BERNICIA

Annual Report and Financial Statements

2013/14

Board

Chairman .... Ian Armstrong MBE

Vice Chairman .... Ian Darling

Other Members .... Barry Butterworth
Ken Cochrane
David Futers
Frank Foster
Helen O'Neil
Clare-Jane Nichol
Tom Stevenson

Executive Group

Chief Executive & Company Secretary .... Bill Heads

Deputy Chief Executive & Executive Director, Operations .... John Johnston

Executive Director, Resources .... Mike Smith

Auditors

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Registered Office & Head Office

Bernicia, Oakwood Way, Ashwood Business Park, Ashington, Northumberland, NE63 0XF

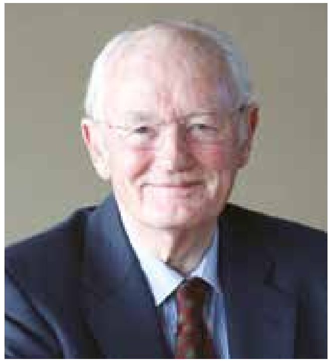
Registered Society, registered under the Co-operative and Community Benefit Societies Act 2014

Registered Number 30268R

Registered with the Homes and Communities Agency – Registration number L4512

Foreword from the Chairman and Chief Executive

What a difference a year can make. We started the year implementing plans to mitigate the risks and likely impact of shrinking public funding and Welfare Reform. We end the year, with the theme of our tenants' annual review, celebrating our homes, services and people, confident our tenants have benefitted from the customer focussed services we deliver.



Ian Armstrong MBE
Chairman

Bill Heads
Group Chief Executive

Over the year operational performance was sustained at a good level and particular mention needs to be made of our staff. Our response to Welfare Reform implementing plans to mitigate the impact on our tenants and business was effective because our staff responded magnificently to instil a culture where it's everyone's job to help prevent tenancy failure, supported by an intensive housing management service.

They managed an unprecedented increase in property vacancies in the year 1,168 compared to 805 in 2012/13, by improving re-letting and vacant property processes, resulting in a shift towards improved performance. This has largely been achieved through the changes in culture and behaviours exhibited by the teams and individuals involved in the re-letting and void process.

To some degree the year seems to have been dominated by our regulator's disappointment in how we and many of our peers did not fully meet their expectations of the Value for Money regulatory standard. We have addressed the issues raised and consider that our self-assessment for 2013/14 with the Value for Money standard demonstrates our full compliance.

Since establishing Bernicia in 2008 we have made considerable efficiencies in our operations, which have been re-invested into improving existing stock, building new homes and enhancing services, achieving a lot more than we originally thought possible. During 2013/14 our Social Housing Board defined the added value priorities on which we would focus. These include financial and social well-being and the Building Brighter Futures initiative designed to optimise training and employment opportunities.

All our members, tenants and staff are delighted to work in support of the various initiatives being developed and implemented.

Through our award winning 'Learning Hive' we are contributing to the Government's agenda of helping people into work and getting ready for work. In the year, 165 people used the 'Hive' with 12 learners progressing into employment. For our older residents we continue to support independence, whilst tackling such issues as loneliness and isolation, through a wide spectrum of accommodation and services, which are available to residents of any tenure, not just Bernicia tenants. We are now within 12 months of a general election which could result in a new Government with potential changes for our sector. These could include changes in rent policy, reductions in public funding, and the impact on local authority expenditure leading to cuts to local support services, increasing demand and expectations for our homes and services; increasing pressure on our resources.

We will be doing what we can to help and will continue to commit resources to support those added value initiatives which our members, tenants, staff and stakeholders identify as priorities.

Our continued focus remains providing Value for Money services, investment in existing stock and building new homes.

In the year to 31 March 2014 we provided 127 new homes, which is more than 50% of our planned 3 year target.

We want to build more homes and the Board have completed a review of the Group's financial capacity and agreed to provide an additional 494 homes, 370 more than originally planned, by 2017/18. Our plans have been supported by the HCA who are providing assistance to fund 209 of the homes. However our future business plans assume no grant, therefore we are providing 285 homes, including a number for alternative tenures, funded entirely from the Group's resources.

Having been appointed to the key developers framework of both Newcastle and North Tyneside councils we are delighted that a minimum of 57 of our new homes will be provided in those local authority areas.

Plans to increase the number of new homes does not hinder the Group from investing in existing stock. This year we commenced a new 5 year stock investment programme, spending £13.4 million improving 1,700 homes. We plan to invest an additional £50 million over the next 4 years.

We have developed new approaches to how we assess our properties for investment or where necessary dis-investment. A significant new development for Bernicia will be the provision of 104 homes on the old hospital site in Ashington. Our plans for this site are a good example of how we link our own asset management plans and new build programmes with those of our partners, in this case Northumberland County Council.

We are building a new sheltered accommodation scheme on the site and we will be re-housing tenants from our existing AJ Cook Court and Northumberland Close schemes, which will then be demolished. The completed scheme will also be an integral part of the County Council's plans to regenerate Ashington Town Centre with investment in new sports and leisure facilities, retail, commercial premises and infrastructure improvements. Our development will bring residents back into the centre of the town. We expect to take possession of the first properties in the early part of 2016.

The Group is able to meet, and often exceed, our plans and expectations as a result of the careful stewardship of our finances and effective use of those resources. We believe ourselves to be an efficient well run organisation. The financial review, within the Operating and Financial Review, tells us that Bernicia has delivered a solid financial performance, generating a surplus of £9 million, compared to £3.7 million in 2012/13. A strong financial performance helps us generate the additional funds we require to meet our key objectives and aims.

Our trading subsidiaries, Kingston Property Services Limited and Livingspaces UK Limited, have donated over £500,000 from the 2013/14 profits in support of the Group's social objectives. These companies provide property management and estate services to the private residential market. They have an excellent reputation and the Board believes they are well positioned to grow both by expanding their client base and services they provide to a more diverse market. In turn they will increase profits to donate to the Group to support social objectives.

