



PEABODY

# Report and Financial Statements

31 March 2011



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# Board, Executive Officers and Advisors

## BOARD

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<b>Christopher Strickland</b>	(Chair of Board; Nominations & Remuneration Committee)
<b>Millie Banerjee</b>	(Audit & Risk Committee)
<b>Marisa Cassoni</b>	(Finance & Investment Committee)
<b>Dudley Fishburn</b>	(to December 2010)
<b>Claudette Forbes</b>	(Audit & Risk Committee)
<b>Tim How</b>	(Chair of Nominations and Remuneration Committee; Finance & Investment Committee)
<b>Karl King</b>	(Audit & Risk Committee)
<b>Malcolm Levi</b>	(Chair of Audit and Risk Committee; Nominations & Remuneration Committee)
<b>Elizabeth Peace</b>	(Chair of Finance and Investment Committee; Nominations & Remuneration Committee)
<b>June Welcome</b>	(Finance & Investment Committee)

## CO-OPTED COMMITTEE MEMBERS

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<b>Neil Gardiner</b>	(Finance & Investment Committee)
<b>Jan Tucker</b>	(Finance & Investment Committee from 14 December 2010)

## CHIEF EXECUTIVE

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**Stephen Howlett**

## EXECUTIVE DIRECTORS

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<b>Stephen Burns</b>	Executive Director – New Business
<b>Susan Hickey</b>	Executive Director – Finance
<b>David Lavarack</b>	Executive Director – Corporate Services
<b>Sandra Skeete</b>	Executive Director – Customer Services

## Bankers

Coutts & Co  
440 Strand  
London WC2R 0QS

## Solicitors

Lewis Silkin  
5 Chancery Lane  
Clifford's Inn  
London EC4A 1BL

Trowers & Hamblins  
Sceptre Court  
40 Tower Hill  
London EC2N 4DX

## Auditors

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Grant Thornton UK LLP  
Chartered Accountants & Registered Auditors  
Grant Thornton House  
202 Silbury Boulevard  
MK9 1LW

## Registered Office

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45 Westminster Bridge Road  
London SE1 7JB

## Registration Details

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Tenant Services Authority Registration – L0014  
Charity Commission Registration – 206061

# Operating and Financial Review

## ACTIVITIES

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Founded in 1862 as the Peabody Donation Fund, Peabody Trust ("Peabody") is one of London's oldest and largest charitable housing associations. It has its own Act of Parliament stipulating Peabody's objectives to work solely within London for the relief of poverty. The Peabody Group (Group) has 20,300 properties in management across the capital and works with the government and a whole range of voluntary, private and public sector partners to bring services to our residents and others in communities where we work. The majority of our homes are on estates with open, communal green spaces.

The Group consists of two registered social landlords, Peabody and CBHA, a number of smaller trading companies and a funding vehicle, Peabody Capital plc.

The Group has four key areas of activity, benefiting directly and indirectly both its residents and the wider London population:

- The provision of rented housing for people who are unable to afford to rent or buy in the open market;
- The provision of supported housing and care for those who need additional support;
- The provision of low cost home ownership, particularly shared ownership; and
- The delivery of community regeneration activities.

Peabody has a dedicated Community Services team established to tackle poverty at its roots – poor education, low skills and lack of opportunity. Working on and around our estates in some of the most deprived areas of London, the team is well placed to reach the most excluded and to ensure that services are accessible by taking support right into the heart of the community. The team also provides support services to those who need them, both Peabody residents and others.

## KEY MISSION AND PUBLIC BENEFIT

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Peabody's mission is to make London a city of opportunity for all, by ensuring as many people as possible have a good home, a real sense of purpose and a strong feeling of belonging:

- A good home: a place that is safe, warm, clean, light, well maintained and evokes personal pride;
- A real sense of purpose: regular endeavour through work, learning, caring for others, personal development or volunteering. Pursuits that people look forward to because it makes them feel valued;
- A strong feeling of belonging: active involvement in the neighbourhood and the spirit of togetherness and friendliness that goes with it.

Opportunity is a platform that takes us beyond homes into personal community development and it is these three things that Peabody wants to be known for.

Peabody and CBHA are subject to the Charities Act 2006, including the obligation to demonstrate, explicitly, that their aims are for the public benefit. Peabody's Board of Governors (the Board) is satisfied that, through the provision of affordable housing and the delivery of community regeneration activities, the Group actively creates social and financial opportunities and so relieves poverty in London to the benefit of the Group's residents and other customers and, indirectly, the London population at large.

## THE CONTEXT IN WHICH WE OPERATE

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We work in times of significant change in the sector and our wider operating environment. The 2010 Comprehensive Spending Review and Localism Bill set out new freedoms and flexibilities around tenure and rents, presenting both opportunities and challenges to Peabody and our communities. As a major provider of affordable housing in London, we are keen to build on these opportunities to expand the range of housing options we offer and deliver more badly needed homes in the capital. We recognise the pressures our residents and communities will face as a result of changes to the welfare benefits regime and this makes our mission particularly powerful and relevant.

In challenging economic times it is more important than ever that we focus on raising aspirations of our residents and communities in making the most of the opportunities available in our great city. Our 21st Century Peabody vision guides these ambitions and our aims to create sustainable, vibrant places to live.

Our regulatory framework is changing. The Tenant Services Authority will be abolished, with its functions transferred to the Homes and Communities Agency and co-regulation will be retained at the heart of the regulatory approach. In London, the housing, regeneration and land functions of the Homes and Communities and London Development Agencies are being brought together under the Mayor of London.

The 2012 Olympics will place increased focus on the capital and the legacy project will focus on the regeneration of part of East London. London continues to face a changing demographic profile. Its population will stretch between growing numbers of younger and older people, communities will become more diverse and the number of single person households will increase. An increased range of digital channels and online services means that our customers expect greater choice and ways of accessing services.

# Operating and Financial Review

## BUSINESS PLAN PRIORITIES

The objectives and strategy of Peabody are set out in a rolling three-year business plan that is reviewed annually and approved by the Board. The business planning process includes an assessment of strengths and weaknesses and opportunities and threats, which are discussed between the Executive Committee and the Board of Governors.

Peabody's four core business objectives are to:

- provide great services and quality homes;
- build thriving communities;
- achieve influential growth; and
- achieve business excellence.

Senior management and the Board monitor achievement of the Group's objectives by measuring performance against the targets for 2011 that are set out below. The Board agrees targets each year that are designed to manage development and deliver continuous service improvement over the period of the business plan.

Objective	Goals	Delivery plan	Measure of success
Provide great services and quality homes	<ul style="list-style-type: none"> <li>• Be great at the basics and deliver excellent customer service</li> </ul>	<ul style="list-style-type: none"> <li>• Provide an excellent repairs and maintenance service</li> <li>• Develop a customer excellence framework</li> </ul>	<ul style="list-style-type: none"> <li>• 80% resident satisfaction with repairs and maintenance</li> <li>• 95% repairs appointments kept</li> <li>• 90% of complaints resolved at stage 1</li> </ul>
	<ul style="list-style-type: none"> <li>• Involve customers in designing, tailoring, monitoring and evaluating services</li> </ul>	<ul style="list-style-type: none"> <li>• Develop and strengthen the contribution and skills of involved customers</li> </ul>	<ul style="list-style-type: none"> <li>• 75% resident satisfaction with the overall service</li> <li>• 65% residents satisfied with views taken into account</li> </ul>
	<ul style="list-style-type: none"> <li>• Provide great homes that are sustainable, safe and green</li> </ul>	<ul style="list-style-type: none"> <li>• Provide appropriate homes of a good standard</li> <li>• Sustainable, environmentally friendly and safe homes</li> </ul>	<ul style="list-style-type: none"> <li>• 100% of qualifying homes meeting the Decent Homes Standard (excluding planned redevelopment)</li> <li>• Average SAP rating of 65% for all general needs stock</li> </ul>
Build thriving communities	<ul style="list-style-type: none"> <li>• Provide opportunities for people in London to get the most from life</li> </ul>	<ul style="list-style-type: none"> <li>• Assist people into employment and training opportunities</li> <li>• Linkage outreach as a model for support to older people</li> <li>• "Healthy Living" opportunities through Activate London</li> </ul>	<ul style="list-style-type: none"> <li>• 250 people into jobs</li> <li>• 1,000 people accessing training opportunities</li> <li>• 1,800 new beneficiaries from Linkage outreach</li> <li>• 15,636 new beneficiaries from Activate London</li> </ul>
	<ul style="list-style-type: none"> <li>• Create desirable neighbourhoods where people want to live</li> </ul>	<ul style="list-style-type: none"> <li>• Create the first phase of neighbourhood charters</li> <li>• Pilot reward scheme for residents taking on more responsibility</li> </ul>	<ul style="list-style-type: none"> <li>• Resident satisfaction with neighbourhood</li> </ul>
Achieve influential growth	<ul style="list-style-type: none"> <li>• Build and manage more homes</li> </ul>	<ul style="list-style-type: none"> <li>• Provide new homes within existing Peabody communities</li> <li>• New business opportunities with key local partners</li> </ul>	<ul style="list-style-type: none"> <li>• Increased development pipeline</li> <li>• Acquisition of homes</li> </ul>
	<ul style="list-style-type: none"> <li>• Shape and influence the national and local agenda</li> </ul>	<ul style="list-style-type: none"> <li>• Stakeholder engagement programme to influence policy debate</li> </ul>	<ul style="list-style-type: none"> <li>• Improvement in stakeholder engagement measured by external surveys</li> </ul>

# Operating and Financial Review

Objective	Goals	Delivery plan	Measure of success
Achieve business excellence	<ul style="list-style-type: none"> <li>Recruit and retain capable people with the right skills and attitudes to achieve our objectives</li> <li>Information systems to support an improvement in services and efficiency</li> <li>Financial strength to achieve our objectives</li> </ul>	<ul style="list-style-type: none"> <li>Opportunities for all staff to learn and grow</li> <li>A good quality support environment that enables staff to deliver an excellent service</li> <li>Strengthen the delivery of value for money</li> </ul>	<ul style="list-style-type: none"> <li>Staff attendance level – 96.5%</li> <li>Permanent staff level of 90%</li> <li>IT systems availability</li> <li>Achieve 19% operating margin</li> <li>Management cost per property – £1,193</li> <li>Meet lender covenants</li> <li>% annual rent roll in arrears</li> <li>% of dwellings vacant and days to re-let social housing dwellings</li> </ul>

Performance against these targets for each objective are set out below. Financial results for the past five years are set out on page 12 and summarised below.

## Provide great services and quality homes

Key performance for the past 3 years:

Measure of success	2011 actual	2011 target	2010	2009
Resident satisfaction with overall service (general needs)	76.0%	75.0%	67.9%	66.5%
Resident satisfaction with repairs and maintenance	82.0%	80.0%	64.1%	70.0%
Repairs appointments made and kept	89.2%	95.0%	88.2%	85.4%
Complaints resolved at stage 1	84.6%	90.0%	85.9%	77.7%
Resident satisfaction views taken into account	64.3%	65.0%	53.1%	53.1%
Homes meeting the Decent Homes Standard	100.0%	100.0%	89.4%	90.6%
Average SAP energy efficiency rating	62.1	65.0	61.8	64.1

Resident satisfaction has continued its strong positive trend and reflects the significant focus of the organisation in recent years on putting customers at the heart of everything we do together with the significant increase in investment in frontline service activities. Changes to the maintenance service which were introduced in May 2010 have delivered a marked improvement in satisfaction. The emphasis in maintenance for the coming year will continue to be customer satisfaction with the service, including a 'right first time' delivery within an optimal and cost-effective appointment timeframe.

Significant focus continues on improving complaints handling to address below target performance, albeit there is only a small deterioration in stage 1 resolution compared with last year. The number of complaints progressing to stage 3 of the complaints process has markedly reduced due to more effective resolution at earlier stages.

