing		(295,684)	
(480,067)	(207,228)	Other long term liabilities		(328,637)	
0	0	Donated assets account		0	
		Deferred Tax Liability		0	
(861,049)	(631,628)	**Long term liabilities**			**(753,973)**
(22,945)	195,304	**Net assets**			**63,675**
39,123	37,975	Usable reserves	19	61,604	
(62,068)	157,330	Unusable reserves	18	2,071	
(22,945)	**195,305**	**Total reserves**			**63,675**

Group cash flow statement

Original 2010/11 £000	Restated 2010/11 £000		2011/12 £000
(6,435)	(6,435)	Net (surplus) or deficit on the provision of services	33,500
30,655	(109,070)	Adjustments to net surplus or deficit on the provision of services for non-cash movements (note 23)	(209,205)
(3,189)	105,478	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (note 24)	124,525
21,031	(10,027)	Net cash flows from Operating Activities	(51,180)
45,024	65,985	Investing Activities (note 21)	91,174
(38,666)	(28,569)	Financing Activities (note 22)	(52,818)
27,389	27,389	Net (increase) or decrease in cash and cash equivalents	(12,824)
48,415	48,415	Cash and cash equivalents at the beginning of the reporting period	21,025
(27,389)	(27,389)	Net increase or (decrease) in cash and cash equivalents	12,824
21,025	21,025	Cash and cash equivalents at the end of the reporting period (Note 15)	33,849

Notes to group accounts

Index to notes:

1. Accounting Policies

The group accounts include the Council's share of the operating results, assets and liabilities of each group entity's accounts, rather than just the historical cost of the investment. Subsidiaries are accounted for on an acquisition basis and incorporated line-by-line, writing out inter-group transactions. Associates and joint ventures are incorporated by accounting for the Council's share of their operating results in the group income and expenditure account and of their assets in the group balance sheet.

Furthermore, it is necessary that group accounts are internally consistent, i.e. that each group entity's accounts are adjusted so that all are presented adopting the same policies. The policies adopted are those that apply to the Council, as set out in this section.

In these accounts, interim financial statements have been used for any entities with a financial year that differs from the Council's of 1 April to 31 March. These interim statements have been produced using the entities' annual financial statements and relevant management accounting information.

2. Adjustments between group accounts and Council account

There have been no adjustments between group accounts and Council accounts in 2011/12.

3. Housing revenue account (HRA)

The operating expenditure and income of Salix Homes Ltd including FRS17 current service pension cost, has been included within the housing revenue account line on the group income & expenditure account.

Intragroup transactions between the Council and Salix Homes Ltd have been removed from the income and expenditure figures of both accounts. Salix Homes Ltd adjusted income is £1.066m and adjusted expenditure is £23.164m (adjusted income was £0.124m and adjusted expenditure was £20.934m in 2010/11).

4. Financing and investment income and expenditure

	2010/11 £000	2011/12 £000
Single entity accounts	26,720	21,404
Group Entries:		
Interest Receivable:		
• Salix Homes	(14)	(45)
• Urban Vision	(1)	(2)
Interest Payable:		
• CosCos		85
• Higher Broughton (LP)	22	5
Total	**26,727**	**21,447**

5. Share of the surplus or deficit on the provision of services by associates

This includes the percentage share of operating results for the associate companies: Higher Broughton Partnership LP – surplus of £21,000 in 2011/12 (surplus of £81,000 in 2010/11; and Urban Vision Partnership Ltd. – surplus of £55,000 in 2011/12 (surplus of £43,000 in 2010/11).

6. Defined benefit pension scheme

Salix Homes Ltd operates the same Local Government Pension Scheme (LGPS) for its employees as that operated by Salford City Council and described in the single entity statements.

In 2012/13 Salix Homes expects to pay £0.744m employer's contributions to the scheme.

The following table summarises the additional transactions for Salix Homes Ltd that are included in the group income and expenditure account.

	Salix Homes	
	2010/11 £000s	2011/12 £000s
Comprehensive income and expenditure statement		
Within cost of services:		
Current service cost	1,039	707
Past service cost	(2,257)	30
Impact of settlements and curtailments	0	12
Within financing and investment income and expenditure:		
Interest cost	929	1,009
Expected return on scheme assets	(796)	(1,049)
Net charge to surplus or deficit on the provision of services	**(1,085)**	**709**
Actual amount of employer's contributions payable to scheme	761	728
Employer's contribution rate	15.10%	16.0%

The cumulative amount of actuarial gains and losses recognised in the comprehensive income and expenditure statement to the 31 March 2012 is a loss of £5.248m (2010/11 loss of £2.587m).