Overall we can be pleased with what we have achieved in 2013/14, not only in meeting our aims and targets but also putting in place measures which will enable us to build more homes, continue to invest in our existing homes, enhance services and support our added value initiatives.

Returning to the theme of the tenants' annual review, it tells us that our people are our greatest asset and both our Board and executive team colleagues whole-heartedly agree. Bernicia employs just over 370 people and we are committed to helping staff to develop the knowledge and skills they need to do their jobs well.

It is important that we meet the responsibilities of being a good employer and provide the environment and opportunity for our staff to develop. We make significant investment in training, promote health and well-being initiatives, are committed to developing and maintaining appropriate reward and recognition packages and create a brilliant place to work.

All our achievements in the year reflect the skills and dedication of our staff, who together with our members and tenants will help continue to build Bernicia into a highly effective, efficient and growing business.

About us

The Bernicia Group (the Group) is one of the largest property management and development organisations in the North East of England. We work across seven local authorities providing a wide range of facilities and services to our customers and communities.

At the year-end we had a portfolio of 9640 properties owned and/or managed.

We build, rent, sell and manage homes, provide estate and facilities management and specialist care and support services to over 50,000 customers. Within our communities we devise plans to develop community assets, provide employment and training support and a range of products and services to support financial inclusion and services and activities to promote health and wellbeing, tackling isolation and loneliness and supporting independence.

Bernicia operates three core business streams:

- Neighbourhood Services (our General Needs Housing)
- Care and Support
- Commercial Operations

They draw on a range of supporting Corporate Services covering:

- Property Investment
- Asset Management and Development
- Finance
- Information Technology
- Organisational Development
- Procurement and Legal Services

But what brings the (Bernicia) business together is a passion and commitment to “making a difference” in the places where we work.

Bernicia Group Limited is a registered provider of social housing and is the non-asset owning parent of the Bernicia Group.

Group Structure

The Group's social housing assets are owned by Wansbeck Homes and Cheviot Homes, both registered providers of social housing.

There are also two trading subsidiaries in the Group:

Kingston Property Services which provides property and block management, estate services and facilities management to the private residential and commercial sectors.

Livingspaces UK Limited which provides services and advice relating to property development, sales and the residential private rented sector.

Governance Structure

From January 2014 the Group consolidated the Boards of Wansbeck and Cheviot Homes into a Common Bernicia Social Housing Board and the operation of the Group's trading subsidiaries into a distinct separate Board, Bernicia Commercial.

Each company continues to exist as a separate legal entity, now the change replicates the Group's operational structure and has enabled us to streamline governance arrangements and improve decision making.

At a Glance

Bernicia is a leading provider of housing, care and support and property related services in the North East of England.

Our work involves:

- Providing and maintaining homes
- Assisting in the regeneration of communities
- Supporting those who need help to live independently

We are building Bernicia to be:

- recognised and respected as a superb organisation valued by our customers, colleagues, business partners and in communities where we work. Our vision provides our business objectives which we will strive to accomplish to build a highly effective, efficient and growing business.

Our mission is to help make the difference to our customers and communities.

Our approach is built around five core values in all we do:

- Customer Service
- Teamwork
- Integrity
- Quality
- Leadership

These form the **foundations for the business** on which we look to build based on two key corporate objectives:

- providing quality homes and services
- developing our business strength

Income and Expenditure Account	2013/14 £m	2012/13 £m	2011/12 £m	2010/11 (restated) £m	2009/10 £m
Turnover	39.7	37.6	34.7	32.5	30.9
Income from Lettings	35.7	34.0	31.9	29.68	28.37
Operating Surplus	8.8	5.6	7.1	8.4	3.7
Surplus for the year	9.0	3.7	6.6	10.3	1.9

Group Balance Sheet	2014 £000's	2013 £000's	2012 £000's	2011 (restated) £000's	2010 £000's
Gross Cost of Housing Properties, Net of Depreciation	211,565	198,654	185,920	172,633	152,201
Capital Grant	(109,392)	(105,521)	(102,708)	(96,828)	(92,669)
Net Current Assets	50,473	58,461	64,781	78,652	97,207
Indebtedness	65,829	66,421	48,038	43,636	42,217
Reserves	53,881	42,538	38,898	34,332	18,617

Property Numbers at year end	Number	Number	Number	Number	Number
Owned and Managed - Social Housing	8,327	8,316	8,261	8,272	8,246
Owned and Managed - Other Units	1,313	1,314	1,314	1,312	1,312
Total Owned and Managed	9,640	9,630	9,575	9,584	9,558
Managed - Leasehold	11,653	11,395	19,825	9,523	8,947
Managed - Other Units	280	280	280	280	283
Total	**21,573**	**21,305**	**20,105**	**19,387**	**18,788**

Financial Ratios	2013/14	2012/13	2011/12	2010/2011 (restated)	2009/10
Operating Margin	22.2%	14.9%	20.5%	25.8%	12.0%
Net Surplus for the year as a % of turnover	22.8%	9.8%	19.0%	31.6%	6.2%
Net Surplus for year as % of income from lettings	25.2%	10.9%	20.7%	34.7%	6.7%
Interest cover	2.33	1.29	1.78	2.85	1.21
Liquidity	1.47	1.65	0.87	0.91	1.33
Gearing	36.3%	40.6%	34.2%	33.3%	38.0%

Operational Performance Indicators	2013/14	2012/13	2011/12	2010/2011 (restated)	2009/10
Current Rent Arrears	3.04%	3.10%	3.38%	3.59%	3.71%
Rent Collected	99.33%	99.57%	99.29%	99.1%	99.4%
Rent loss though void properties	1.78%	1.81%	2.30%	2.70%	3.40%
Customer Satisfaction	92%	92%	92%	86%	86%
Decent Homes Failure	0%	0%	4.97%	14.53%	36.6%
Average Re-Let Times (days)	25.15	35.16	45.94	40.20	36.50
Properties with valid CP12	100%	100%	100%	98.21%	99.95%
Tenancy turnover	14.49%	10.70%	10.52%	11.61%	12.88%

IMPROVED
ENERGY EFFICIENCY FOR
688 HOMES

127
NEW HOMES BUILT

COMMERCIAL ACTIVITY
£0.544m
GIFT AID CONTRIBUTION
TO SOCIAL OBJECTIVES

133
HOUSEHOLDS
SUPPORTED TO SECURE
discretionary housing benefit payments

2.0m
INVESTMENT
in our market rent portfolio

90.36%
Number of repairs completed first time

92%
OVERALL CUSTOMER
SATISFACTION

PLACING US AS A TOP PERFORMING LANDLORD

£13.4m
INVESTED
IN EXISTING HOMES AND NEIGHBOURHOODS

We implemented changes to our governance structure, consolidating the boards of Wansbeck and Cheviot Homes into the Bernicia Social Housing Board and our commercial activities into a distinct separate Board, Bernicia Commercial.