Meeting the Decent Homes Standard was a significant challenge for Peabody given the age profile of our stock, however following the significant investment programme over recent years all the stock now meets the standard with the exception of the Clapham Estate where plans are well advanced for redevelopment.

The target for energy efficiency of homes measured by the SAP rating has fallen below target. Looking forward, this target has been more thoroughly appraised to better reflect the challenges in the stock type. We are committed to the provision of energy-efficient homes and plan to deliver improvements through the installation of solar panels in 2011/12.

Peabody has developed policies for customer involvement and diversity. We have a Resident Involvement Strategy that promotes the involvement of all sections of the community and a formal structure for resident involvement at strategic and operational levels, based on three core involvement functions – policy review, scrutiny and performance and local standards monitoring. The strategy provides a menu of involvement options for residents. We have a direct relationship with over 50 Resident Associations and other community groups, with a Resident Review Committee, Sheltered Housing Forum, youth groups and a Customer Panel of 200 residents providing a range of opportunities for individuals to be involved.

Peabody now has an active ongoing dialogue with over 1,900 residents through both formal and informal involvement routes.

# Operating and Financial Review

Peabody values diversity and is committed to achieving equality of opportunity. Peabody has a Single Equality Policy which sets out how we will meet our statutory and regulatory equality and diversity obligations, as well as how we will raise awareness on diversity issues for employees and customers.

Peabody has a Diversity Forum made up of residents to:

- review proposed policies and the impact these may have on diverse groups;
- champion our valuing diversity programme; and
- act as a sounding board to plan future improvements.

## Build thriving communities

Key performance for the past 3 years:

Measure of success	2011 actual	2011 target	2010	2009
People into jobs	165	250	182	340
People accessing training opportunities	1,831	1,000	1,191	1,588
Beneficiaries from Linkage Plus outreach	2,117	1,800	2,753	Pilot
Beneficiaries from Activate London	15,847	15,636	14,018	8,397

This year has been another successful year for our Community Services team with the number of people benefiting from our training opportunities, the number of older people benefitting from Linkage Plus and the number of Activate London beneficiaries exceeding the targets set for the year. In addition we continue a wide range of programmes including Employment & Training, Health & Well-being, Volunteering, Welfare Benefits Advice, Family Support, Digital Inclusion.

The challenging economic environment has impacted upon the number of people helped into jobs during the year with the annual target not met. A total of 165 people have, however, been helped into employment during the year.

During the year £1,482,975 (2010: £2,148,538) was received from the Big Lottery Grant as a restricted fund allocated against the following projects:

	2011 £	2010 £
Activate (Grant ref: WB/2/010250002)	918,980	1,720,231
Media Project (Grant ref: MK/1/010156644)	-	6,927
Youth 4 Youth (Grant ref: YPG/1/010291308)	297,090	333,219
Staying Safe: Saying no to knife & gun crime (Grant ref: YPL/1/010311740)	118,457	88,161
On Track Music Project (Grant ref: RC/2/010318982)	148,448	-
	1,482,975	2,148,538

In addition £618,136 (2010: £618,136) was received from Tower Hamlets Council for the Linkage Plus outreach.

Our community programmes and activities are a key part of our offer and we recognise the need for a continuous funding stream to support these activities. We aim to be a thought leader in our sector and will combine intellect with action to create innovative and practical solutions. We will continue to carry out evidence-based research to understand the position of our communities and how we can best focus our resources to make the greatest difference.

## Achieve influential growth

Key performance for the year:

Measure of success	2011 actual	2011 target
Development pipeline	385 homes	300 homes
Acquisition of homes	1,230	-

# Operating and Financial Review

We delivered 113 new homes during the year and met the development requirements of the Homes and Communities Agency. The development pipeline exceeds target and continues to grow. We believe Peabody is well-placed to take advantage of the new freedoms and flexibilities around tenure, rents and the allocation of affordable housing. This will enable us to provide more opportunities and choice to people who need an affordable home, make better use of our existing stock and optimise our income to generate further capacity to deliver more badly needed homes.

Earlier this year we completed the acquisition of 1,230 homes in central London from the Crown Estate. This demonstrates our ambition for influential growth and to provide more homes and services to people in London. Our target is to grow the number of homes we own or manage substantially over the next three years. Peabody is in an excellent position to contribute to a great future for London's communities and we are building the strong relationships necessary to ensure we meet local priorities and really deliver for our customers.

## Achieve business excellence

Key performance for the past 3 years:

Measure of success	2011 actual	2011 target	2010	2009
Staff attendance level	96.7%	96.0%	96.1%	97.2%
Permanent staff	93.5%	90.0%	89.4%	79.8%
Operating margin	22.0%	19.0%	22.0%	19.5%
Management cost per general needs home	£1,137	£1,193	£1,037	£1,022
Rent roll in arrears	5.3%	5.8%	5.9%	6.1%
Dwellings vacant	0.9%	1.1%	1.1%	1.0%
Days to re-let	37	28	29	40

Peabody considers that employee involvement is essential for its success and uses a variety of methods to inform, consult and involve its employees, which includes an Employee Council and Employee Consultation Group.

Peabody has a comprehensive staff learning and development policy and has Investors in People accreditation. We recruit and retain employees who are professional, competent and passionate about customer service. The Peabody behaviours set the standard for working with colleagues and customers:

- Customer focussed – we deliver excellent service
- Results focussed – we get things done
- Collaborative – we work effectively with others
- Can Do – we are positive and helpful
- Principled – we are trustworthy and fair
- Continuously improving – we are always looking to get better

For those responsible for the direction and development of others, we have designed a set of Management Expectations which sets out clearly what is expected of leaders at Peabody. These form part of the performance assessment of managers.

Reflecting our financial strength and stability, current tenant rent arrears as a percentage of annual rent roll fell during the year, in a challenging environment for our residents. The days taken to re-let a property has not met target due to the higher volume of lettings and difficulty in letting properties in some locations.

Lender covenants continue to be met.

Investment in IT systems has aided improvements in service delivery and this will continued to be a strong theme throughout 2011/12.

Peabody met its budget for the year, achieving an operating margin of 22% and exceeding target.

# Operating and Financial Review

## VALUE FOR MONEY (VFM)

We are committed to providing VFM and obtaining optimal benefit from available resources by ensuring all functions are performed efficiently, effectively and economically.

### How VFM is delivered

The VFM Strategy sets out how resources are deployed to provide efficient and high-quality services to residents and surrounding communities in support of the business plan.

Publicly comparable measures of performance are shown in the table below. In addition, we internally target and measure service cost recovery, financial performance against development criteria, contract prices on asset management and purchase order controls.

Peabody is strongly committed to providing value through our community services. Over £2.3 million has been invested in these activities in 2010/11.

### How we compare

	Group 2011	Group 2010	National Average 2010
<b>Housing management</b>			
Current rent arrears – general needs	5.3%	5.9%	4.4%
Days to re-let – general needs	37	29	33
Overall resident satisfaction	76.0%	67.9%	82.0%
Resident satisfaction with repairs	82.0%	64.1%	77.0%
<b>Financial</b>			
Management cost per social housing home	£1,307	£1,257	£995*
Responsive maintenance per social housing home	£870	£1,055	£1,052*
Vacant dwellings	0.9%	1.1%	2.2%
Social housing letting operating margin	26%	28%	24%*
Effective interest rate	3.8%	4.1%	5.3%
<b>Community services</b>			
Net community investment per home owned	£122	£115	Not available

\* Traditional housing associations with more than 10,000 homes

### Plans to improve

We will continue to improve the value of the maintenance service, working with residents towards a 'right first time' delivery within an optimal and cost-effective appointment timeframe.

Stock condition appraisals undertaken in 2010/11 will inform future spending requirements and opportunities for VFM will be delivered through tenders in 2011/12.

We will continue to improve our IT systems and staff capability to facilitate best VFM in service delivery, building on the wholesale review of our staff operating model and governance structure that was undertaken in 2010/11.

# Operating and Financial Review

## RISK MANAGEMENT

Peabody's Risk and Risk Management Strategy identifies the key risks facing Peabody and develops strategies for monitoring and mitigating them.

The Group considers the following to be key risks during the business plan period:

Key Risk Identified	Risk Mitigation Activities
Failure to identify, influence and respond to changes in the national and local policy environment, in particular as a result of the Comprehensive Spending Review and reform of social housing.	Maintain relationships and effective communication with key political stakeholders to influence and gain insight into policy direction. Collective influence through Chair of G15 and other sector bodies. Robust and flexible business planning process to respond to changes in the external environment.
Failure to improve service delivery, leading to poor customer satisfaction ratings.	Customer involvement in policy development and service reviews with corporate performance scrutinised by the Resident Review Committee. Effective contract management of the maintenance contract. Formulation and maintenance of estate action plans and neighbourhood plans. A customer excellence framework to be developed. Regular surveys tracking satisfaction.
Significant health and safety failure.	A comprehensive health and safety management system and health and safety team ensures good practice is followed. Adequate insurance cover in place. Arrangements in place with third party provider to provide out of hours support. Health and Safety Committee provides governance and monitors safety standards.

Further details of the Group's risk management activities are provided in the Governors' statement on internal control.

# Operating and Financial Review

## FINANCIAL POSITION

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The financial position and results for the year are set out on pages 16 to 19 of these statements. The financial statements have been prepared in accordance with the relevant provisions of the Peabody Donation Fund Act 1948 as amended by the Charities (The Peabody Donation Fund Act) Order 1997, Schedule 1 to the Housing Act 1996 (to 31 March 2011), the Housing and Regeneration Act 2008 (from 1 April 2011) and the Accounting Requirements for Registered Social Landlords General Determination 2006.

### Accounting policies

The Group's principal accounting policies are set on pages 20 to 22 of the financial statements. The policies that are most critical to the financial results relate to accounting for housing depreciation and include: capitalisation of costs; deduction of capital grant from the cost of assets; housing property depreciation; and treatment of shared-ownership properties.

### Housing properties

At 31 March 2011 the Group owned 20,300 housing properties, including 1,300 properties where the purchaser has acquired 100% of the equity but the freehold interest has been retained. Properties are carried in the balance sheet at cost (after depreciation and capital grants) of £754 million (2010: £603 million).

The value of housing properties on an existing use basis is estimated to be in excess of £1 billion.

### Pension costs

The Group participates in two pension schemes, the Local Government Defined Benefit Pension Scheme and the Peabody Group Pension Scheme which is a defined contribution scheme operated by Friends Provident. Both schemes offer good benefits for our staff.

Following an actuarial loss on the Local Government Scheme in 2010 of £19.5 million for the Group, an offsetting actuarial gain of £20.1 million has been recognised in 2011, as shown in the Statement of Total Recognised Surpluses and Deficits. The actuarial gain of £20.1 million in 2011 includes £8.6 million arising from a change in the assumption used for inflation, from RPI to CPI.

### Performance in the period

Peabody made a surplus after tax of £8.2 million for the year (2009: £22.1 million). The consolidated results for the Group, which include the results of those entities detailed in note 24 to these financial statements, show a surplus for the year after tax of £9.1 million (2009: £23.4 million). An operating margin of 22% has been achieved by the Group with an operating surplus after financing costs (but before property sales) of £6.6 million achieved.

With the recovery in the stock market, Peabody's equity portfolio was sold during the year. More effective treasury management is achieved through reducing borrowings rather than holding an equity portfolio.

During the year Peabody sold 20 (2010: 74) properties which were void and economically unviable, generating a total surplus of £2.2 million (2010: £13 million). The disposal programme of recent years, designed to fund the Decent Homes programme, has now come to an end.

During 2010/11 £26.6 million was invested in existing homes with an additional £18 million invested in the delivery of new homes. At 31 March all the stock meets the Decent Homes standard with the exception of the Clapham Estate where plans are well advanced for redevelopment.