Reconciliation of present value of scheme liabilities

	Salix Homes Ltd Funded liabilities: Local Government Pension Scheme	
	2010/11 £000s	**2011/12 £000s**
Opening defined benefit obligation	(18,067)	(18,003)
Current service cost	(1,039)	(707)
Interest cost	(929)	(1,009)
Contributions by members	(329)	(302)
Actuarial gains/(losses)	(77)	(1,842)
Past service costs	2,257	(30)
Gains/(losses) on curtailments	-	(12)
Estimated benefits paid	181	364
Liabilities extinguished on settlement	-	-
Closing defined benefit obligation	**(18,003)**	**(21,541)**

Reconciliation of fair value of scheme assets

	Salix Homes Ltd assets: Local Government Pension Scheme	
	2010/11 £000s	**2011/12 £000s**
Opening asset balance	11,100	15,575
Expected return on assets	796	1,049
Contributions by members	329	302
Employer contributions	761	728
Actuarial gains/(losses)	2,770	(820)
Benefits paid	(181)	(364)
Assets distributed on settlement	-	-
Closing asset balance	**15,575**	**16,470**

The actual return on scheme assets in the period was £0.232m (£0.775m 2010/11) for Salix Homes Ltd.

History of scheme balance

	2007/08 £000	**2008/09** £000	**2009/10** £000	**2010/11** £000	**2011/12** £000
Salix Homes Ltd					
Fair value of employer assets	7,785	7,320	11,100	15,575	16,470
Present value of defined benefit obligation	(8,283)	(8,835)	(18,067)	(18,003)	(21,541)
Surplus/(deficit)	(498)	(1,515)	(6,967)	(2,428)	(5,071)

History of experience gains and losses

Actuarial gains (and losses), measured as a percentage of assets and liabilities at the period end, are set out below.

	2007/08 %	2008/09 %	2009/10 %	2010/11 %	2011/12 %
Salix Homes Ltd					
Difference between the expected and actual return on assets	(12.1)	(27.2)	20.7	17.8	(5.0)
Experience gains (/losses) on liabilities	0.0	0.0	0.0	(25.4)	(0.6)

7. Tax expenses of subsidiaries

This figure represents the Council's share of the Corporation Tax due by its subsidiary Salix Homes Ltd £10,000 (£4,000 in 2010/11).

8. Tax expenses of associates

This figure represents the Council's share of the Corporation Tax due by its associate Urban Vision Partnership Ltd, £16,000 (£13,000 in 2010/11).

9. (Surplus)/deficit on the provision of services

This figure represents the amount of the total Group deficit attributable to the Council's subsidiaries Salix Homes Ltd, surplus of £259,000 (surplus of £2,332,000 in 2010/11).

10. Property, plant and equipment

This figure includes the fixed assets of the subsidiary Salix Homes Ltd £267,000 (£192,000 in 2010/11).

	Vehicles, plant etc £000
Gross book value at 1 April 11	348
Additions	156
Gross book value at 31 March 12	504
Accumulated depreciation to 1 April 11	156
Depreciation 2011/12	81
Accumulated depreciation at 31 March 12	237
Net book value 31 March 12	**267**

11. Intangible assets

No goodwill arose in respect of the subsidiaries as the Council set up the companies and retained ownership of the fixed assets.

12. Financial Instruments

Details of financial instruments can be found in note 16 to the Council-only financial statements.

13. Long term investments

Investments figure is the figure in the Salford single entity accounts adjusted to exclude amounts invested in joint ventures.

14. Investments in Associates and Joint Ventures

	2010/11 £000	2011/12 £000
Higher Broughton LP	(30)	(14)
Salford Hundred Venture	130	130
Urban Vision	396	437
Trinity ICP	1,574	1,574
City of Salford Community Stadium Ltd	6,658	6,351
Total	**8,728**	**8,478**

15. Cash and cash equivalents

The balance of cash and cash equivalents is made up of the following elements:

	31 March 2011 £000	31 March 2012 £000
Cash and cash equivalents held by the Council	18,242	29,182
Cash and cash equivalents held by Salix Homes	2,783	4,667
	21,025	**33,849**

16. Current assets

The current assets in this figure have incorporated the assets of the subsidiary Salix Homes Ltd £5.435m (£3.530m 2010/11) and intra group debtors have been removed from the Council's and Salix Homes Ltd figures.

17. Current liabilities

The current liabilities in this figure have incorporated the liabilities of the subsidiary Salix Homes £4.787m (£3.048m in 2010/11), of which £10,000 relates to a Corporation Tax liability. Intra group creditors have been removed from both the Council's and subsidiary figures.

18. Unusable Reserves

Unusable reserves is the Council only figure adjusted for unusable reserves from the subsidiary Salix Homes Ltd of -£5.071m (-£2.428m in 2010/11).