The change replicates the Group's operational structure and our focus remains the provision of quality homes and services.

Our focus on providing quality homes and services continues to be challenging. We have a number of pressures including the shrinking of public funding and changes to welfare reform impacting on our revenues. We are acutely aware that our customer base and the communities in which we operate will be particularly affected and we want to do what we can to help.

Our Homes

Providing New Homes

Our ability to deliver efficiencies together with grant funding from the Homes and Communities Agency enabled the Board to agree a revised development programme to provide 621 homes by 2018, an increase of 371 on those originally planned. We were delighted that some of our homes will be in North Tyneside and Newcastle, having been appointed to the Local Authorities' key developer's framework during the year.

Work was completed on 127 new homes during the year, including the scheme at Willow Vale, Bedlington, designed specifically for the elderly into which we were able to re-settle 39 existing residents.

Investing in Existing Homes

April 2013 was the starting point for our 5 year stock investment plan, where we aim to invest some £64 million. The year 1 programme was successfully completed within timescale, budget and a 94% satisfaction rating from our tenants.

The Board also agreed proposals to provide 104 new homes at the former hospital site, Ashington. This demonstrates how we link decisions on investment in existing homes with plans to provide new homes, all in support of Local Authority led regeneration initiatives for Ashington Town Centre.

The £10m investment in new homes, including 97 homes specifically for the elderly, links to the Group's decision to disinvest in 2 existing sheltered housing schemes at AJ Cook Court and Northumberland Close . Residents will be re-housed in the new accommodation once completed in Spring 2016.

Performance and Customer Satisfaction

Meeting our performance targets has been challenging in the light of the impact of Welfare Reform. Our tenancy turnover increased from 10.7% to 14.49% however we were able to improve on the time taken to re-let properties and maintain rent loss from voids at the same levels as 2012/13.

This, together with continued good performance with regard to current rent arrears and increasing levels of customer satisfaction with services stands testament to the hard work and commitment of our staff.

We introduced a new service standard for repairs and maintenance. Performance and customer satisfaction has dipped slightly but it has taken time to bed in changes. Indications are that both are now improving and we believe the changes will benefit the tenants with an improved service, and the business with improved performance and effective use of resources.

Financial

The Group delivered another year of solid financial performance generating a surplus of £9million (£3.7 million 2012/13).

Maintaining a strong financial position is key to the Group being able to deliver quality homes and services and meet broader objectives. Further information relating to the Financial Review is included on pages 18-22.

The Group's strong financial position provides the opportunity to maximise financial capacity and access additional capital finance. In the year we commenced work on a project to assess the Group's capacity and identify potential funders. We plan to raise an additional £30million funding, to support investment in new homes during 2014/15.

Social Added Value

During 2013/14 our Social Housing Board assisted by our tenants, settled on the Group's added social value initiatives:

Financial Wellbeing – helping our tenants to deal with changes in welfare benefits, providing debt and money advice and implementing initiatives to tackle fuel poverty

Social Wellbeing – supporting elderly and vulnerable tenants to stay longer in their homes by providing and arranging care and support services, helping maintain independence, offering aids and adaptations and community alarm services and undertaking initiatives to prevent isolation and loneliness.

Building Brighter Futures – contributing to the health and wellbeing of communities and supporting job opportunities through the provision of apprenticeships, training and work experience.

We have made a good start, obtaining discretionary housing payments for 133 tenants in financial difficulties, completing work to 688 homes to improve energy efficiency, introducing a wide variety of activities to tackle loneliness and prevent isolation and employing 13 apprentices directly and 27 indirectly, through our initiatives and procurement strategies.

Strategy

Bernicia's priority is the provision of quality homes and outstanding services. We want to develop and maintain homes that people enjoy living in and help create communities which are safe, secure and vibrant. This commitment can only be met if the Group is a strong business that is efficient and provides value for money for our customers.

Our Corporate Strategy focusses on two objectives:

Quality Homes and Outstanding Services

Our guiding social objective with the aim of:

- Providing quality homes and outstanding services, including care and support that meet peoples' needs and expectations
- Improving the physical and social sustainability of estates and communities

Developing Business Strength

This business objective supports our social objective where we aim to maximise the Group's financial capacity by:

- Improving value for money and efficiency, generating savings for re-investment in our social objective
- Continuing to develop our trading subsidiaries generating profit and providing additional income to support our social objective
- Forming partnerships which may improve our capacity to deliver additional homes or better services that otherwise would not be possible

Our corporate objectives drive our priorities, annual targets and plans which are changed to respond to challenges we face and identify better ways of doing things.

The objectives are delivered through a number of linked business strategies, which include People, I.C.T. (Information Communication Technology), Development and Finance.

We also produce annual operational plans which set out priorities, budgets, targets and ambitions in support of the objectives, balanced to meet the risks and challenges faced by the organisation.

The boards in the Group consider a wide range of financial and operational measures to assess whether objectives are achieved.

The Group has in place a risk management strategy which provides a guide for Board members and managers on the Group's approach to risk management. A Group Risk Map is also maintained. The definition of risk for this purpose is an event that could prevent the successful achievement of the Group's objectives.

The main risks and challenges faced by the Group are considered annually by the Board as part of the annual planning process and then monitored quarterly.