### Capital structure and treasury policy

Peabody Capital plc borrowed £150 million from the debt capital markets during the year through a £150 million public bond issue maturing in 2043. From the issue proceeds, £83 million has been on-lent to Peabody and the balance will be held in permitted investments until funds are required for the development programme. The results of Peabody Capital are included in the consolidated Group position.

### Financing

At the 31 March 2011 the Group had total available facilities of £655 million of which £545 million (gross of capitalised arrangement fees) had been drawn.

# Operating and Financial Review

## Interest

In accordance with the Group's Interest Rate Management Strategy, and in order to mitigate the risk of rises in variable interest rates, at 31 March 2011 74% of the Group's debt was at fixed rates.

As at 31 March 2011 the Group's weighted average cost of capital was 3.8%.

In March 2011 a fixed rate loan was broken, with break costs of £1.8 million recognised in the Income and Expenditure Account for the year ended 31 March 2011. The net benefit is £0.6 million in present value terms and will be realised, together with lower interest costs, over the following 24 months.

The Group's Treasury Management Strategy and Policy is updated and submitted annually to the Group's Finance Committee for approval. Treasury Management performance, which includes on-going review of the loan portfolio and compliance with financial covenants, is reviewed quarterly by the Committee.

At 31 March 2011 the Group complied with all financial covenants in place.

## Liquidity

The Group has sufficient committed facilities available to meet known requirements until 31 March 2012 and for the foreseeable future. At the year end the Group held cash balances totalling £21.1 million.

## Reserves

The Board of Governors has reviewed the reserves of the Group taking into consideration the nature of income and expenditure streams and has concluded that the level of reserves shown at 31 March 2011 is commensurate with the performance and investment profile of a housing charity.

The Group surplus of £9 million and other gains recognised in the year has resulted in our accumulated reserves growing to £258 million. We will reinvest this into our business to further improve resident satisfaction and deliver more new homes. The use of reserves is shown in the following table:

	2011 £ million	2011 %	2010 £ million	2010 %
Property (at depreciated cost)	1,117.9		957.1	
<i>Financed by:</i>				
Net borrowing	454.3	40.6%	345.0	36.1%
Grant	364.1	32.6%	354.2	37.0%
Net working capital finance	41.5	3.7%	29.1	3.0%
Reserves	258.0	23.1%	228.8	23.9%
	1,117.9	100.0%	957.1	100.0%

# Operating and Financial Review

## Group Highlights – five year summary

For the year ended 31 March	2011	2010	2009	Restated 2008	2007
	£m	£m	£m	£m	£m
<b>Group income and expenditure account</b>					
Total turnover	<b>112.6</b>	106.0	101.2	102.9	98.7
Income from social housing lettings	<b>95.2</b>	93.4	89.3	85.5	82.0
Depreciation and amortisation of housing properties	<b>9.7</b>	8.8	9.9	9.6	9.8
Interest payable	<b>17.1</b>	16.0	19.4	21.8	25.3
Redemption penalties	<b>1.8</b>	0.7	-	37.0	52.3
Operating surplus	<b>24.8</b>	24.7	20.3	22.2	25.0
Surplus before tax (excluding redemption penalties)	<b>11.0</b>	24.2	35.1	70.6	43.7
Surplus / (deficit) after interest and tax	<b>9.1</b>	23.4	35.1	33.6	(8.6)
<b>Group balance sheet</b>					
Tangible fixed assets, at depreciated cost	<b>1,196.2</b>	1,032.5	995.9	999.3	986.9
Social Housing Grant	<b>(442.4)</b>	(429.5)	(421.3)	(437.8)	(449.8)
Net current (liabilities) / assets	<b>(7.7)</b>	27.2	32.7	21.7	6.9
Indebtedness	<b>539.3</b>	370.6	372.0	382.6	375.1
Total reserves	<b>258.0</b>	228.8	224.9	197.0	157.8
<b>Key financial performance information</b>	%	%	%	%	%
Group Operating Surplus as a % of turnover	<b>22</b>	23	20	22	25
Net borrowing as % of capital grants plus reserves (Gearing)	<b>65</b>	56	58	60	63
Earnings Before Interest Tax Depreciation and Amortisation (EBITDA) as a % of interest payable excluding loan redemption penalties and property sales	<b>224</b>	230	183	150	143

# Operating and Financial Review

## STATEMENT OF BOARD RESPONSIBILITIES

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The Board is responsible for preparing the Annual Report and the financial statements. The Board has chosen to prepare accounts for Peabody and the Group in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP). Housing Association legislation requires the Board to prepare such financial statements for each financial year which give a true and fair view of the state of affairs of Peabody and of the Group and of the surplus or deficit of Peabody and the Group for that period and comply with UK GAAP and the Peabody Donation Fund Act 1948 as amended by the Charities (The Peabody Donation Fund) Order 1997, Schedule 1 to the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2006. In preparing these financial statements, the Board is required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice: Accounting by Registered Housing Providers Update 2010 have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that Peabody will continue in business.

The Board is responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of Peabody and the Group, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## INTERNAL CONTROLS ASSURANCE

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The Board acknowledges its ultimate responsibility for ensuring that the Group has in place a system of internal controls that is appropriate to the various business environments in which it operates. This system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide the Board with reasonable and not absolute assurance against material misstatement or loss.

The processes in place for identifying, evaluating, and managing the significant risks faced by the Group is ongoing and has been in place throughout the period commencing 1 April 2010 up to the date of approval of the financial statements.

Key elements of the control framework include:

- Board approved terms of reference and delegated authorities for audit and risk, finance and investment, and nominations and remuneration committees;
- clearly defined management responsibilities for the identification, evaluation and control of significant risks;
- robust strategic and business planning processes, with detailed financial budgets and forecasts;
- formal recruitment, retention, training and development policies for all staff;
- established authorisation and appraisal procedures for significant new initiatives and commitments;
- a sophisticated approach to treasury management which is subject to external review each year;
- regular reporting to the appropriate committee on key business objectives, targets and outcomes;
- Board approved whistle-blowing and anti-theft and corruption policies, including anti-money laundering and the Bribery Act;
- Board approved fraud policies, covering prevention, detection and reporting, together with recoverability of assets; and
- regular monitoring of loan covenants and requirements for new loan facilities.

A fraud register is maintained and is reviewed by the audit committee on a quarterly basis. During the year there were a small number of minor frauds reported but the overall value of the frauds was below the threshold for reporting to the TSA. The Audit and Risk Committee has reviewed internal controls in these areas.

The Board cannot delegate ultimate responsibility for the system of internal control but has delegated authority to the Audit and Risk Committee to regularly review the effectiveness of the system of internal control. The Board receives quarterly reports and meeting minutes. The Audit and Risk Committee has received the Chief Executive's annual review of the effectiveness of the system of internal control for the Group, and the annual report of the internal auditor, and has reported its findings to the Board.

## NHF Code of Governance

We are pleased to report that the Group complies with the fundamental aspects of the NHF Code of Governance (revised).

## Statement of Compliance

In preparing this Operating and Financial Review and Board report, the Board has followed the principles set out in the SORP 2010.

# Operating and Financial Review

## Donations

The Group donated £Nil during the year and made no political donations (2010: £Nil).

## Going Concern

After making all reasonable enquiries, the Board have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, being a period of twelve months after the date on which the report and financial statements are signed. For this reason it continues to adopt the going concern basis in the financial statements.

## Disclosure of Information to Auditors

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

- so far as each Board Member is aware, there is no relevant information needed by Peabody's auditors in connection with preparing their report of which Peabody's auditors are unaware;
- each Board Member has taken all the steps that he ought to have taken as a Board Member in order to make himself aware of any relevant information needed by Peabody's auditors in connection with preparing their report and to establish that Peabody's auditors are aware of that information.

## External Auditors

Grant Thornton UK LLP have expressed their willingness to continue in office. Accordingly a resolution is to be proposed for the re-appointment of Grant Thornton UK LLP as auditors of the Group.

Approved by the Board on 20 July 2011 and signed on their behalf by:



**Christopher Strickland**  
Chair



**Stephen Howlett**  
Chief Executive

# Independent Auditors Report

Year ended 31 March 2011

## INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF PEABODY

We have audited the financial statements of Peabody for the year ended 31 March 2011 which comprise the Group and Peabody income and expenditure accounts, the Group and Peabody statements of total recognised surpluses and deficits, the Group and Peabody reconciliations of movement in funds the Group, the Group and Peabody balance sheets, the Group cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the housing association's Board, as a body, in accordance with Part 2, Chapter 4 of the Housing Association and Regeneration Act 2008. Our audit work has been undertaken so that we might state to the Board Members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Peabody and Peabody's Board Members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Board and auditors

As explained more fully in the Statement of Board Responsibilities (set out on page 13), the Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### Scope

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 housing association's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the operating and financial review to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and Peabody's affairs as at 31 March 2011 and of the Group's and Peabody's surplus for the year then ended;
- have been properly prepared in accordance with the requirements of the Peabody Donation Fund Act 1948 as amended by the Charities (The Peabody Donation Fund Act) Order 1997, the Housing and Regeneration Act 2008 and the Accounting Requirements for Registered Social Landlords General Determination 2006.



### Grant Thornton UK LLP

Registered Auditor, Chartered Accountants  
Milton Keynes, England  
20 July 2011

# Income and Expenditure Accounts

Year ended 31 March 2011

	Note	2011 £'000	Peabody 2010 £'000	2011 £'000	Group 2010 £'000
<b>TURNOVER</b>	2	<b>104,989</b>	98,259	<b>112,648</b>	105,966
Operating costs	2	<b>(82,454)</b>	(76,088)	<b>(87,756)</b>	(81,228)
<b>OPERATING SURPLUS</b>		<b>22,535</b>	22,171	<b>24,892</b>	24,738
Surplus on sale of fixed assets		<b>2,290</b>	13,036	<b>2,553</b>	13,545
Change in value of fixed asset investments		-	1,393	<b>(18)</b>	1,393
Interest receivable	7	<b>2,007</b>	2,145	<b>656</b>	498
Interest payable and similar charges – normal	8	<b>(16,828)</b>	(15,907)	<b>(17,103)</b>	(16,020)
– exceptional	8	<b>(1,836)</b>	(732)	<b>(1,836)</b>	(732)
Total interest payable		<b>(18,664)</b>	(16,639)	<b>(18,939)</b>	(16,752)
<b>Surplus on ordinary activities before and after taxation for the financial year</b>	21	<b>8,168</b>	22,106	<b>9,144</b>	23,422

The notes on pages 20 to 48 form part of these financial statements.