19. Usable reserves

The figure includes the Council's share of the accumulated profits and losses made by the subsidiary, associate and joint venture companies:-

	Balance 31 March 2011 £000	Balance 31 March 2012 £000
Salix Homes Ltd	674	915
Higher Broughton LP	(30)	(14)
Urban Vision Ltd	396	437
City of Salford Community Stadium Ltd	(9)	(316)
Total usable reserves	**1,030**	**1,022**

20. Cash flow statement – operating activities

The cash flows for operating activities include the following items:

	31 March 2011 £000	31 March 2012 £000
Interest received	(291)	(1939)
Interest paid	18,908	20,845
Dividends received	(1000)	(1012)
	17,617	**17,894**

21. Cash flow statement – investing activities

	Original 31 March 2011 £000	Restated 31 March 2011 £000	31 March 2012 £000
Purchase of property, plant and equipment, investment property and intangible assets	82,234	82,234	75,062
Purchase of short-term and long-term investments	6,667	94,029	98,395
Other payments for investing activities	64,158	63,552	69,593
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(15,323)	(15,323)	(6,934)
Capital grants	(84,049)	(84,049)	(57,511)
Proceeds from short-term and long-term investments	(8,667)	(74,462)	(87,441)
Income Tax Paid	4	4	10
Net cash flows from investing activities	**45,024**	**65,985**	**91,174**

22. Cash flow statement – financing activities

	Original 31 March 2011 £000	Restated 31 March 2011 £000	31 March 2012 £000
Cash receipts of short- and long-term borrowing	(213,053)	(1,238,630)	(1,124,395)
Other receipts from financing activities	0	0	0
Grants used to repay borrowing – HRA self financing	0	0	(82,261)
The difference between cash collected from NNDR payers and the amount paid to the pool	0	0	(8,736)
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	2,749	2,749	2,535
Repayments of short- and long-term borrowing	176,929	1,202,506	1,138,974
Other payments for financing activities	0	0	0
Premium on the early repayment of debt – HRA self financing	0	0	21,205
The difference between cash collected from NNDR payers and the amount paid to the pool	0	4,921	0
The difference between the preceptors share of council tax collected and net cash paid to preceptors for their precept	0	(115)	(140)
Net cash flows from financing activities	**(38,666)**	**(28,569)**	**(52,818)**

23. Cash flow statement - adjust net surplus or deficit on the provision of services for non-cash movements

There was no equivalent note included in the 2010/11 statement of accounts.

	31 March 2011 £000	31 March 2012 £000
Depreciation	(29,412)	(28,883)
Impairment and downward valuations	(103,114)	(69,328)
Amortisation	(62,152)	(53,041)
(Increase)/decrease in Creditors	(13,903)	1,370
Increase/(decrease) in Debtors including impairment for bad debts	17,453	(19,083)
Increase/(decrease) in Stock and other accruals	2,154	1,788
Movement in pension liability	91,946	(3,747)
Movement in provisions	(6,741)	1,634
Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	(13,869)	(43,224)
Other non-cash items charged to the net surplus of deficit on the provision of services	8,568	3,309
	(109,070)	**(209,205)**

24. Cash flow statement - adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities

There was no equivalent note included in the 2010/11 statement of accounts.

	31 March 2011 £000	31 March 2012 £000
Proceeds from the sale of PP&E, investment property and intangible assets	15,322	6,934
Grants applied in the financing of capital expenditure or received to meet the principal repayments on borrowing	0	0
Premium payment – HRA self financing	0	(21,205)
Capital grant – HRA self financing used to repay debt	0	82,261
Capital grants and contributions – financing of capital expenditure	90,156	56,535
	105,478	**124,525**

25. Contingent Liabilities

Details of contingent liabilities relating to the group can be found in the single entity accounts in note 49.

26. Amounts Reported for Resource Allocation Decisions

Results of group members are not reported in internal management reports. Therefore, the group members' results are not reportable segments but included as items not reported to management for decision making purposes. They will be consolidated below as adjusting items in the reconciliation.

Reconciliation of segment income and expenditure to cost of services in the group comprehensive income and expenditure statement

This reconciliation shows how the figures in the analysis of segment income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	2010/11 £000	2011/12 £000
Cost of services in service analysis	225,975	224,410
Add services not included in main analysis	0	0
Net Expenditure of Subsidies not included in the analysis	(2,322)	(223)
Add notional amounts not reported to management	109,186	121,795
Remove amounts reported to management not included in CIES	(17,745)	(34,764)
Net cost of services in CIES	**315,094**	**311,218**

Reconciliation to subjective analysis

This reconciliation shows how the figures in the analysis of segment income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Group Comprehensive Income and Expenditure Statement.