Risks are recorded in a risk register which also records key controls to manage risk, who is responsible for the control, and how the control effectiveness is monitored. Risks are analysed according to their impact and probability (i.e. high medium and low) given the current environment within which the Group operates.

Risk management supports the achievement of our Corporate Strategy and business objectives by:

- Enhancing the quality of decision making, planning and prioritisation
- Contributing to effective allocation of resources
- Protecting and enhancing the Group's assets and image

Our plans for the future could be affected by the current external environment of government policy, changes in regulation and political uncertainty and these need to be factored into our forward planning along with risks which we have identified over the past four years and still remain.

The Board has identified a number of key risks which are most likely to influence plans and performance as shown in the attached table.

Risk	Comment	Risk Mitigation Action
Government Policy and Economic Climate	Changes in government policy including reduction in capital grants, welfare reform and the wider economic climate could impact the Group's ability to deliver new homes and services and affect core activities, for example increasing arrears and voids through a downturn in demand. In addition, changes to rent policy, cuts in general public expenditure leading to cuts in local support services place further demands on the Group's resources.	We conduct regular reviews of our financial and contingency planning whilst developing well-resourced annual plans specifying performance targets and reporting schedules. We have developed our operational structures and practices to support income optimisation, whilst our medium-long term financial plans reflect increased bad debt provision. Our partnership working delivers enhanced services, which supported by our active networking with investors, local authorities and politicians informs our decision making and planning capabilities.
Political Uncertainty	Within twelve months of a general election potentially resulting in changed Government bringing potential changes in Right to Buy, rent reform, reductions in public expenditure, and an increased demand to 'sweat' assets.	Review existing operational and financial plans and increase our sensitivity analysis and option appraisals relating to new investment and service provision.
Failure to Manage Resources and Costs within Financial Plans and Breaching Loan Covenants	To protect the financial viability of the Group we seek to manage our resources within the constraints of existing loan covenants, particularly those of our LSVT subsidiary, Wansbeck Homes. The introduction of FRS 102 could bring increased volatility to potential surpluses with a potential impact on covenants.	Our annual budgets and plans supported by regular budget performance monitoring and appropriate action as required ensure loan covenants are not breached. Modelling of significant changes in key economic factors is undertaken with appropriate measures to mitigate impact identified and acted upon. As a matter of course, our financial plans and assumptions are validated by external consultants.

Risk	Comment	Risk Mitigation Action
Pensions	143 of the Group's existing staff are members of the now closed LGPS, administered through Northumberland County Council. Remaining staff may join pensions schemes through SHPS. 68 staff are members of the closed SHPS final salary scheme. As pension cost provisions increase the Group continually reviews the financial impact on the Group's projections. The Group is concerned, particularly with reference to the LGPS, we have no influence on decisions relating to future funding requirements, and the subsequent impact on medium and long term financial plans.	The final salary defined benefit scheme is now closed to new entrants and Punter Southall have been appointed to advise on Group pension schemes, financing and future liabilities. All pension scenario's likely to affect the Group are factored into financial plans.
Regulation	Recent events have placed regulation of the sector under the spotlight. The disappointing response to the Value for Money Standard together with issues surrounding the protection of social assets and financial planning has, and will continue, leading to a revised approach and changing regulatory framework.	We undertake regular self-assessments against the Regulatory Framework, and have qualified staff in post to oversee governance, assurance and compliance. We have appropriate plans and controls in place to safeguard our assets and manage our finances. Our Board is well aware of and trained on the Regulatory, Statutory and Legal requirements of them and the organisation.
Long Term Finance	The Group is planning to maximise financial capacity and access additional capital finance. Being unable to raise the finance required could impact on future investment plans.	Our existing finance facilities cover the next 12 months, and external consultants have supported us to develop and agree the funding plan. Our discussions continue with potential funders, and our investment plans will only be formulated once funding is secured.

The Bernicia Group has delivered another year of solid financial performance. Despite the continuing challenging economic conditions, the Group generated a surplus of £9 million (2012/2013: £3.7 million) on a turnover of £39.6 million (2012/2013 £37.6 million).

Maintaining a strong financial position is a core objective of the Group, because without it we would not be able to achieve our broader aims.

The surplus generated by the Group is utilised to limit the levels of debt we need to fund capital investment, which during 2013/14 included £5.94 million on a continuing programme of planned repairs and improvements of existing stock and £10.39 million on the provision of new homes.

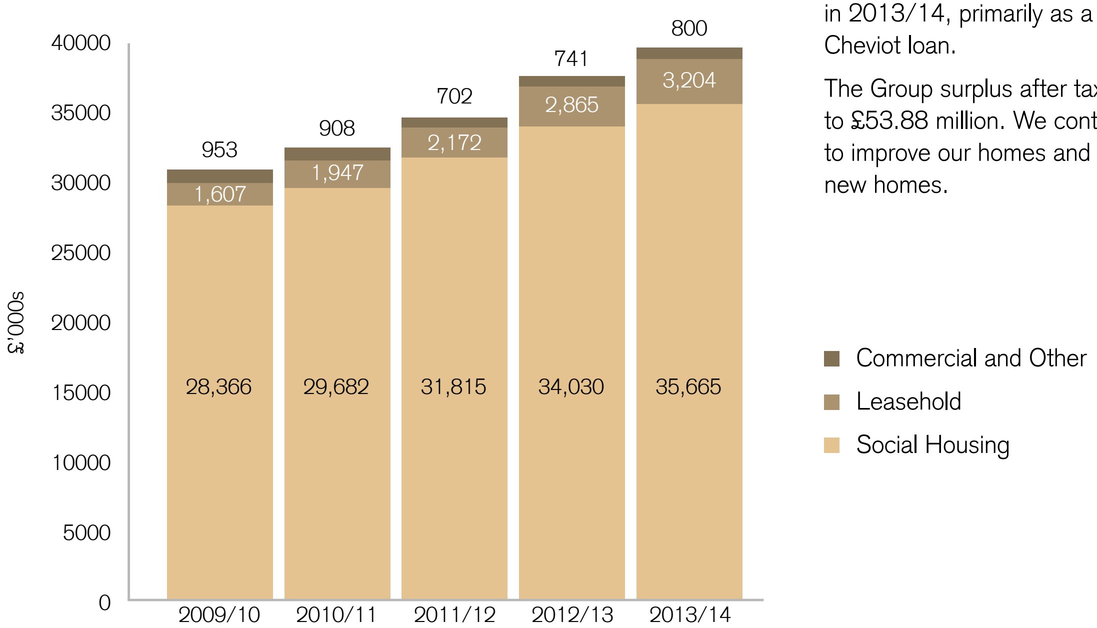
Income and Expenditure Account

The following table provides a summary of the Group's results for the last five years.