These financial statements were approved by the Board on 20 July 2011 and signed on their behalf by:



**Christopher Strickland**  
Chair



**Stephen Howlett**  
Chief Executive

# Statement of Total Recognised Surpluses and Deficits

Year ended 31 March 2011

	Note	Peabody		Group	
		2011 £'000	2010 £'000	2011 £'000	2010 £'000
Surplus for the financial year		<b>8,168</b>	22,106	<b>9,144</b>	23,422
Pension scheme actuarial gain / (loss)	6	<b>18,107</b>	(17,481)	<b>20,101</b>	(19,495)
<b>Total recognised surpluses and deficits since the last report</b>		<b>26,275</b>	4,625	<b>29,245</b>	3,927

# Reconciliation of Movement in Peabody's and Group's Funds

Year ended 31 March 2011

	Note	Peabody		Group	
		2011 £'000	2010 £'000	2011 £'000	2010 £'000
Opening funds		<b>209,402</b>	204,777	<b>228,804</b>	224,877
Total recognised surpluses and deficits relating to the year	21	<b>26,275</b>	4,625	<b>29,245</b>	3,927
<b>Closing total funds</b>	21	<b>235,677</b>	209,402	<b>258,049</b>	228,804

# Balance Sheets

At 31 March 2011

	Note	2011 £'000	Peabody 2010 £'000	2011 £'000	Group 2010 £'000
<b>FIXED ASSETS</b>					
Housing properties	11	<b>1,128,777</b>	969,797	<b>1,196,363</b>	1,032,485
Social Housing Grant	11	<b>(358,959)</b>	(351,024)	<b>(364,145)</b>	(354,169)
Other Public Grants	11	<b>(60,383)</b>	(57,511)	<b>(78,246)</b>	(75,374)
		<b>709,435</b>	561,262	<b>753,972</b>	602,942
Other tangible fixed assets	12	<b>11,004</b>	11,821	<b>11,521</b>	12,431
Fixed asset investments	13	<b>5,050</b>	5,000	<b>63,879</b>	-
		<b>725,489</b>	578,083	<b>829,372</b>	615,373
<b>CURRENT ASSETS</b>					
Properties for sale	14	<b>1,277</b>	1,847	<b>1,719</b>	1,847
Debtor due in more than one year	15	<b>28,438</b>	28,438	-	-
Debtors due in less than one year	15	<b>10,084</b>	13,461	<b>10,827</b>	14,125
Investments		-	8,104	-	8,104
Cash held on deposit		-	8,248	-	19,254
Cash at bank and in hand		<b>5,928</b>	19,254	<b>21,135</b>	25,571
		<b>45,727</b>	79,352	<b>33,681</b>	68,901
<b>CREDITORS: Amounts falling due within one year</b>	16	<b>(39,408)</b>	(38,908)	<b>(41,378)</b>	(41,681)
<b>NET CURRENT ASSETS / (LIABILITIES)</b>		<b>6,319</b>	40,444	<b>(7,697)</b>	27,220
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>731,808</b>	618,527	<b>821,675</b>	642,593
<b>CREDITORS: Amounts falling due after more than one year</b>	17	<b>480,679</b>	377,147	<b>546,465</b>	378,283
<b>PENSION DEFICIT</b>	6	<b>15,452</b>	31,978	<b>17,161</b>	35,506
<b>RESERVES</b>					
Revenue reserve	21	<b>235,677</b>	200,831	<b>258,049</b>	217,235
Revaluation reserves	21	-	-	-	2,998
Designated reserves	21	-	8,571	-	8,571
<b>RESERVES</b>		<b>235,677</b>	209,402	<b>258,049</b>	228,804
		<b>731,808</b>	618,527	<b>821,675</b>	642,593

The notes on pages 20 to 48 form part of these financial statements.

These financial statements were approved by the Board on 20 July 2011 and signed on their behalf by:



**Christopher Strickland**  
Chair



**Stephen Howlett**  
Chief Executive

# Cash Flow Statements

Year ended 31 March 2011

	Note	Peabody		Group	
		2011 £'000	2010 £'000	2011 £'000	2010 £'000
Net cash inflow from operating activities	22	<b>53,693</b>	39,283	<b>55,115</b>	43,353
<b>Returns on investments and servicing of finance</b>					
Interest received		<b>2,007</b>	1,893	<b>656</b>	246
Dividends received		-	252	-	252
Interest paid		<b>(15,979)</b>	(17,400)	<b>(16,172)</b>	(17,369)
Cost of early redemption of loans		-	(732)	-	(732)
Interest rate hedge cancelation fee		<b>(1,836)</b>	-	<b>(1,836)</b>	-
		<b>(15,808)</b>	(15,987)	<b>(17,352)</b>	(17,603)
<b>Capital expenditure and financial investment</b>					
Construction of, investment in, and purchase of housing properties		<b>(168,831)</b>	(46,618)	<b>(174,051)</b>	(49,717)
Social Housing Grant received		<b>1,863</b>	4,695	<b>3,703</b>	5,531
Other grants received		<b>2,872</b>	896	<b>2,872</b>	896
Transfer of grant to subsidiary undertaking		<b>(202)</b>	(5,664)	-	-
Sale of properties		<b>3,404</b>	18,265	<b>3,865</b>	17,157
Purchase of investments		-	(252)	<b>(63,897)</b>	(252)
Purchase of other tangible fixed assets		<b>(1,753)</b>	(2,690)	<b>(1,758)</b>	(2,690)
Internal costs capitalised		<b>(750)</b>	(1,827)	<b>(750)</b>	(1,827)
		<b>(163,397)</b>	(33,195)	<b>(230,016)</b>	(30,902)
<b>Net cash outflow before financing</b>		<b>(125,512)</b>	(9,899)	<b>(192,253)</b>	(5,152)
<b>Financing</b>					
New loans – external lenders		<b>106,822</b>	-	<b>253,563</b>	-
– received from subsidiary		<b>82,116</b>	-	-	-
Repayment of loans – external lenders		<b>(85,000)</b>	(1,346)	<b>(85,000)</b>	(1,346)
– paid to subsidiary		-	500	-	-
		<b>103,938</b>	(846)	<b>168,563</b>	(1,346)
<b>Decrease in cash</b>		<b>(21,574)</b>	(10,745)	<b>(23,690)</b>	(6,498)
<b>Reconciliation of net cash outflow to movement in net debt</b>					
Decrease in cash		<b>(21,574)</b>	(10,745)	<b>(23,690)</b>	(6,498)
Cash outflow from financing		<b>(103,938)</b>	846	<b>(168,563)</b>	1,346
Change in net debt resulting from cash flows	23	<b>(125,512)</b>	(9,899)	<b>(192,253)</b>	(5,152)
Non cash transactions	23	<b>(162)</b>	151	<b>(178)</b>	119
<b>Movement in net debt in the year</b>		<b>(125,674)</b>	(9,748)	<b>(192,431)</b>	(5,033)
<b>Net debt at the beginning of the year</b>		<b>(314,995)</b>	(305,247)	<b>(325,756)</b>	(320,723)
<b>Net debt at the end of the year</b>	23	<b>(440,669)</b>	(314,995)	<b>(518,187)</b>	(325,756)

# Notes to the Accounts

Year ended 31 March 2011

## 1. Accounting Policies

### Basis of Preparation

The financial statements have been prepared in accordance with UK Generally Accepted Accounting Principles (UK GAAP), the Statement of Recommended Practice 'Accounting by Registered Social Landlords' issued in October 2010 (SORP 2010) and comply with the Accounting Requirements for Registered Social Landlords General Determination 2006 and under the historical cost convention.

Component Accounting was applied in earlier periods and therefore there is no prior year adjustment required on adoption of 'Accounting by Registered Social Landlords' issued in October 2010 (SORP 2010).

A summary of the more important accounting policies is set out below.

### (a) Basis of Consolidation

The Group accounts consolidate the accounts of Peabody and all its subsidiaries (excluding Peabody Pension Trust) at 31 March using acquisition accounting.

### (b) Turnover

Turnover represents rental and service charge income receivable, income from shared ownership first tranche sales, fees and revenue grants from local authorities, the Homes and Communities Agency and other funding bodies, and income from the sale of housing properties built for sale.

Income from first tranche sales and sales of properties built for sale is recognised at the point of legal completion of the sale.

### (c) Housing Properties for Sale

Housing properties developed for sale are stated at cost less any capital grant received. Stock is stated at the lower of cost and net realisable value.

### (d) Housing Properties and Depreciation

Housing properties under construction are stated at cost and are not depreciated. These are reclassified as Housing Properties on practical completion of construction.

Freehold land is not depreciated.

The Group depreciates freehold housing properties by component on a straight line basis over the estimated useful economic lives of component categories. Component categories include general structure, kitchens, bathrooms, windows, doors, roofs, lifts, boilers and electrical installations with useful economic lives ranging from 15 to 100 years.

Works to properties for market rent are capitalised where applicable and depreciated over 5 years.

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

Impairment reviews are carried out on an annual basis on assets whose useful economic lives are expected to exceed 50 years, in accordance with Financial Reporting Standard 11.

### (e) Capitalisation of Interest

Interest on borrowings is charged to housing properties under construction up to the date of completion of each scheme. The interest charged is on net borrowings to the extent that they are deemed to be financing a scheme. This treatment applies irrespective of the original purpose for which the loan was raised.

### (f) Capitalisation of Development Administration Costs

The cost of housing properties comprises their purchase price, together with directly attributable costs in bringing them into working condition for their intended use. Directly attributable costs, in accordance with FRS 15, include salary costs of own employees incurred directly in respect of the construction or acquisition of the property, and incremental costs that would have been avoided only if individual properties had not been constructed or acquired.

Overheads and other indirect costs are written off as incurred.

### (g) Sale of Housing Properties

Where properties built for sale are disposed of during the year, the disposal proceeds are included in turnover, and the attributable costs are included as costs of sales within operating costs.

The surplus or deficit on the disposal of housing properties held previously as fixed assets is shown on the face of the income and expenditure account.

# Notes to the Accounts

Year ended 31 March 2011

## **(h) Shared Ownership Housing Properties and Staircasing**

Shared ownership properties are split proportionally between current and fixed assets based on the element relating to expected first tranche sales. The first tranche proportion is classed as a current asset and related sales proceeds included in turnover and the remaining element is classed as fixed asset and included in housing properties at cost, less any provisions needed for depreciation or impairment.

## **(i) Capital Grant**

Where developments have been financed wholly or partly by Social Housing Grant (SHG) or other capital grants the amount of grant received and receivable in respect of housing properties is deducted from the cost of housing properties.

At the balance sheet date, if the capital grant received or receivable is greater than gross cost of the asset to which the grant relates, the difference is included within creditors falling due within one year and shown as grant received in advance.

SHG is subordinated to the repayment of loans by agreement with the Homes and Communities Agency. SHG released on sale of a property may be repayable but is normally available to be recycled and is credited to a Recycled Capital Grant Fund and included in the balance sheet in creditors.

## **(j) Revenue Grant**

Grants in respect of revenue expenditure are credited to the income and expenditure account in the same period as the expenditure to which they relate.

## **(k) Recycled Capital Grant Fund / Disposal Proceeds Fund**

On disposal of relevant housing properties Peabody is allowed to retain any Social Housing Grant applied to that property for eligible re-investment. This amount is disclosed separately within creditors. If unused within a three year period, it will be repayable to the Homes and Communities Agency with interest.

## **(l) Other Fixed Assets and Depreciation**

Other fixed assets are stated at cost less accumulated depreciation.

Depreciation is charged on a straight line basis over the estimated useful economic lives of assets at the following annual rates:

Freehold offices	1.67% (60 years)
Office	20.00% (5 years)
IT equipment	33.33% (3 years)

Depreciation is charged on the above assets from the month of purchase until the month of disposal.

## **(m) Operating Leases**

Rentals paid under operating leases are charged to the income and expenditure account in equal amounts over the lease term.

## **(n) Current Asset Investments**

Quoted investments are shown at market value. The movement in the difference between the cost and market value of these investments is shown as an unrealised gain or loss in the statement of total recognised surpluses and deficits when in excess of the original cost.

If the values of the investments are lower than cost the difference is recognised in the income & expenditure account.

## **(o) Fixed Asset Investments**

Investments in subsidiary undertakings are shown at cost less any provision for impairment. Investments in quoted securities are stated at market value.

## **(p) Value Added Tax**

Value added tax is accounted for on an accruals basis. The primary activities of the Group, social housing lettings, constitute exempt supplies, and accordingly no input tax borne is recoverable. For business supplies chargeable to tax, or where special dispensations have been agreed, input tax directly relating to goods and services that have enabled the supply, and relating to a fair proportion of the cost of central services in support of these, are recovered from HM Revenue & Customs.

## **(q) Pension Costs**

### **(q) (i) Local Government Defined Benefit Pension Scheme**

The Group provides membership of the Local Government Pension Scheme, the London Pension Fund Authority, for all employees who elected to take up this option prior to 31 March 2008. This is a funded final salary pension scheme. The assets of the pension fund are managed by third-party investment managers and are held separately in trust.