	Service analysis	Amounts not reported to management	Net expenditure of subsidiaries not included in analysis	Reported to management but not included in cost of services	Allocation of recharges	Net cost of services	Corporate Amounts	Surplus or deficit on the provision of services
	2011/12	**2011/12**	**2011/12**	**2011/12**	**2011/12**	**2011/12**	**2011/12**	**2011/12**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Employee expenses	231,122	(1,104)	6,855	0	(13,058)	223,815	0	223,815
Other service expenses	582,668	300	17,348	(126,395)	(5,340)	468,581	22,430	491,011
Support service recharges	33,006	0		0	(33,006)	0	0	0
Depreciation, amortisation and impairment	7,074	151,170	81	0	0	158,325	360	158,685
Interest payments	22,353	0		(22,353)	0	0	24,518	24,518
Payments to Housing capital receipts pool	0	0		0	0	0	393	393
Gain or loss on disposal of fixed assets	0	0		0	0	0	36,200	36,200
Total operating expenses	**876,223**	**150,366**	**24,284**	**(148,748)**	**(51,404)**	**850,721**	**83,901**	**934,622**
Fees, charges & other service income	(233,043)	(28,571)	(24,506)	23,125	51,404	(211,591)	(29,625)	(241,216)
Surplus/Deficit on Associates and Joint Ventures							89	89
Interest and investment income	(2,837)	0		2,837	0		(2,883)	(2,883)
Income from council tax	0	0		0	0	0	(92,371)	(92,371)
Government grants and contributions	(415,933)	0		88,022	0	(327,911)	(236,829)	(564,740)
Total income	**(651,813)**	**(28,571)**	**(24,506)**	**113,984**	**51,404**	**(539,503)**	**(361,619)**	**(901,122)**
(Surplus) or deficit on the provision of services	**224,410**	**121,795**	**(223)**	**(34,764)**	**0**	**311,218**	**(277,718)**	**33,500**

	Service analysis	Not reported to management	Net expenditure of subsidiaries not included in analysis	Reported to management but not included in cost of services	Allocation of recharges	Net cost of services	Corporate Amounts	Surplus or deficit on the provision of services
	2010/11	**2010/11**	**2010/11**	**2010/11**	**2010/11**	**2010/11**	**2010/11**	**2010/11**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Employee expenses	248,181	(79,792)	5,517	(23,900)	(17,427)	132,579		132,579
Other service expenses	498,568	(1,832)	17,593	(14,202)	(9,319)	490,808	(537)	490,271
Support service recharges	27,572				(27,572)	0		0
Depreciation, amortisation and impairment		190,810	54			190,864		190,864
Interest payments	17,965			(17,965)		0	29,765	29,765
Payments to Housing capital receipts pool						0	606	606
Gain or loss on disposal of fixed assets						0	(1,295)	(1,295)
Total operating expenses	**792,286**	**109,186**	**23,164**	**(56,067)**	**(54,318)**	**814,251**	**28,539**	**842,790**
Fees, charges & other service income	(201,711)		(25,486)	543	54,318	(172,336)	(90,699)	(263,035)
Surplus/Deficit on Associates and Joint Ventures			21			21		21
Interest and investment income	(1,964)		(14)	1,964		(14)	(1,964)	(1,978)
Income from council tax						0	(91,344)	(91,344)
Government grants and contributions	(362,636)			35,815		(326,821)	(166,046)	(492,867)
Total income	**(566,311)**	**0**	**(25,479)**	**38,322**	**54,318**	**(499,150)**	**(350,053)**	**(849,203)**
(Surplus) or deficit on the provision of services	**225,975**	**109,186**	**(2,315)**	**(17,745)**	**0**	**315,101**	**(321,514)**	**(6,413)**

Part IV other information

This part is for information only. It does not form part of the audited financial statements.

General statistics

31 March 11		*31 March 12*
2001 census		2011 census
216,359	Population	233,900
	Place	
97	Area (square kilometres)	97
	Politics	
	Political make-up of the Council following the local election	
6 May 11		**3 May 12**
44	Labour	52
11	Conservative	8
3	Liberal Democrat	0
2	Independent	0
60		**60**

Glossary

This section is intended to provide an easily understandable guide to what may be unfamiliar terms used in this document and other Council financial publications. Descriptions of accounting terms may therefore be simplified and not be in strict accordance with their true accounting meaning as used in the audited statements.

Actuarial gains and losses

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because (a) events have not coincided with the actuarial assumptions made for the last valuation or (b) the actuarial assumptions have changed.

Agency services

Services which are performed by or for another authority or public body, where the principal (the authority responsible for the service) reimburses the agent (the authority doing the work) for the cost of the work carried out.