Income and Expenditure Account	2013/14 £m	2012/13 £m	2011/12 £m	2010/11 (restated) £m	2009/10 £m
Turnover	39.6	37.6	34.7	32.5	30.9
Operating Expenses	**(30.8)**	**(32.0)**	**(27.6)**	**(24.1)**	**(27.2)**
Operating Surplus	8.8	5.6	7.1	8.4	3.7
Surplus on the disposal of assets	**0.4**	**0.4**	**0.4**	**0.7**	**0.5**
Interest (net borrowing costs)	**(3.9)**	**(4.6)**	**(4.3)**	**(4.0)**	**(3.5)**
Other finance income	**3.7**	**2.3**	**3.4**	**5.2**	**1.2**
Surplus for the year	9.0	3.7	6.6	10.3	1.9

An increase in turnover of £2.0 million from £37.6 million to £39.6 million continues the trend from earlier years, as illustrated in the table below. The increase in 2013/14 reflects increased rental income primarily as a result of Retail Price Index linked increases, but also a number of new schemes contributing income during the year, which included the Group's new sheltered housing scheme at Willow Vale, Bedlington and additional properties provided for individuals with learning disabilities in partnership with Northumberland, Tyne and Wear NHS Foundation. Turnover in the Group's commercial activities, KPS and Livingspaces, increased by £0.34 million.

Turnover by Category



Operating costs of £30.8 million show a reduction of £1.21million compared to 2012/13. This is largely due to a reduction in expenditure on property improvements, £2.78 million, in line with the Group's Improvement Programme and Asset Management Strategy. The changes to welfare benefits led to the increased expenditure of £0.766 million on routine maintenance, resulting from an increase in property turnover and an increase of £0.416 million in bad debts. Other cost increases were in line with budget expectations, reflecting inflationary pressures.

Other income in the year of £3.824 million (2012/13 £2.4 million), includes the release of funds from the gap funding received by Wansbeck Homes (£2.654 million) and VAT (£0.700 million) recovered through the VAT shelter.

The Group make no allowance for disposal of housing assets in the long term financial plans. The Group does dispose of housing accommodation under Right to Buy legislation and Shared Ownership sales. The surplus from disposals in 2013/14 is £0.351 million (£0.345 million in 2012/13). Interest paid on loans reduced by £0.643 million from £4.627 million in 2012/13 to £3.984 million in 2013/14, primarily as a result of the re-financing of an old Cheviot loan.

The Group surplus after tax of £9.025 million increases reserves to £53.88 million. We continue to re-invest this in our business to improve our homes and services as well as delivering more new homes.

During the year £10.39 million was invested in the provision of new homes and £5.94 million on improving existing stock.

Fixed assets net of depreciation and grants grew by £9 million to £102 million reflecting increased investment in the year. The gross historical cost of housing properties increased by £15.1 million and includes; new development expenditure of £9 million, £5.8 million of major improvement works and property purchases of £1 million. No additional debt was drawn in the period with reserves increasing to £53.9 million from £42.5 million.

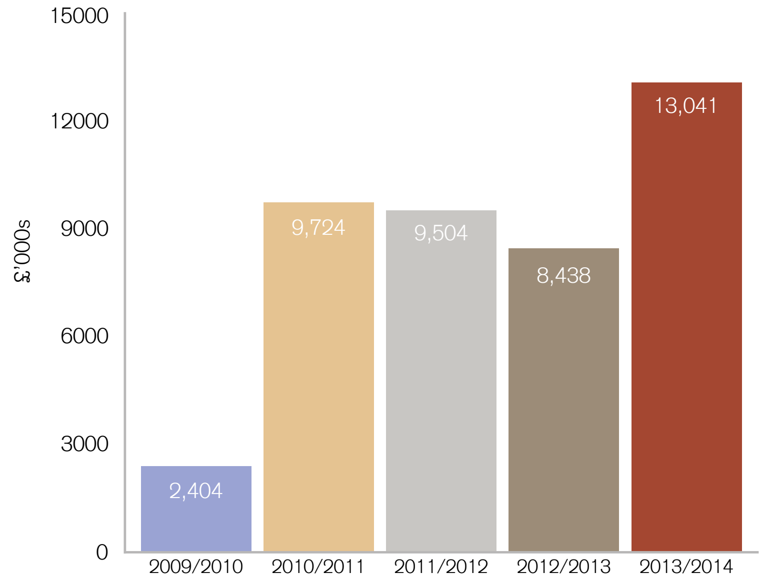
Group Balance Sheet

Balance Sheet	2013/14 £000's	2012/13 £000's	2011/12 £000's	2010/11 (restated) £000's	2009/10 £000's
Housing properties, net of depreciation	211,565	198,654	185,920	172,633	152,201
SHG & other capital Grants	(109,392)	(105,521)	(102,708)	(96,828)	(92,669)
Housing properties net of depreciation and grants	102,173	93,133	83,212	75,805	59,532
Other fixed assets	9,470	9,520	6,606	3,078	3,591
Intangible fixed assets	1,136	1,199	-	-	-
Long term investment	713	733	703	711	624
Fixed assets net of depreciation and grants	113,492	104,585	90,521	79,633	63,747
Other assets less current liabilities	50,473	58,461	64,781	78,652	97,207
Total assets less current liabilities	**163,965**	**163,046**	**155,302**	**158,285**	**160,954**
Loans and creditors due more than one year	65,829	66,476	48,107	43,660	42,342
Other long term liabilities	44,255	54,032	68,297	80,293	99,995
Capital and reserves	53,881	42,538	38,898	34,332	18,617
	163,965	**163,046**	**155,302**	**158,285**	**160,954**

Cash Flow Statement and Liquidity

Cash inflows and outflows for the year under review are set out in the cash flow statement. Net cash inflows from operating activities are from the management of housing stock. Returns on investment and servicing of finance are due to interest income and interest charges. The net cash outflow from capital expenditure is the spend on properties new and existing that has been capitalised less grant less sale proceeds plus spend on other fixed assets.