# Notes to the Accounts

Year ended 31 March 2011

Regular valuations are prepared by independent professionally qualified actuaries. These determine the level of contributions required to fund the benefits set out in the rules of the fund and allow for the periodic increase of pensions in payment. Following the full adoption of FRS 17, the current service cost of providing retirement benefits to employees during the year, together with the cost of any benefits relating to past service is charged against the operating surplus in the year.

A credit representing the expected return on the assets of the pension fund during the year is included within other finance income. This is based on the market value of the assets of the fund at the start of the financial year.

A charge within other finance charges representing the expected increase in the liabilities of the pension fund during the year is included within net interest. This arises from the liabilities of the fund being one year closer to payment.

The difference between the market value of assets and the present value of accrued pension liabilities is shown as an asset or liability in the balance sheet net of deferred tax.

Differences between actual and expected returns on assets during the year are recognised in the statement of total recognised surpluses and deficits in the year, together with differences arising from changes in assumptions.

## **(q) (ii) Friends Provident Defined Contribution Pension Scheme**

Employees of the Peabody Group are able to join the Peabody Group Pension Scheme which is a defined contribution scheme operated by Friends Provident. The assets of this scheme are held separately from those of the Group. Employer contributions in respect of this scheme are charged to the income and expenditure account as incurred.

## **(r) Loans and Other Financial Instruments**

Loans and other financial instruments are stated in the balance sheet at the amount of the gross proceeds, less the initial cost of raising the finance which is amortised over the period of the loan.

Where loans and other financial instruments are redeemed during the year, any redemption penalty is recognised in the income and expenditure account of the year in which redemption takes place.

## **(s) Designated Reserves**

Peabody designates reserves for particular purposes with the expectation that amounts from these reserves will be transferred back to general reserves to match relevant expenditure in the income and expenditure account.

## **(t) Revaluation Reserve**

The revaluation reserve records any appreciation in value of fixed asset investments except where the revalued asset represents designated reserves, in which case the revaluation element is shown separately as part of the designated reserve.

## **(u) Homes Managed by Other Parties on Behalf of the Peabody**

A number of Peabody's supported homes are managed by third parties on behalf of the Peabody. Where the risks and benefits of managing these homes have been transferred to the third party the transactions relating to such homes are excluded from Peabody's income and expenditure account.

## **(v) Related Party Transactions**

Peabody has taken advantage of the exemption permitted by FRS 8 – 'Related Party Disclosures', and does not disclose transactions with Group undertakings that are eliminated on consolidation.

## **(w) Taxation**

The charge for taxation is based on the surplus for the year and takes into account taxation deferred.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

# Notes to the Accounts

Year ended 31 March 2011

## 2(a) Turnover and Operating Surplus

PEABODY	2011			2010		
	Turnover £'000	Operating costs £'000	Operating surplus/(deficit) £'000	Turnover £'000	Operating costs £'000	Operating surplus/(deficit) £'000
<b>Social housing lettings</b>						
General needs housing	83,321	(64,343)	18,978	81,766	(60,501)	21,265
Shared ownership	1,650	(862)	788	1,512	(1,243)	269
Key worker	3,156	(949)	2,207	2,974	(1,039)	1,935
	<b>88,127</b>	<b>(66,154)</b>	<b>21,973</b>	86,252	(62,783)	23,469
<b>Other social housing activities</b>						
Donations received	401	-	401	31	-	31
Development costs	-	(3,164)	(3,164)	81	(3,630)	(3,549)
Supporting People contract income	1,292	(1,292)	-	654	(654)	-
First tranche shared ownership sales	3,575	(2,912)	663	1,296	(1,382)	(86)
<b>Non social-housing activities</b>						
Market renting	4,508	(1,549)	2,959	3,547	(1,025)	2,522
Commercial lettings	2,618	(941)	1,677	2,755	(531)	2,224
Leasehold properties	1,270	(1,613)	(343)	1,011	(1,653)	(642)
Community regeneration	2,618	(4,639)	(2,021)	2,632	(4,430)	(1,798)
Other	580	(190)	390	-	-	-
<b>Total</b>	<b>104,989</b>	<b>(82,454)</b>	<b>22,535</b>	98,259	(76,088)	22,171

# Notes to the Accounts

Year ended 31 March 2011

## 2(a) Turnover and Operating Surplus

GROUP	2011			2010		
	Turnover £'000	Operating costs £'000	Operating surplus/(deficit) £'000	Turnover £'000	Operating costs £'000	Operating surplus/(deficit) £'000
<b>Social housing lettings</b>						
General needs housing	90,377	(68,862)	21,515	88,870	(64,852)	24,018
Shared ownership	1,650	(862)	788	1,512	(1,243)	269
Key worker	3,156	(949)	2,207	2,974	(1,039)	1,935
	95,183	(70,673)	24,510	93,356	(67,134)	26,222
<b>Other social housing lettings</b>						
Donations received	376	-	376	-	-	-
Development costs	-	(3,164)	(3,164)	81	(3,630)	(3,549)
Supporting People contract income	1,359	(1,388)	(29)	721	(778)	(57)
First tranche shared ownership sales	3,575	(2,912)	663	1,296	(1,382)	(86)
Other	26	-	26	4	(10)	(6)
<b>Non social housing activities</b>						
Market renting	4,508	(1,549)	2,959	3,547	(1,021)	2,526
Commercial lettings	2,804	(984)	1,820	2,941	(586)	2,355
Leasehold properties	1,270	(1,613)	(343)	1,011	(1,653)	(642)
Community regeneration	2,967	(5,283)	(2,316)	3,009	(5,034)	(2,025)
Other	580	(190)	390	-	-	-
<b>Total</b>	<b>112,648</b>	<b>(87,756)</b>	<b>24,892</b>	<b>105,966</b>	<b>(81,228)</b>	<b>24,738</b>

# Notes to the Accounts

Year ended 31 March 2011

## 2(b) Particulars of Income and Expenditure from Social Housing Lettings

### PEABODY

	General Needs Housing 2011 £'000	Supported Housing and Housing for older people 2011 £'000	Shared Ownership 2011 £'000	Key Worker 2011 £'000	Total 2011 £'000	Total 2010 £'000
<b>Income from lettings</b>						
Rents receivable	71,544	3,548	1,051	3,081	79,224	76,975
Service charges receivable	4,613	725	599	65	6,002	6,637
Charges for support services	800	132	-	4	936	124
Other income	539	1,420	-	6	1,965	2,516
<b>Total income from social housing</b>	<b>77,496</b>	<b>5,825</b>	<b>1,650</b>	<b>3,156</b>	<b>88,127</b>	86,252
<b>Expenditure on letting activities</b>						
Services	(7,850)	(840)	(147)	(97)	(8,934)	(8,157)
Management	(15,017)	(4,172)	(420)	(333)	(19,942)	(19,406)
Routine maintenance	(14,609)	(195)	(24)	(290)	(15,118)	(15,880)
Cyclical maintenance	(11,414)	(211)	(14)	(31)	(11,670)	(10,713)
Rent losses from bad debts	(860)	(34)	-	(4)	(898)	(445)
Depreciation of housing properties	(8,614)	(527)	(257)	(194)	(9,592)	(8,182)
<b>Operating costs on social housing</b>	<b>(58,364)</b>	<b>(5,979)</b>	<b>(862)</b>	<b>(949)</b>	<b>(66,154)</b>	(62,783)
<b>Operating surplus on social housing lettings</b>	<b>19,132</b>	<b>(154)</b>	<b>788</b>	<b>2,207</b>	<b>21,973</b>	23,469
Rent losses from voids	(1,382)	(82)	(5)	(42)	(1,511)	(1,396)

# Notes to the Accounts

Year ended 31 March 2011

## 2(b) Particulars of Income and Expenditure from Social Housing Lettings

### GROUP

	General Needs Housing 2011 £'000	Supported Housing and Housing for older people 2011 £'000	Shared Ownership 2011 £'000	Key Worker 2011 £'000	Total 2011 £'000	Total 2010 £'000
<b>Income from lettings</b>						
Rents receivable	78,540	3,548	1,051	3,081	86,220	84,015
Service charges receivable	4,673	725	599	65	6,062	6,701
Charges for support services	800	132	-	4	936	124
Other income	539	1,420	-	6	1,965	2,516
<b>Total income from social housing</b>	<b>84,552</b>	<b>5,825</b>	<b>1,650</b>	<b>3,156</b>	<b>95,183</b>	93,356
<b>Expenditure on letting activities</b>						
Services	(7,910)	(840)	(147)	(97)	(8,994)	(8,221)
Management	(17,506)	(4,172)	(420)	(333)	(22,431)	(21,619)
Routine maintenance	(15,974)	(195)	(24)	(290)	(16,483)	(17,294)
Cyclical maintenance	(11,805)	(211)	(14)	(31)	(12,061)	(10,935)
Rent losses from bad debts	(941)	(34)	-	(4)	(979)	(568)
Depreciation of housing properties	(8,739)	(527)	(257)	(194)	(9,717)	(8,352)
Impairment of housing properties	(8)	-	-	-	(8)	(145)
<b>Operating costs on social housing</b>	<b>(62,883)</b>	<b>(5,979)</b>	<b>(862)</b>	<b>(949)</b>	<b>(70,673)</b>	(67,134)
<b>Operating surplus on social housing lettings</b>	<b>21,669</b>	<b>(154)</b>	<b>788</b>	<b>2,207</b>	<b>24,510</b>	26,222
Rent losses from voids	(1,408)	(82)	(5)	(42)	(1,537)	(1,420)

# Notes to the Accounts

Year ended 31 March 2011

## 3. Accommodation in Management

At 31 March	Peabody		Group	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
<b>Social Housing</b>				
General needs housing	<b>14,042</b>	14,064	<b>15,391</b>	15,409
Shared ownership	<b>482</b>	467	<b>509</b>	497
Keyworker	<b>352</b>	353	<b>352</b>	353
Supported housing – directly managed	<b>510</b>	536	<b>565</b>	591
– managed by others	<b>351</b>	342	<b>351</b>	342
<b>Total social housing</b>	<b>15,737</b>	15,762	<b>17,168</b>	17,192
<b>Non-social housing</b>	<b>1,753</b>	420	<b>1,753</b>	420
<b>Total</b>	<b>17,490</b>	16,182	<b>18,921</b>	17,612
<b>Units with a retained freehold interest</b>	<b>1,242</b>	1,234	<b>1,282</b>	1,270

## 4. Emoluments of Governors and Executive Officers

None of the Governors received any emoluments during the year (2010: £Nil).

Governors were reimbursed expenses totalling £260 (2010: £1,052).

The remuneration paid to the Group Chief Executive, Peabody Executive Officers (as listed on page 2) and the Chief Executive of CBHA, was as follows:

	2011 £	2010 £
Total emoluments (including pension contributions and benefits in kind)	<b>885,643</b>	855,259
Amounts paid in respect of interim directors	-	169,895
Emoluments (excluding pension contributions) paid to the Group Chief Executive	<b>185,679</b>	178,581

The Group Chief Executive is an ordinary member of Peabody's pension scheme. Peabody paid £26,337 of employers contributions into the pension scheme on behalf of the Group Chief Executive in the year ended 31 March 2011 (2010: £25,277).

The Nominations and Remuneration Committee of the Governors meets twice a year and fixes the remuneration of the Group Chief Executive and the Peabody Executive Team.