Aggregate external finance (AEF)

The financial support provided by Government for revenue expenditure on services that impact on the council tax. AEF comprises revenue support grant, redistributed national non-domestic rates, and specific grants.

Amortisation

The accounting technique of recognising a cost in the revenue account over a period of years rather than when the initial payment is made. Its purpose is to charge the cost over the accounting periods that gain the benefit of the item paid for.

Appointed auditors

External auditors of local authorities appointed by the Audit Commission. In the Council's case they are from the Commission's own operations division.

Area-based grant (ABG)

To increase local flexibility over the use of resources and reduce reporting requirements, the government consolidated a number of former service-specific grants into ABG. ABG is a non-ring-fenced general grant that currently runs for three years from 2008/09 to 2010/11.

Arms-length management organisation (ALMO)

An ALMO is a company set up to manage and improve council housing stock. It is owned by the local authority but operates "at arms-length" under a management agreement between it and the local authority.

Assets

Items of worth which are measurable in money terms. Current assets are ones that may change in value on a day-to-day basis (e.g. stocks). Non-current, or “fixed”, assets are tangible assets that yield benefit to the Council and the services it provides for a period of more than one year.

Audit

See external audit.

Associate

An entity other than a subsidiary or joint venture in which the reporting authority has a participating interest and over whose operating and financial policies the reporting authority is able to exercise significant influence.

Budget requirement

The estimated revenue expenditure on general fund services that need to be financed from the council tax after deducting income from fees and charges, certain specific grants and any funding from reserves. It is referred to by the Secretary of State for Communities and Local Government when deciding the criteria for capping local authority revenue expenditure.

Business improvement districts (BIDs)

A Government initiative whereby additional services or improvements which are of benefit to the community in a particular area can be funded by a levy raised by an addition to the non-domestic rate. The Council does not have any BIDs.

Business rates

See under national non-domestic rates (NNDR)

Cabinet

The Cabinet comprises the Leader of the Council, Deputy Leader plus the eight Lead Members. The Council constitution sets out the roles of individual Cabinet members and details of their respective portfolios.

Capital expenditure

Expenditure on the acquisition of a fixed asset, or expenditure which adds to, and not merely maintains, the value of an existing fixed asset. Capital expenditure is charged to the revenue account over a number of years via a capital financing charge.

Capital financing charges

The annual charge to the income & expenditure account in respect of the minimum revenue provision and interest on money borrowed together with leasing rentals.

Capital financing requirement (CFR)

A measure of an authority's underlying need to borrow to finance its investment. Calculated by aggregating fixed assets, revenue expenditure funded from capital under statute, fixed asset restatement account, capital financing account and government grants deferred from the balance sheet.

Capital grants

Grants received towards capital expenditure on a particular service or project.

Capital receipts

Money received from the sale of land or other capital assets, a proportion of which may be used to finance new capital expenditure, subject to the provisions contained within the Local Government Act 2003.

With effect from 1 April 2004 75% of housing dwelling capital receipts and 50% of other housing receipts must be paid to the Secretary of State; the balance is available for financing capital expenditure.

Capping

A system of controlling the spending of local authorities whereby the Government limits a local authority's budget requirement and hence the council tax it sets either because it is deemed excessive or is deemed to show an excessive increase over the previous year.

CIPFA

The Chartered Institute of Public Finance and Accountancy, the professional accountancy body for public services.

Code of practice on local authority accounting in the UK (“the Code”)

Published by CIPFA, this document interprets the application of IFRSs to local authority accounting.

Collection fund

The transactions of the Council as a charging authority in relation to non-domestic rates and council tax.

Community assets

Assets that the Council intends to hold in perpetuity, which have no determinable finite useful life and in addition may have restrictions on their disposal. Examples include parks, historical buildings not used for operational purposes, works of art, museum exhibits and statues.

Comprehensive spending review (CSR)

The Government's three-year forecast of planned expenditure, including overall provision for local authorities.

Council tax

The main source of local taxation to local authorities. Council tax is levied on households within its area by the billing authority and the proceeds are paid into its collection fund for distribution to precepting authorities and for use by its own general fund.

Council tax benefit

Assistance provided by billing authorities to adults on low incomes to help them pay their council tax bill. The cost to authorities of council tax benefit is largely met by government grant.

Creditors

Amounts owed by the Council for goods and services provided where payment has not been made at the date of the balance sheet.

Current service costs

The increase in the present value of a defined benefit pension scheme's liabilities expected to arise from employee service in the current period, ie the ultimate pension benefits "earned" by employees in the current year's employment.

Debt charges

A term sometimes used to refer to capital financing costs.

Debtors

Sums of money due to the Council but not received at the date of the balance sheet.

Defined benefit scheme

A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

Defined contribution scheme

A pension or other retirement benefit scheme into which an employer pays regular contributions as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

DEFRA

Government Department for Environment, Food and Rural Affairs.