Bernicia has consistently maintained a strong liquidity profile, with £13 million generated from operating activities (£8.4 million 2012/13) an increase of £4.6 million in the period, with cash at bank and at hand increasing by £1.3 million to £13 million at the year-end. The Group's five-year cash generated from operating activities is illustrated in the chart below, demonstrating a strongly improving profile:



This is an important measure since it provides an indication of the Group's ability to fund its operations without the need to draw additional debt finance. Positive cash generation provides vital support for the development of new homes and the improvement of existing stock, whilst maintaining debt levels at a lower level than they might otherwise be.

As at 31 March 2014, Bernicia maintained £31.8 million of committed undrawn facilities available for immediate drawing and together with the £13 million of cash at bank and in hand, represents total available liquidity of £44.8 million. In line with the Group's prudent policies on liquidity management, these resources are more than sufficient to meet all of the Group's contractual development and stock improvement commitments in the coming years.

Bernicia is financed by a combination of retained reserves which are not distributable, long and medium term loans, together with Dowry Grant and Social Housing Grant awarded by the Homes and Communities Agency to support its stock improvement and development activities.

Treasury management is a Group function carried out by the centralised Finance team, with the primary responsibility to maintain an efficient capital structure and manage liquidity, interest and other risks.

The Group Board has adopted a Group Treasury Management Policy and compliance is monitored through regular reporting of treasury activities to the Finance Committee.

Debt outstanding at the year-end reduced to £66.4 million with £65.9 million due after more than one year, as shown in **note 18**, no additional borrowing was taken during the year. Bernicia's funding requirements are met by raising funds in the most favourable markets, principally from banks, at both fixed and floating rates of interest. At the financial year end the group had 57% of its loans at fixed rates of interest for more than one year.

Loans repayable as at 31 March 2014.

	2013/14 £000	2012/13 £000
Within 1 year	590	532
Between one and two years	655	590
Between two and five years	7,042	10,934
After five years	58,132	54,897
	66,419	**66,953**

The maturity profile of Group debt is managed to reflect the long term nature of the Group's assets and to reduce financing risk by proofing the repayment dates of loan principal.

The Group is currently undertaking a comprehensive review of future funding options so that it is in a position to maximise the return on its assets and to demonstrate effective Group financing, within a strategy which ensures the continued financial viability of all Group members.

Loan Covenant Compliance

Financial covenant compliance is managed centrally by the Finance team and reported regularly to the Board. Interest cover, gearing ratios, cash flow to interest cover and asset cover, based upon social housing asset values, are the main financial tests required by lenders. There were no breaches in the year and a full covenant compliance report is maintained as part of management reporting procedures.

Operational Performance

Operational performance is monitored through a number of key performance indicators (KPI's) covering both customer satisfaction levels and Group operational efficiencies. The following table shows some of our key measures of operational performance.

Key Performance Indicators	2013/14 Actual	2013/14 Target	2012/13 Actual
Repairs and Gas Servicing			
Emergency repairs (of all emergency repairs notified in the year, the number completed within 2 hours as a % of all emergency repairs completed in the period)	99.7%	99.5%	100%
Routine repairs completed (at first visit)	90.36%	85%	87.94%
Average number of days taken to complete a repair	9.36	8	7.32
Customers "very satisfied" or "satisfied" with repairs	90%	90%	92.92%
Gas servicing (% of properties with a current LGSC)	100%	100%	100%
Properties meeting Decent Homes Standard	100%	100%	100%
Arrears			
Current tenant arrears	3.04%	3.35%	3.10%
Voids			
Operational void loss	1.78%	2.6%	1.81%
Average number of days to re-let	25.15	35	35.16
Total voids (available to let)	0.85%	1.35%	1.22%
Rents			
Rent collected (rent received as a % of rent charged to date)	99.33%	99.09%	99.57%
Overall customer satisfaction with services	92%	N/A	92%
New Homes			
Homes completed in year	127	N/A	54
Staff			
Absence (% of absenteeism)	2.50	9.5	2.45

Repairs and Gas Servicing

A new service standard for repairs was introduced with effect from April 2013, with routine repairs now being carried out at the first available appointment agreed with the tenant.

Performance targets were set to recognise a new service and allow for ‘bedding in’. However targets were met and most notably customer satisfaction with the service remained high.

All properties owned by the Group’s registered providers were compliant with the Decent Homes Standard at the year end.

Arrears, Voids and Rents

We anticipate the economic conditions and the transformation to welfare benefit will present challenges for the Group relating to the letting of our properties and collecting rents. Operational changes have been made creating dedicated teams, and introducing new approaches to letting properties. Targets for 2013/14 were agreed above 2012/13 actual levels to allow for the changes.

Arrears
This measures the amount of rent owed by current tenants compared to the annual rent charged. Performance not only bettered targets but improved on 2012/13 performance.

Voids
An increase in property turnover due to tenants seeking smaller accommodation suggested the targets would be difficult. However operational changes have led to all three targets; i.e. rent lost due to void period, average days to re-let property and the total void properties being exceeded. A huge compliment to the commitment of our staff.

Rents
The Group collected 99.33% of rent against a target of 99.09%.

Resident Satisfaction

We have put tenants at the heart of service delivery, creating a robust tenant scrutiny structure complemented by a range of tenant involvement activities. This has helped us enhance and improve the services we provide, evidenced by our high levels of satisfaction which place us as a top quartile social landlord.