# Notes to the Accounts

Year ended 31 March 2011

## 5. Employee Information

The average number of persons employed during the year was:

	2011 No.	Peabody 2010 No.	2011 No.	Group 2010 No.
The average number of full-time equivalent employees				
Head office functions	<b>151</b>	124	<b>157</b>	130
Housing management	<b>375</b>	300	<b>406</b>	331
Maintenance	<b>9</b>	153	<b>9</b>	138
Community services	<b>143</b>	147	<b>167</b>	176
	<b>678</b>	724	<b>739</b>	775
	2011 £'000	Peabody 2010 £'000	2011 £'000	Group 2010 £'000
Staff costs for the above persons:				
Wages and salaries	<b>20,880</b>	22,864	<b>22,519</b>	24,476
Social security costs	<b>1,871</b>	1,792	<b>2,011</b>	1,938
Other pension costs (note 6)	<b>2,362</b>	1,116	<b>2,574</b>	1,229
Other staff costs	<b>279</b>	377	<b>294</b>	402
	<b>25,392</b>	26,149	<b>27,398</b>	28,045
	2011 £'000	Peabody 2010 £'000	2011 £'000	Group 2010 £'000
The numbers of employees who received emoluments (excluding pension contributions) in excess of £100,000 per annum are stated below in bandings of £10,000:				
£120,001 to £130,000	<b>2</b>	1	<b>2</b>	1
£130,001 to £140,000	<b>2</b>	2	<b>2</b>	2
£180,001 to £190,000	<b>1</b>	1	<b>1</b>	1
	<b>5</b>	4	<b>5</b>	4

# Notes to the Accounts

Year ended 31 March 2011

## 6. Pension Liabilities

### The London Pensions Fund Authority – Peabody

Peabody participates in the London Pensions Fund Authority Scheme (LPFA) for those employees who elected to join prior to 31 March 2008. The scheme is now closed to new entrants.

The pension cost, which includes liability for pension increases, has been determined in accordance with the advice of professionally qualified consulting actuaries based on an actuarial valuation made as at 31 March 2010 using the projected unit method. The most significant actuarial assumptions used in this valuation were:

Discount rate	6.7% per annum
Rate of general pay increases	4.5% per annum
Rate of increase in pensions in payment	3.0% per annum
Price inflation	3.5% per annum
Valuation of assets	assets have been valued at a 12 month smoothed market value

The actuarial valuation at 31 March 2010 showed that the market value of the LPFA's assets represented 82% of the value of benefits that had accrued to the Fund's pensioners, deferred pensioners and members based on past service, allowing for assumed future pay and pension increases. The valuation has been updated to 31 March 2011.

Peabody's service cost under the LPFA was £1,861,000 (2010: £878,000).

The Group's service cost under the LPFA was £2,081,000 (2010: £974,000).

The major assumptions used by the actuary to value the liabilities of the scheme under FRS 17 are:

	At 31 March 2011 % per annum	At 31 March 2010 % per annum
RPI inflation increase rate	n/a	3.9
CPI inflation increase rate	2.7	n/a
Pension increase rate	2.7	3.9
Rate of increase in salaries	4.5	5.4
Expected return on assets	6.7	6.7
Discount rate	5.5	5.5
Valuation method	<b>Projected unit</b>	Projected unit

# Notes to the Accounts

Year ended 31 March 2011

## 6. Pension Liabilities (continued)

### The London Pensions Fund Authority – Peabody

The assets in the Scheme and expected rates of return were:

	Expected long term rate of return	Value at 31 March 2011 £'000	Expected long term rate of return	Value at 31 March 2010 £'000
Equities	7.4%	33,046	7.4%	30,762
Target return portfolio	4.5%	5,747	4.5%	4,395
Alternative assets	6.4%	6,705	6.4%	6,152
Cash	3.0%	1,437	3.0%	2,197
Corporate bonds	5.5%	958	5.5%	439
Total fair value of assets		47,893		43,945
Present value of scheme liabilities		(63,294)		(75,863)
Net (under) funding in funded plans		(15,401)		(31,918)
Present value of unfunded liabilities		(51)		(60)
Net pension liability		(15,452)		(31,978)
<b>Amounts charged to operating profit</b>				
	2011 £'000	2011 (% of payroll)	2010 £'000	2010 (% of payroll)
Current service cost	1,861	25.6	878	9.2
Interest cost	4,259	58.6	3,279	34.4
Expected return on employer assets	(3,025)	(41.6)	(2,158)	(22.6)
Past service cost	(8,606)	(118.4)	-	-
Losses on curtailments and settlements	75	1.0	64	0.7
Total	(5,436)	(74.8)	2,063	21.7
Actual return on plan assets	3,207		9,839	
<b>Reconciliation of defined benefit obligation</b>			2011 £'000	2010 £'000
Opening defined benefit obligation			75,923	47,615
Current service cost			1,861	878
Interest cost			4,259	3,279
Contribution by members			494	631
Actuarial (gains) / loss			(8,081)	25,162
Past service credit			(8,606)	-
Losses on curtailments			75	64
Estimated unfunded benefits paid			(4)	(5)
Estimated benefits paid			(2,576)	(1,701)
<b>Closing defined benefit obligation</b>			63,345	75,923

# Notes to the Accounts

Year ended 31 March 2011

## 6. Pension Liabilities (continued)

### The London Pensions Fund Authority – Peabody

	2011 £'000	2010 £'000
<b>Reconciliation of fair value of employer assets</b>		
Opening fair value of employer assets	<b>43,945</b>	33,328
Expected return on employers assets	<b>3,025</b>	2,158
Contribution by members	<b>494</b>	631
Contribution by employer	<b>1,585</b>	1,848
Contribution in respect of unfunded benefits	<b>4</b>	5
Actuarial gains	<b>1,420</b>	7,681
Unfunded benefits paid	<b>(4)</b>	(5)
Benefits paid	<b>(2,576)</b>	(1,701)
<b>Closing fair value of employer assets</b>	<b>47,893</b>	43,945

The best estimate of employer contributions for the year ending 31 March 2012 is £1,759,000.

<b>Amounts for the current and previous accounting period</b>	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Fair value of employer assets	<b>47,893</b>	43,945	33,328	40,712	41,097
Present value of defined benefit obligation	<b>(63,345)</b>	(75,923)	(47,615)	(48,393)	(54,188)
<b>Deficit</b>	<b>(15,452)</b>	(31,978)	(14,287)	(7,681)	(13,091)
Experience gains on assets	<b>1,420</b>	7,681	(11,717)	(3,953)	363
Experience gains / (losses) on liabilities	<b>8,081</b>	(25,162)	4,958	9,693	3,669
Past service credit *	<b>8,606</b>	-	-	-	-
<b>Actuarial gains and losses</b>	<b>18,107</b>	(17,481)	(6,759)	5,740	4,032

\* The past service credit of £8,606,000 relates to the governments announcement on 22 June 2010 that future pensions increases would be linked to CPI as opposed to RPI. Peabody has recognised this amount in the statement of total recognised surpluses and deficits in accordance with Urgent Issues Task Force (UTIF) Abstract 48, as the Directors consider that no constructive obligation existed prior to the announcement to link such benefit increases to CPI. As such, the resulting gain has been accounted for as a change in actuarial assumption.

<b>Analysis of amount recognisable in the statement of total recognised surpluses and deficits (STRSD)</b>	2011 £'000	2010 £'000
Actuarial gains / (losses)	<b>18,107</b>	(17,481)
Actuarial gains / (losses) recognisable in the STRSD	<b>18,107</b>	(17,481)
Cumulative actuarial gains / (losses) recognised in the STRSD	<b>4,379</b>	(13,728)

# Notes to the Accounts

Year ended 31 March 2011

## 6. Pension Liabilities (continued)

### The London Pensions Fund Authority – CBHA

The following are the disclosures presented in the financial statements of the Peabody's wholly owned subsidiary CBHA in respect of the LPFA pension scheme.

The assets in the Scheme and expected rates of return were:

	Expected long term rate of return	Value at 31 March 2011 £'000	Expected long term rate of return	Value at 31 March 2010 £'000
Equities	7.4%	2,820	7.5%	2,547
Target return portfolio	4.5%	490	4.5%	364
Alternative assets	6.4%	572	6.5%	609
Cash	3.0%	123	3.0%	182
Corporate bonds	5.5%	82	5.5%	36
Total fair value of assets		4,087		3,638
Present value of scheme liabilities		(5,796)		(7,166)
Net (under) funding in funded plans		(1,709)		(3,528)
Net pension liability		(1,709)		(3,528)
<b>Amounts charged to operating profit</b>				
	2011 £'000	2011 (% of payroll)	2010 £'000	2010 (% of payroll)
Current service cost	220	27.0	96	11.5
Interest cost	400	50.0	289	34.6
Expected return on employer assets	(254)	(32.1)	(176)	(21.1)
Past service cost	(739)	(93.3)	-	-
Total	(373)	(48.4)	(209)	25.0
Actual return on plan assets	266		799	
<b>Reconciliation of defined benefit obligation</b>			2011 £'000	2010 £'000
Opening defined benefit obligation			7,166	4,145
Current service cost			220	96
Interest cost			400	289
Contribution by members			54	56
Actuarial (gains) / loss			(1,243)	2,637
Past service credit			(739)	-
Estimated benefits paid			(62)	(57)
<b>Closing defined benefit obligation</b>			5,796	7,166

# Notes to the Accounts

Year ended 31 March 2011

## 6. Pension Liabilities (continued)

### The London Pensions Fund Authority – CBHA

	2011 £'000	2010 £'000
<b>Reconciliation of fair value of employer assets</b>		
Opening fair value of employer assets	3,638	2,648
Expected return on employers assets	254	176
Contribution by members	54	56
Contribution by employer	191	192
Actuarial gains	12	623
Benefits paid	(62)	(57)
<b>Closing fair value of employer assets</b>	<b>4,087</b>	3,638
<b>Amounts for the current and previous accounting period</b>		
Fair value of employer assets	4,087	3,638
Present value of defined benefit obligation	(5,796)	(7,166)
<b>Deficit</b>	<b>(1,709)</b>	(3,528)
Experience gains on assets	12	623
Experience gains / (losses) on liabilities	1,243	(2,637)
Past service credit	739	-
<b>Actuarial gains and losses</b>	<b>1,994</b>	(2,014)
* The past service credit of £739,000 relates to the governments announcement on 22 June 2010 that future pensions increases would be linked to CPI as opposed to RPI. CBHA has recognised this amount in the statement of total recognised surpluses and deficits in accordance with Urgent Issues Task Force (UTIF) Abstract 48, as the Directors consider that no constructive obligation existed prior to the announcement to link such benefit increases to CPI. As such, the resulting gain has been accounted for as a change in actuarial assumption.		
<b>Analysis of amount recognisable in the statement of total recognised surpluses and deficits (STRSD)</b>		
Actuarial gains / (losses)	1,994	(2,014)
Actuarial gains / (losses) recognisable in the STRSD	1,994	(2,014)
Cumulative actuarial gains and losses	5	(1,989)

### Friends Provident Defined Contribution Pension Scheme

Employees of the Peabody Group from 1 April 2008 are able to join the Peabody Group Pension Scheme which is a defined contribution scheme operated by Friends Provident. The assets of this scheme are held separately from those of the Group. Employer contributions in respect of this scheme are charged to the income and expenditure account as incurred. During the year ended 31 March 2011 employer contributions totalling £324,000 (2010: £168,000) were made into the scheme.

### Peabody Pension Trust Limited (PPT)

Peabody Pension Trust acts as Trustee and administrator for the Governors of Peabody for the operation of a retirement benefits scheme for those Peabody employees who were eligible at 31 December 1977. Peabody has entered into commitments to pay the shortfall of pension payments over income for PPT for each year. The excess of liabilities over commitments is measured with respect to RPI in April of each year and in the year ended 31 March 2011 was £16,000 (2010: £17,000).

PPT is not a pension scheme under the terms of the Pension Scheme Disclosure Regulations.