Depreciation

The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, the passage of time or obsolescence through technological or other changes.

Derecognition

Where an asset or liability has previously been held (“recognised”) on the balance sheet, but proper practice now requires that it be removed, it is “derecognised”.

Direct revenue financing

The method of financing capital expenditure directly from revenue. The Council may determine that certain capital schemes should be financed in this way or alternatively may include a prescribed sum in the revenue budget for this purpose.

Discretionary benefits

Retirement benefits which the employer has no legal, contractual or constructive obligation to award and which are awarded under the Council’s discretionary powers.

External audit

The independent examination of the activities and accounts of local authorities to ensure the accounts have been prepared in accordance with legislative requirements and proper practices and to ensure the authority has made proper arrangements to secure value for money in its use of resources.

Fair value

The price at which an asset could be exchanged in an arm’s length transaction, less any grants receivable towards the purchase or use of the asset.

Finance lease

A lease of land, buildings or equipment where the substance of the transaction is that the balance of risks and rewards of holding the asset is borne by the lessee. It is accounted for in a similar manner to borrowing.

Financial regulations

A written code of procedures approved by the authority, intended to provide a framework for proper financial management. Financial regulations usually set out rules on accounting, audit, administrative and budgeting procedures.

Financial reporting standards (FRSs)

The Council’s accounts are now prepared under International financial reporting standards (IFRSs). See that entry.

General fund

The total revenue services of the Council except for the housing revenue account. The net cost is met by the collection fund, government grants and re-distributed NNDR. Any accumulated surplus is known as the general fund balance, a useable reserve.

Housing benefit

An allowance to persons on low income (or none) to meet, in whole or part, their rent. Benefit is allowed or paid by local authorities but Government refunds part of the cost of the benefits and of the running costs of the services to local authorities. Benefits paid to the authority's own tenants is known as rent rebate and that paid to private tenants as rent allowance.

Housing investment programme (HIP)

Annual submissions by local authorities to Government which outline the strategy for meeting housing needs and details capital spending plans. HIP submissions are used by the Department for Communities and Local Government as the basis for issuing annual capital guidelines for housing to local authorities.

Housing revenue account (HRA)

Local authorities are required to maintain a separate account - the housing revenue account - which sets out the expenditure and income arising from the provision of council housing. Other services are charged to the general fund.

HRA Subsidy

A government grant paid to some housing authorities towards the cost of providing, managing and maintaining dwellings and paying housing benefits to tenants.

Income

Amounts due to the Council for goods supplied or services rendered of either a capital or a revenue nature. This does not necessarily involve a cash payment - income is deemed to have been earned once the goods or services have been supplied even if the payment has not been received (in which case the recipient is a debtor to the Council).

Infrastructure assets

These are assets which generally cannot be sold, from which benefit can be obtained only by continued use of the asset created. Examples of such assets are highways, footpaths, bridges, and water and drainage facilities.

International financial reporting standards (IFRSs)

Statements prepared by the International Accounting Standards Board to ensure consistency in accountancy matters. Local government accounts follow these standards which are interpreted through the Code of practice on local authority accounting in the UK, published by CIPFA.

Joint venture

An entity in which the reporting authority has an interest on a longer term basis and is jointly controlled by the reporting authority and one or more other entities under a contractual or other binding arrangement.

Liquid resources

Current asset investments that are readily disposable by the Council without disrupting its activities and are readily convertible to known amounts of cash.

Loan charges

A term sometimes used to refer to capital financing charges.

LOBO (“lender offer borrower option”)

A LOBO is a type of loan instrument. The borrower borrows a principal sum for the duration of the loan period (typically 20 to 50 years), initially at a fixed interest rate. Periodically (typically every six months to 3 years), the lender has the ability to alter the interest rate. Should the lender make this offer, the borrower then has the option to continue with the instrument at the new rate or alternatively to terminate the agreement and pay back the principal sum with no other penalty.

Local area agreements

Government initiative to improve co-ordination between Government and local authorities and their partners, working through local strategic partnerships.

Local authority business growth incentives (LABGI)

A grant to stimulate economic development by allowing local authorities to retain a share of extra revenue raised through national non domestic rates from new business property. The grant is linked to the increase in the total rateable value.

Local authority finance settlement (LAFS)

The product of the annual consultation process between central and local government which sets funding levels for local government in the following year. LAFS is announced in late November/early December following the Chancellor of the Exchequer's November statement on public expenditure.

Local improvement finance trust (LIFT)

A health sector programme similar to the private finance initiative (PFI). Salford NHS PCT has a number of LIFT schemes in the city of Salford and the Council has a shared interest in some of these under the “Gateway” banner. The Gateway centres provide health, library and one-stop shop services under one roof.