New Homes

The Group were able to provide an additional 127 new homes during the year, with the on-going Affordable Housing Programme supplemented by some 24 properties procured under s106 Agreements and 5 properties relating to a Private Market Rent initiative.

Staff

The Group’s People Strategy details our commitment to providing a ‘brilliant place to work’.

We have a number of targets with performance relating to staff absence illustrated, which help us assess whether we are achieving the People Strategy objectives.

During the year we were delighted to retain the Investors in People, Gold Award.

We see VfM as a way of getting the most out of our resources to achieve more for our current and future tenants. Our approach is driven by the Board which set the strategic direction and priorities for delivering VfM, which relates to key corporate objectives, developing our business strength to optimise the Group's resources to provide quality homes and services and deliver our added value objectives.

Our full statement on how we deliver Value for Money is available on our website at **www.bernicia.com/Value_for_Money**

Bernicia is an efficient business with a good track record of improving housing stock, building new homes and operating at a financial surplus. To grow successfully, we have recognised the need to invest in our business to continuously improve the services we provide and build more homes.

How We Deliver Value for Money

We want our approach to be self-evident from the way we run our business and are working to integrate VfM into all we do, this includes:

Use of resources

- Includes targets for efficiences and operational improvements in budgets and business plan
- Be efficient in procuring goods and services
- Be receptive to new ways of working

Budget and planning processes

- Involves tenants, members, staff and stakeholders
- Influenced by comparison with past performance
- Identifies priorities and matches resources accordingly
- Targets to generate surplus to re-invest in social objectives

Managing performance

- Targets for performance, cost effectiveness and quality
- Operational and financial review process from tenants to boards
- Comparison with organisations informs decisions on improvements.

Staff

- Staff at all levels involved in VfM across the organisation
- Team and individual plans and targets

Tenant Focus

- Structure to involve tenants and residents in decisions and allocation of resources to meet priorities
- Scrutiny structure provides for resources to meet priorities
- Scrutiny structure provides for regular review of services and operations
- Outcomes influence decisions and potential improvements
- Tenant satisfaction benchmarked for VfM

The overarching VfM strategy is underpinned by a number of linked strategies, focussed on our People, Asset Management, ICT (Information Communications Technology), Development and Finance.

During the year the Group Board, Social Housing Board, tenants and stakeholders receive regular reports on our work and performance. Outcomes from our approach to VfM during 2013/14 include:

VFM Efficiencies

The VfM efficiencies delivered in 2013/14 are summarised below:

Activity	£000
Repairs and Maintenance	4,301
Central Costs	986
External Funding	1,315
Treasury Management	1,172
Commercial Activities	536
Total	**8,310**

Working with our tenants, staff and stakeholders, the Board determined the efficiencies that would and will be used to support our key corporate and social added value priorities. We have used the efficiency savings to “make the difference”, and invested in:

How we used efficiencies to ‘make the difference’	2013/14 Actual £000’s
Stock Investment (Sustainability Projects)	3,032
New Developments	1,000
Social and Added Value	713
Operational Investment	267
Total	**5,012**

The Group priorities continue to be the provision of quality homes and services. During 2013/14 the Board assisted by our tenants decided to invest in social added value initiatives, including Financial Inclusion, Social Wellbeing and Building Brighter Futures.

In addition it was decided the Group would provide 621 new homes up to 2018, an increase of 371 from those originally planned. The additional funds will be obtained by maximising our financial capacity, borrowing an additional £30million secured on our existing housing assets.

The Board considers the borrowing capacity generated from our stock to be a key factor in demonstrating the return on assets, and revenue resources generated from VfM efficiencies. The table below illustrates the shift in funding of our development programme since 2008.

	2008/13	2013/18
Homes	**322**	**621**
% costs met from Grant	47%	13%
% cost funded by Bernicia	53%	87%

During 2013/14 we improved 1700 homes at a cost of £13.4 million. We have plans to invest a further £50 million on improvements over the next 4 years.

Understanding and Investing In our Assets

We have implemented an Asset Management Strategy which helps us to make decisions on future stock investment. This is based on a full financial appraisal of current stock, collectively and individually together with the assessment of other factors such as social and environmental issues of each estate. This enables us to take a view on the future potential of each asset we own.

The Asset Management Strategy is informed by;

Asset Management Matrix

We have developed the matrix to enable the analysis of a range of indicators to assess the future sustainability of our homes, including property condition, demand and socio-economic factors.

From the information we categorise our estates as high, medium high, medium and low risk with the following outcomes:

Risk	Low	Medium	Medium High	High
2012/13	31%	37%	20%	12%
2013/14	59%	25%	13%	3%

Financial Return on Assets

To help us determine a financial return on our assets and inform investment decisions we have implemented a model to assess the net present value (NPV) of each estate and individual property, taking account of income and expenditure.

We have analysed all our properties and the table below illustrates the results to date on a unit and scheme level:

Risk	No of Schemes	% of Schemes	No of Homes	% of Homes
High	8	2.01%	155	1.96%
Medium High	34	8.54%	605	7.62%
Medium	33	8.29%	1,025	12.91%
Low	323	81.16%	6,153	77.51%
Grand Total	**398**	**100%**	**7,938**	**100%**

Only 155 of our properties have negative or marginal net rates of return over the 30 year period.

Investment decisions are based on the category of risk and include physical improvements, management interventions and where applicable, disinvestment. All high risk estates and homes are subject to detailed appraisal.

Strategic

In terms of trying to assess the overall financial return being achieved from our assets we can consider the value for money of resources tied up in our homes and calculate operating surplus % of operating assets, with the following results, compared to the sector:

	2011/12 %	2012/13 %	2013/14 %
Bernicia	3.5	2.5	3.7
Sector	2.6	2.9	n/a

The Board acknowledge that effective asset management with some limited disinvestment in existing properties and investing in new homes would help to improve the return on assets.

Developing our Asset Management Strategy

We plan to integrate the results from the Asset Management Matrix with those of the financial model. This will inform the review and development of our Asset Management Strategy on which decisions for investment, dis-investment and/or dealing with management issues will be based in the 2015/16 and future business planning process.