# Notes to the Accounts

Year ended 31 March 2011

## 7. Interest Receivable and Similar Income

	Peabody		Group	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Income from listed investments	167	252	322	252
Other interest receivable and similar income	226	156	334	246
Interest received from Group entities	1,614	1,737	-	-
	<b>2,007</b>	2,145	<b>656</b>	498

## 8. Interest Payable and Similar Charges

	Peabody		Group	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Interest payable on borrowings	15,969	15,703	16,305	15,703
Interest payable to Group entities	172	-	-	-
Net interest cost on pension scheme (note 6)	1,234	1,121	1,380	1,234
	<b>17,375</b>	16,824	<b>17,685</b>	16,937
Less: Interest capitalised	(547)	(917)	(582)	(917)
	<b>16,828</b>	15,907	<b>17,103</b>	16,020
Exceptional interest charges				
Interest rate hedge cancellation charge	1,836	-	1,836	-
Premium on repurchase of debt	-	732	-	732
	<b>18,664</b>	16,639	<b>18,939</b>	16,752
Capitalisation rate used to determine the finance costs capitalised during the period	<b>3.87%</b>	4.12%	<b>3.98%</b>	4.12%

## 9. Surplus on Operating Activities

	Peabody		Group	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Surplus on ordinary activities before taxation is stated after charging:				
Depreciation on tangible fixed assets	12,586	10,119	12,809	10,293
Auditors' remuneration:				
In their capacity as auditors:				
Group	-	-	59	64
Peabody	50	53	-	-
In respect of other services	29	15	59	15

# Notes to the Accounts

Year ended 31 March 2011

## 10. Taxation Charge

	Peabody		Group	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
The taxation charge comprises:				
Adjustment in respect of prior years	-	-	-	-
United Kingdom corporation tax at 28% (2010: 28%)	-	-	-	-
	-	-	-	-

The tax assessed for the period is lower than that resulting from applying the standard rate of 28% corporation tax in the UK. The differences are explained below:

	Group 2011 £'000	Group 2010 £'000
Surplus on ordinary activities before taxation	<b>9,144</b>	23,422
Tax on profit on ordinary activities at standard rate of 28% (2010: 28%)	<b>2,560</b>	6,558
Factors affecting charge for the year:		
Charitable surplus exempt taxation	<b>(2,560)</b>	(6,558)
	-	-

A deferred tax asset has not been recognised in respect of the timing differences relating to trading losses as there is insufficient evidence that the asset will be recovered. The amount of the asset not recognised is £494,000 (2010: £495,000). The asset would be recovered if suitable taxable profits were to arise in the future against which the losses could be offset.

# Notes to the Accounts

Year ended 31 March 2011

## 11. Housing Properties Peabody

	Completed Properties		Properties under construction		Total
	Housing properties held for letting £'000	Shared ownership housing properties £'000	Housing properties held for letting £'000	Shared ownership housing properties £'000	£'000
<b>Cost</b>					
At 1 April 2010	983,175	36,801	8,116	2,298	1,030,390
Additions – acquisitions	128,461	-	3,011	-	131,472
– major refurbishments	26,028	-	-	-	26,028
– new build properties	-	-	9,842	2,265	12,107
– capitalised interest	320	-	158	43	521
Reclassifications	(1,581)	1,581	-	-	-
Disposals	(443)	(566)	-	-	(1,009)
Completed development properties	16,657	4,197	(16,657)	(4,197)	-
<b>At 31 March 2011</b>	<b>1,152,617</b>	<b>42,013</b>	<b>4,470</b>	<b>409</b>	<b>1,199,509</b>
<b>Depreciation</b>					
At 1 April 2010	58,252	2,341	-	-	60,593
Charge for the year	9,798	394	-	-	10,192
Reclassifications	(104)	104	-	-	-
Disposals	(25)	(28)	-	-	(53)
<b>At 31 March 2011</b>	<b>67,921</b>	<b>2,811</b>	<b>-</b>	<b>-</b>	<b>70,732</b>
<b>Depreciated cost</b>					
<b>At 31 March 2011</b>	<b>1,084,696</b>	<b>39,202</b>	<b>4,470</b>	<b>409</b>	<b>1,128,777</b>
At 31 March 2010	922,582	36,801	10,414	-	969,797
<b>Social housing grant</b>					
At 1 April 2010	329,345	15,425	6,254	-	351,024
Received	182	-	1,681	-	1,863
Recycled capital grant fund (receipt)	3,910	-	2,472	-	6,382
Recycled capital grant fund (payment)	(104)	(170)	-	-	(274)
Other	(36)	-	-	-	(36)
Completed development properties	10,407	-	(10,407)	-	-
<b>At 31 March 2011</b>	<b>343,704</b>	<b>15,255</b>	<b>-</b>	<b>-</b>	<b>358,959</b>
<b>Other public grants</b>					
At 1 April 2010	57,511	-	-	-	57,511
Received	1,238	-	1,634	-	2,872
Completed development properties	1,634	-	(1,634)	-	-
<b>At 31 March 2011</b>	<b>60,383</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>60,383</b>
<b>Net book value</b>					
<b>At 31 March 2011</b>	<b>680,609</b>	<b>23,947</b>	<b>4,470</b>	<b>409</b>	<b>709,435</b>
At 31 March 2010	535,726	21,376	4,160	-	561,262

# Notes to the Accounts

Year ended 31 March 2011

## 11. Housing Properties (continued) Group

	Completed Properties Housing properties held for letting £'000	Shared ownership housing properties £'000	Properties under construction Housing properties held for letting £'000	Shared ownership housing properties £'000	Total £'000
<b>Cost</b>					
At 1 April 2010	1,040,626	39,506	11,124	2,298	1,093,554
Additions – acquisitions	129,802	-	3,011	-	132,813
– major refurbishments	26,634	-	-	-	26,634
– new build properties	-	-	12,059	3,289	15,348
– capitalised interest	320	-	183	50	553
Reclassifications	(1,581)	1,581	-	-	-
Disposals	(501)	(703)	-	-	(1,204)
Completed development properties	16,657	4,197	(16,657)	(4,197)	-
<b>At 31 March 2011</b>	<b>1,211,957</b>	<b>44,581</b>	<b>9,720</b>	<b>1,440</b>	<b>1,267,698</b>
<b>Depreciation</b>					
At 1 April 2010	58,524	2,545	-	-	61,069
Charge for the year	9,912	413	-	-	10,325
Reclassifications	(104)	104	-	-	-
Disposals	(25)	(34)	-	-	(59)
<b>At 31 March 2011</b>	<b>68,307</b>	<b>3,028</b>	<b>-</b>	<b>-</b>	<b>71,335</b>
<b>Depreciated cost</b>					
<b>At 31 March 2011</b>	<b>1,143,650</b>	<b>41,553</b>	<b>9,720</b>	<b>1,440</b>	<b>1,196,363</b>
At 31 March 2010	978,585	40,478	11,124	2,298	1,032,485
<b>Social housing grant</b>					
At 1 April 2010	328,113	17,139	8,917	-	354,169
Received	1,057	-	1,849	797	3,703
Recycled capital grant fund (receipt)	3,910	-	2,747	-	6,657
Recycled capital grant fund (payment)	(104)	(244)	-	-	(348)
Transfers to disposal proceeds fund	(36)	-	-	-	(36)
Completed development properties	10,407	-	(10,407)	-	-
<b>At 31 March 2011</b>	<b>343,347</b>	<b>16,895</b>	<b>3,106</b>	<b>797</b>	<b>364,145</b>
<b>Other public grants</b>					
At 1 April 2010	75,029	-	345	-	75,374
Received	1,238	-	1,634	-	2,872
Completed development properties	1,634	-	(1,634)	-	-
<b>At 31 March 2011</b>	<b>77,901</b>	<b>-</b>	<b>345</b>	<b>-</b>	<b>78,246</b>
<b>Net book value</b>					
<b>At 31 March 2011</b>	<b>722,402</b>	<b>24,658</b>	<b>6,269</b>	<b>643</b>	<b>753,972</b>
At 31 March 2010	575,443	23,339	1,852	2,298	602,942

# Notes to the Accounts

Year ended 31 March 2011

## 11. Housing Properties (continued)

### Peabody

Additions to housing properties in the course of construction during the year included capitalised interest (at an average rate during the year of 3.87%) of £547,000 (2010: £917,000 at an average rate of 4.12%).

Housing properties includes £658 million of land which has not been depreciated.

### Group

Additions to housing properties in the course of construction during the year included capitalised interest (at an average rate during the year of 3.98%) of £582,000 (2010: £917,000 at an average rate of 4.12%).

Housing properties includes £711 million of land which has not been depreciated.

	2011 £'000	Peabody 2010 £'000	2011 £'000	Group 2010 £'000
Housing properties comprise:				
Freeholds	<b>1,099,237</b>	930,061	<b>1,167,426</b>	993,225
Long leaseholds	<b>100,272</b>	100,329	<b>100,272</b>	100,329
	<b>1,199,509</b>	1,030,390	<b>1,267,698</b>	1,093,554

### Peabody

The total Social Housing Grant receivable to date is £359 million (2010: £351 million).

### Group

The total Social Housing Grant receivable to date is £364 million (2010: £354 million).

# Notes to the Accounts

Year ended 31 March 2011

## 12. Other Tangible Fixed Assets

<b>PEABODY</b>	Freehold offices £'000	Office equipment £'000	Total £'000
<b>Cost</b>			
At 1 April 2010	13,764	5,757	19,521
Additions	20	1,733	1,753
Disposals	-	(968)	(968)
<b>At 31 March 2011</b>	<b>13,784</b>	<b>6,522</b>	<b>20,306</b>
<b>Depreciation</b>			
At 1 April 2010	5,934	1,766	7,700
Charge for the year	531	1,863	2,394
Disposals	-	(792)	(792)
<b>At 31 March 2011</b>	<b>6,465</b>	<b>2,837</b>	<b>9,302</b>
<b>Net book value</b>			
<b>At 31 March 2011</b>	<b>7,319</b>	<b>3,685</b>	<b>11,004</b>
At 31 March 2010	7,830	3,991	11,821

<b>GROUP</b>	Freehold offices £'000	Office equipment £'000	Total £'000
<b>Cost</b>			
At 1 April 2010	14,226	6,069	20,295
Additions	20	1,738	1,758
Disposals	-	(1,013)	(1,013)
<b>At 31 March 2011</b>	<b>14,246</b>	<b>6,794</b>	<b>21,040</b>
<b>Depreciation</b>			
At 1 April 2010	5,978	1,886	7,864
Charge for the year	539	1,945	2,484
Disposals	-	(829)	(829)
<b>At 31 March 2011</b>	<b>6,517</b>	<b>3,002</b>	<b>9,519</b>
<b>Net book value</b>			
<b>At 31 March 2011</b>	<b>7,729</b>	<b>3,792</b>	<b>11,521</b>
At 31 March 2010	8,248	4,183	12,431

# Notes to the Accounts

Year ended 31 March 2011

## 13. Fixed Asset Investments

<b>PEABODY</b>	Investment in subsidiary undertakings £'000
<b>Cost</b>	
At 1 April 2010	5,000
Additions	50
<b>At 31 March 2011</b>	<b>5,050</b>

<b>GROUP</b>	Investment in quoted securities £'000
<b>Market value</b>	
Additions	63,897
Changes in market value	(18)
<b>At 31 March 2011</b>	<b>63,879</b>

The historical cost of the quoted securities portfolio is £63,897,000

## 14. Properties for Sale

	Peabody		Group	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
<b>Shared ownership properties</b>				
Completed properties	<b>248</b>	-	<b>248</b>	-
Work in progress	<b>1,029</b>	1,847	<b>1,471</b>	1,847
	<b>1,277</b>	1,847	<b>1,719</b>	1,847
Capitalised interest included in the above	<b>26</b>	-	<b>29</b>	-

Properties held for sale represents the estimated costs of outright sales units and first tranche proportion of shared ownership units of development schemes currently under construction. It is anticipated that the net realisable value of the units will exceed the value held in current assets at the year end.