Local public service agreements (LPSAs)

Agreements between the government and local authorities to deliver improved outcomes in key areas in return for greater flexibility and rewards for success.

Local schools budget (LSB)

This includes all planned expenditure on maintained schools, ie the expenditure managed centrally by the local education authority and that delegated to schools via the individual schools budget (ISB) funding formula.

Material/ity

The accounts are prepared so that significant – or “material” – aspects are reported. Materiality is a judgement that is determined usually by virtue of the monetary value of the item, but also by other factors, for example public interest in officers’ remuneration. An item that is not material is one that would not affect the interpretation of the accounts by an informed reader. The Code’s disclosure requirements are therefore lifted for items where transactions and balances are not material.

Minimum revenue provision (MRP)

The minimum amount which must be charged to an authority’s income & expenditure account each year and set aside as provision to repay debt, as determined by a policy set by the Council each year.

National non domestic rate (NNDR) (also known as business rates)

A levy on business property, based on a national rate in the pound applied to the ‘rateable value’ of the property. The Government determines a national rate poundage each year which is applicable to all local authorities. Local authorities collect the non-domestic rate but the proceeds are pooled and distributed by the Government on the basis of an authority’s population.

Neighbourhood renewal fund (NRF)

A government initiative introduced in 2001/02 to assist local communities to deliver better outcomes for their most deprived areas.

Net current replacement cost

The cost of replacing or recreating a particular asset in its existing condition and in its existing use, i.e., the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

Net debt

The Council’s borrowings less cash and liquid resources.

Net realisable value

The open market value of the asset in its existing use (or open market value in the case of non-operational assets) less the expenses to be incurred in realising the asset.

Office for Standards in Education (Ofsted)

A non-ministerial government department, independent from the Department for Education.

Operating lease

A type of lease, typically of computer equipment, office equipment, furniture, vehicles etc where the balance of risks and rewards of holding the asset remains with the lessee. It is accounted for as a simple rental.

Past service costs

The annual cost of discretionary pension benefits awarded on previous early retirements.

Pension fund

An employees' pension fund maintained by an authority, or group of authorities, in order to make pension payments on the retirement of participants. It is financed from contributions from the employing authority and the employee and from investment income.

Precept

The amount levied by various authorities (e.g. the Greater Manchester Police Authority) which is collected by the Council on their behalf.

Precepting authorities

Those authorities which are not billing authorities, ie do not collect the council tax and non-domestic rate. County councils, police authorities and joint authorities are 'major precepting authorities' and parish, community and town councils are 'local precepting authorities'. The Council does not have any in the latter category.

Private finance initiative (PFI)

A Government initiative which aims to increase the level of funding available for public services by attracting private sources of finance. The PFI is supported by a number of incentives to encourage authorities' participation and is normally delivered via a public private partnership (PPP). Typically, the private sector partner designs, builds and finances an asset and the public sector partner pays a unitary charge, similar to a lease, to use the asset.

Projected unit method

The method used by the actuary to value the Council's pension liability at a particular date. The method makes assumptions about mortality rates, salary levels etc and values the liability for:

- the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases and
- the accrued benefits for members in service on the valuation date.

Provisions

These are sums set aside to meet liabilities or losses which it is anticipated will be incurred but where the amount and/or the timing of such costs is uncertain.

Prudential limits

The means by which the Council controls its level of borrowing. The limits set must be prudent, affordable and sustainable in the long term.

Prudential borrowing

See unsupported borrowing.

Public private partnership (PPP)

Generic term for the relationships formed between the private sector and public bodies often with the aim of introducing private sector resources and/or expertise in order to help provide and deliver public sector assets and services.

Public service agreement (PSA)

Statements of the aims, objectives and targets to be achieved by public bodies with the funding provided through the comprehensive spending review.

Public works loans board (PWLB)

An independent statutory body which can make loans to local authorities and other prescribed bodies. Monies are provided by acts of parliament and drawn from the national loans fund.

Related parties

For the purposes of the Council's accounts related parties are the Government, other local authorities, precepting and levying bodies, subsidiary and associated companies, elected members, senior officers and the pension fund. For individuals identified as related parties, the following are also presumed to be related parties:

(i) Members of the close family, or the same household; and

(ii) Partnerships, companies, trusts or other entities in which the individual, or member of their close family or the same household, has a controlling interest.

Reserves

These are sums set aside to meet possible future costs where there is no certainty about whether or not the costs will actually be incurred.

Revenue expenditure

Expenditure incurred on the day to day running of the Council; the costs principally include employee expenses, capital financing charges and general running costs.

Revenue support grant (RSG)

A grant paid by the Government to every local authority to help to finance its expenditure generally and not specific services. The grant helps to bridge the gap between council tax and NNDR income on one hand and the total assessment of the Council's need to spend on the other (as measured by the standard spending assessment). The payment of RSG attempts to ensure that differences in spending needs and resources between authorities are equalised, in order to permit each authority to support a standard level of spending.

Section 137 expenditure

Under section 137 of the Local Government Act 1972 local authorities are allowed to spend a limited amount to do things they are not otherwise empowered to do, but which they consider to be in the interests of their area or its inhabitants, and which will produce a benefit commensurate with the expenditure involved.

Service concession

These arrangements typically involve an authority allowing an operator the right to provide services that give the public access to major economic and social facilities.

Simple investment

Where, in group accounts, the reporting authority's interest does not qualify the entity as a subsidiary, associate or a joint venture because the reporting authority has limited influence or its interest is not long-term.

Specific grants

Government grants to local authorities in support of particular services or schemes.

Standing orders

The set of rules adopted by the authority which establish the procedures by which it should conduct its business. In particular, there must be standing orders relating to tendering and contract procedures.

Statement of recommended practice (SORP)

Statements prepared by the Accounting Standards Board to provide further guidance (beyond that in other standards like SSAPs & FRSs) to particular sectors. From 2010/11, local authority accounting has followed the Code rather than the SORP.

Statements of standard accounting practice (SSAPs)

Statements prepared by the Accounting Standards Board to ensure consistency in accountancy matters. More recently issued standards have been redesignated FRSs.

Subsidiary

An entity over which the reporting authority is able to exercise control over operating and financial policies and is able to gain benefits from the entity or is exposed to the risk of potential losses arising from this control.

Supported capital expenditure

Government support for capital investment can be described as supported capital expenditure (revenue), known as SCE(R), or supported capital expenditure (capital grant), known as SCE(C). Under the Prudential

Capital Finance System, local authorities are free to make their own borrowing decisions subject to an overall national limit. Government support for borrowing through the revenue support grant (RSG) and housing revenue account subsidy (HRAS) is given on the basis of a specified amount of capital expenditure which the borrowing will support.

Total standard spending (TSS)

The total amount which the government determines local authorities should spend to be consistent with national economic guidelines. It is used for calculating the total amount of Government support to local authorities.

Treasury management

The process by which the authority controls its cash flow and its borrowing and lending activities.

Treasury management policy statement

A statement which sets out the parameters which the local authority has approved for the management of treasury activities during the year.

Trust funds

Funds administered by the Council on behalf of charitable organisations and/or specific organisations.

UK GAAP

United Kingdom generally–accepted accounting practice.

Unsupported borrowing ("Prudential borrowing")

Borrowing for which no financial support is provided by Government. The borrowing costs are to be met from current revenue budgets.

VAT shelter

In relation to large scale voluntary transfers of housing stock, a "VAT shelter" is an arrangement allowed by Her Majesty's Revenue and Customs (HMRC) enabling housing associations receiving transfers of housing stock from local authorities to reclaim VAT on their investment programmes. It puts housing associations receiving stock via a transfer on a VAT-level playing field with local authorities.

Virement

The transfer of resources between budget heads. Virement must be properly authorised by the appropriate committee or officers under delegated power.

Further information and contacts

Corporate accountancy team

If you would like further information or to comment on this document, please contact the team.

- telephone 0161 793 3245
- email council.finances@salford.gov.uk
- or write to

Budget Consultation
FREEPOST-RLUE-CELG-RHST
Unity House
Salford Civic Centre
M27 5FJ

Audit Commission

The Audit Commission are the Council's appointed auditors.

- Web site http://www.audit-commission.gov.uk
- Or write to

Audit Commission
2nd Floor, Aspinall House
Aspinall Close
Middlebrook
Horwich
Bolton
BL6 6QQ

Communities and local government

CLG is the government department responsible for local government affairs. Its web site is at http://www.communities.gov.uk

Councillors

Find your councillor at http://www.salford.gov.uk/findyourcouncillors.htm

Council publications

You are recommended to review the **annual governance statement** in conjunction with the statement of accounts. You can find this in the statement of accounts archive at http://www.salford.gov.uk/accounts.htm. Until 2009/10 the annual governance statement (or its predecessor the statement on internal control) was included in the statement of accounts.

For a wider understanding of the Council's operations and performance, the statement of accounts should be read in conjunction with the Council's **corporate plan**. Recent years' plans can be found on our website at http://www.salford.gov.uk/perform.htm.

Comprehensive details of the Council's annual **budget** can be found at http://www.salford.gov.uk/budget.htm

Statutory disclosures of **council expenditure over £500** can be found at http://www.salford.gov.uk/council-expenditure.htm

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