# Notes to the Accounts

Year ended 31 March 2011

## 15. Debtors

	Peabody		Group	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
<b>Amounts falling due within one year</b>				
Rent and service charges in arrears	<b>9,498</b>	9,445	<b>10,177</b>	10,278
Less: provision for bad debts	<b>(4,143)</b>	(3,842)	<b>(4,537)</b>	(4,236)
	<b>5,355</b>	5,603	<b>5,640</b>	6,042
Amounts owed by subsidiary undertakings	<b>712</b>	38	-	-
Loans to employees	<b>93</b>	73	<b>93</b>	73
Other debtors and prepayments	<b>3,924</b>	7,747	<b>5,094</b>	8,010
	<b>10,084</b>	13,461	<b>10,827</b>	14,125
<b>Amounts falling due after one year</b>				
Amounts owed by subsidiary undertakings	<b>28,438</b>	28,438	-	-

At the balance sheet date, £28,438,000 (2010: £28,438,000) is on-lent to CBHA, a fixed interest rate of 7.1% is applicable to £22 million of the loan. The on-lending is disclosed above, split between amounts due within one year and after one year.

## 16. Creditors: Amounts Falling Due Within One Year

	Peabody		Group	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Trade creditors	<b>8,094</b>	8,351	<b>9,029</b>	8,866
Rent and service charges received in advance	<b>5,273</b>	5,814	<b>5,550</b>	6,169
Social housing grant received in advance	-	-	-	1,240
Amounts owed to subsidiary undertakings	<b>278</b>	175	-	-
Loan from Peabody Pension Trust	-	16	-	16
Recycled capital grant fund	<b>5,724</b>	9,473	<b>5,724</b>	9,473
Other taxation and social security costs	<b>791</b>	840	<b>870</b>	918
Accruals and deferred income	<b>19,248</b>	14,239	<b>20,205</b>	14,999
	<b>39,408</b>	38,908	<b>41,378</b>	41,681

# Notes to the Accounts

Year ended 31 March 2011

## 17. Creditors: Amounts Falling Due After More Than One Year

	Peabody		Group	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Borrowings (note 20)	<b>475,035</b>	370,935	<b>539,322</b>	370,581
Recycled capital grant fund (note 18)	<b>2,148</b>	4,647	<b>3,647</b>	6,137
Disposal proceeds fund (note 19)	<b>3,496</b>	1,565	<b>3,496</b>	1,565
	<b>480,679</b>	377,147	<b>546,465</b>	378,283

## 18. Recycled Capital Grant Fund

	Peabody		Group	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
At 1 April	<b>14,120</b>	20,445	<b>15,610</b>	20,655
Grant recycled	<b>274</b>	1,715	<b>348</b>	1,787
Interest accrued	<b>62</b>	97	<b>70</b>	98
Transfer to subsidiary undertaking	<b>(202)</b>	(5,665)	-	-
Withdrawals	<b>(6,382)</b>	(2,472)	<b>(6,657)</b>	(6,930)
Balance at 31 March	<b>7,872</b>	14,120	<b>9,371</b>	15,610

## 19. Disposal Proceeds Fund

	Peabody		Group	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
At 1 April	<b>1,565</b>	254	<b>1,565</b>	254
Net sale proceeds recycled	<b>1,918</b>	1,307	<b>1,918</b>	1,307
Interest accrued	<b>13</b>	4	<b>13</b>	4
At 31 March	<b>3,496</b>	1,565	<b>3,496</b>	1,565

# Notes to the Accounts

Year ended 31 March 2011

## 20. Debt Analysis

### (a) Book Value Of Debt

	Peabody		Group	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
<b>Nominal value</b>				
Bank and building society loans	<b>395,000</b>	373,181	<b>395,000</b>	373,181
Amounts owed to subsidiary undertaking	<b>84,657</b>	-	-	-
5.25% Bond 2043	-	-	<b>150,000</b>	-
	<b>479,657</b>	373,181	<b>545,000</b>	373,181
<b>Unamortised issue costs</b>				
Bank and building society loans	<b>(2,081)</b>	(2,246)	<b>(2,420)</b>	(2,600)
Amounts owed to subsidiary undertaking	<b>(2,541)</b>	-	-	-
5.25% Bond 2043	-	-	<b>(3,258)</b>	-
	<b>(4,622)</b>	(2,246)	<b>(5,678)</b>	(2,600)
<b>Book value</b>				
Bank and building society loans	<b>392,919</b>	370,935	<b>392,580</b>	370,581
Amounts owed to subsidiary undertaking	<b>82,116</b>	-	-	-
5.25% Bond 2043	-	-	<b>146,742</b>	-
	<b>475,035</b>	370,935	<b>539,322</b>	370,581

### (b) Maturity of Debt

	Peabody		Group	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Between two and five years	<b>12,000</b>	8,000	<b>12,000</b>	8,000
After five years	<b>467,657</b>	365,181	<b>533,000</b>	365,181
	<b>479,657</b>	373,181	<b>545,000</b>	373,181

### (c) Internal Analysis

	Peabody		Group	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Fixed	<b>339,657</b>	257,000	<b>405,000</b>	257,000
Floating	<b>140,000</b>	116,181	<b>140,000</b>	116,181
	<b>479,657</b>	373,181	<b>545,000</b>	373,181

# Notes to the Accounts

Year ended 31 March 2011

## 20. Debt Analysis (continued)

### Bank and building society loans

The Group's bank and building society loans are secured by specific charges over housing properties. The borrowings bear interest rates of between 0.84% and 6.93% and are repayable in instalments as disclosed in (b) above.

### Amounts owed to subsidiary undertaking

Peabody Capital PLC has made a loan to Peabody with a nominal value of £84,657,000, repayable in March 2043. The loan incurs an interest charge of 5.25% per annum.

### 5.25% Bond 2043

On 17 March 2011, Peabody Capital PLC issued a £150 million Sterling Secured bond repayable in 32 years with a coupon of 5.25%.

### Risks

The main risks associated with the Group's borrowings are interest rate risk and liquidity risk. The Finance Committee reviews and agrees policies for managing these risks and these are summarised below:

#### Interest rate risk

The Group regularly reviews its policy on the proportion of debt that should be held at fixed and floating interest rates.

#### Liquidity risk

The Group's policy is to limit liquidity risks by ensuring that it has adequate short and long term borrowing facilities in place, to provide the required level of funding flexibility. At 31 March 2011 the Group had undrawn committed facilities of £110,000,000.

# Notes to the Accounts

Year ended 31 March 2011

## 21. Reserves

	Revenue Reserve £'000	Revaluation Reserve £'000	Designated Reserves Subsidence Reserve £'000	Peabody Community Fund £'000	Total £'000
<b>Peabody</b>					
At 1 April 2010	200,831	-	852	7,719	209,402
Surplus in the year	8,168	-	-	-	8,168
Pension scheme actuarial gains	18,107	-	-	-	18,107
Transfers	8,571	-	(852)	(7,719)	-
<b>At 31 March 2011</b>	<b>235,677</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>235,677</b>
<b>Group</b>					
At 1 April 2010	217,235	2,998	852	7,719	228,804
Surplus in the year	9,144	-	-	-	9,144
Pension scheme actuarial gains	20,101	-	-	-	20,101
Transfers	11,569	(2,998)	(852)	(7,719)	-
<b>At 31 March 2011</b>	<b>258,049</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>258,049</b>

At 31 March 2011 reserves were all used in financing investment in social housing or in the programme of community regeneration activities. Any surpluses are reinvested in the above activities thus ensuring that Peabody is able to continue to deliver its mission to make London a city of opportunity for all by ensuring as many people as possible have a good home, real sense of purpose and a strong feeling of belonging.

The designated reserves have both been transferred to revenue reserves during the year. Revenue reserves will continue to meet future property repairs. Peabody has a track record and continuing commitment to fund community investment and a designated reserve is not considered necessary.

# Notes to the Accounts

Year ended 31 March 2011

## 22. Reconciliation of Operating Surplus to Net Cash Inflow from Operating Activities

	Peabody		Group	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Operating surplus	<b>22,535</b>	22,171	<b>24,892</b>	24,738
Depreciation	<b>12,586</b>	10,119	<b>12,809</b>	10,293
Decrease in properties for sale	<b>570</b>	-	<b>128</b>	-
Decrease / (increase) in debtors	<b>3,377</b>	(2,344)	<b>3,298</b>	(2,588)
Decrease in investments	<b>8,109</b>	-	<b>8,121</b>	-
Increase in creditors	<b>6,169</b>	10,248	<b>5,411</b>	11,917
Adjustment for pension funding	<b>347</b>	(911)	<b>456</b>	(1,007)
<b>Net cash inflow from operating activities</b>	<b>53,693</b>	39,283	<b>55,115</b>	43,353

## 23. Reconciliation of Movement in Net Debt

	At 1 April 2010 £'000	Cash Flow £'000	Other non-cash changes £'000	At 31 March 2011 £'000
<b>PEABODY</b>				
Cash held on deposit	8,248	(8,248)	-	-
Cash at bank and in hand	19,254	(13,326)	-	<b>5,928</b>
	27,502	(21,574)	-	<b>5,928</b>
Debt due after one year	(370,935)	(103,938)	(162)	<b>(475,035)</b>
Debtor due after more than one year	28,438	-	-	<b>28,438</b>
	(314,995)	(125,512)	(162)	<b>(440,669)</b>

	At 1 April 2010 £'000	Cash Flow £'000	Other non-cash changes £'000	At 31 March 2011 £'000
<b>GROUP</b>				
Cash held on deposit	19,254	(19,254)	-	-
Cash at bank and in hand	25,571	(4,436)	-	<b>21,135</b>
	44,825	(23,690)	-	<b>21,135</b>
Debt due after one year	(370,581)	(168,563)	(178)	<b>(539,322)</b>
	(325,756)	(192,253)	(178)	<b>(518,187)</b>

# Notes to the Accounts

Year ended 31 March 2011

## 24. Legislative Provisions, Taxation, Subsidiary Undertakings and Joint Ventures

Peabody is a registered charity formed under an Act of Parliament, and a registered provider registered with the Tenant Services Authority (TSA).

Peabody has the following wholly owned subsidiaries, all of which are incorporated in Great Britain and have been included in the Group results (with the exception of Peabody Pension Trust Limited, which has been excluded on the grounds of materiality):

- CBHA (a charitable company, limited by guarantee and a registered social landlord)
- Peabody Enterprises Limited
- Peabody Capital PLC
- Peabody Land Limited
- Ladbroke Developments Limited
- Blue Hut Developments Limited
- Peabody Pension Trust Limited

Peabody Land Limited, Peabody Enterprises Limited, Ladbroke Developments Limited and Blue Hut Developments Limited are trading subsidiaries involved in the development and sale of land and private residential property.

Peabody Capital PLC raises finance for the use of Peabody Trust and its subsidiaries.

## 25. Transactions with Related Parties

At 31 March 2011 there were two members of the Board or other Committees who had tenancy agreements with Peabody. There were seven residents involved with the Governance of CBHA at 31 March 2011. The tenancy agreements have been granted on the same terms as for all other residents, and the housing management procedures, including those relating to management of arrears have been applied consistently to these residents.

## 26. Sale of Fixed Assets

During the year Peabody sold 20 properties (excluding first and subsequent tranches of shared ownership properties) generating gross proceeds of £4,678,000.

During the year the Group sold 22 properties (excluding first and subsequent tranches of shared ownership properties) generating gross proceeds of £5,056,000.

# Notes to the Accounts

Year ended 31 March 2011

## 27. Capital Commitments

	2011 £'000	Peabody 2010 £'000	2011 £'000	Group 2010 £'000
Capital expenditure contracted for but not provided for within the financial statements	5,246	22,315	7,156	28,774
Commitment to purchase further properties from The Crown Estate	8,806	-	8,806	-

All of this anticipated expenditure is covered by Social Housing Grant, reserves and private finance.

## 28. Contingent Liabilities

There are no known material contingent liabilities as at 31 March 2011 (2010: £Nil).



## Translation service

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Peabody is constituted under the Peabody Donation Fund Act 1948, as amended by The Charities (The Peabody Donation Fund) Order 1997.

Registered Charity No 206061  
Housing Corporation No L0014