Comparing our Performance and Cost

We believe that comparing our performance with that of our peers can provide an important benchmark across a range of outputs. It provides key business comparisons, helps us understand areas of strength and weakness and identify areas for improvement. For a number of years we have therefore compared both our financial and operating performance with our peer group. We use Housemark and compare ourselves against the Northern Midland Group, which includes 36 organisations. The following table shows Bernicia's performance for 2013/14 and 2012/13 and provides a comparison with the peer group and, where the information is available, the HCA global accounts for 2012/13.

	Bernicia 2013/14	Peer Group Median 2013/14	Bernicia 2012/13	Peer Group Quartile Comparison 2013/14	Peer Group Quartile Comparison 2013/14	HCA Global accounts 2012/13
Financial VfM Analysis						
Management Cost per home	£344	£560	387	Upper	Upper	£952
Responsive repairs and voids	£798	£792	783	Mid Lower	Mid Lower	£989
Major repairs and cyclical maint.	£1,649	£1,175	£2,832	Lower	Lower	£992
Overheads as % of income	8.51%	13.4%	9.28%	Upper	Upper	n/a
Housing Management VfM analysis						
Current Arrears	3.04%	3.14%	3.1%	Upper	Upper	4.8%
Re-Let Times	25.15 days	28 days	35.16 days	Middle	Lower	n/a
% Rent loss due to voids	1.8%	1.19%	1.8%	Lower	Lower	1.9%
Resident Satisfaction overall	92%	84%	92%	Upper	Upper	n/a
Resident Satisfaction repairs	90%	81%	93%	Upper	Upper	n/a

Comments

We continue to have one of the lowest management costs per home, compared to both peer group and nationally.

Our responsive repairs costs have increased as a result of additional costs incurred on voids resulting from an increased turnover in tenancies. We anticipate future efficiency savings in this service.

Costs of major repairs and cyclical maintenance are continually high compared to both peer group and nationally due to higher expenditure on Wansbeck Homes' properties following stock transfer.

Group overheads are lower and are relatively lean compared to our peer group. Some limited increase is expected with planned investment in communications and finance.

Our arrears performance at 3.04% has improved and remains within middle upper performance of our peer group. We anticipate an increase in arrears as welfare reform takes effect.

Tenancy turnover increased from 10.7% to 14.5% during the year and the performance to let more properties, more quickly, whilst improving on previous years is a result of initiatives instigated within the Group.

Whilst remaining in the lower quartile of our peer group for rent loss from void properties to have maintained performance at previous year's levels is good given the increase in tenancy turnover.

Overall Resident satisfaction is good and places us as a top quartile social landlord, keeping our promise of delivering outstanding customer services.

Satisfaction with repairs is high, although down slightly from last year. We have recently reviewed this service with tenants and introduced changes which we believe will improve quality and cost once embedded.

Future Efficiencies

We expect future efficiencies to be delivered from:

- Stock investment programme efficiencies following procurement exercise and enhanced stock condition information, £2.5 million
- Profits generated from commercial activities, £262,000
- Operational efficiencies from ICT initiatives and continuing staffing cost effectiveness £680,000
- Implementation of Organisational Effectiveness Strategy where we are reviewing what we do and how we do it. Overall we expect to generate more efficiencies and will be identifying targets as part of the 2015/16 budget and planning process.
- We expect to make further efficiencies in our operating costs through being more accessible to our customers by providing enhanced on-line facilities to enable them to access services.

The Group Board has reviewed the key requirements of the HCA standard on Value for Money and is able to confirm that Bernicia complies with the requirement of the standard. A detailed VFM self- assessment together with other supporting information is available from our website: www.bernicia.com/Value_for_Money

Governance

The Group is committed to achieving the highest standards of corporate governance. The term 'corporate governance' generally refers to the supervision of how an organisation is run and how the risks to its business are managed. It embraces compliance with all laws and regulations and a culture of openness and integrity.

Bernicia continues to follow best practice with regard to corporate governance and will, where appropriate, use all reasonable endeavours to comply with the National Housing Federations' Excellence in Governance - Code for Members 2010. The Group Board conducts an annual group-wide self-assessment of compliance with the code, which has shown that the Group is compliant with the code. To complement our review of compliance with the code, on an annual basis we also conduct a review of individual board member effectiveness, by way of an appraisal, and perform an assessment of the collective success of the board as a whole. Both of these annual reviews provide us with an opportunity to identify further opportunities to strengthen and improve the organisation's governance arrangements.

We capture these opportunities within our current governance improvement plan and make arrangements to undertake necessary actions which we believe will consolidate our approach to effective governance. Notable improvements made under our current plan include the ongoing recruitment process of several new members, including to the Audit Committee, agreeing with members a new three-year cyclical appraisal methodology, and maintaining a rolling agenda for the forthcoming year.

Going forward our plans to improve our governance arrangements beyond the requirements of the code will see a streamlined structure, with one common board, providing greater clarity in decision making, and a continued exploration of IT being used to enrich our governance package.

Key aspects of the Group's current governance procedures are detailed below:

Group Board

The Group Board has nine non-executive members, who embrace a broad range of experience in business, finance, the law, property development, risk management and housing services.

The Board meets regularly to set and review the strategic direction, financial and operational performance of the Group. The Board has a framework of delegation to committees whose functions are set out below. It also has a number of matters that are reserved to the Board. Authority for implementing the agreed strategy and general management of the Group is delegated to the Chief Executive and Executive Team.

All Board members are briefed and are aware of their responsibilities. Regular site visits, presentations and meetings with senior management and advisors take place to ensure members are kept informed of the Group's activities, objectives and the environment in which it operates. In addition, the Chief Executive, Executive and senior management team are fully accessible to all Board members.

Board Committees

The Board formally delegates specific responsibilities to the following committees which operate under terms of reference agreed by the Board.

The committee members include non-executive members of the Group Board, Social Housing Board, Commercial Board and 'independent members' who serve only as committee members. The committees are supported by the Executive and senior management teams as appropriate.

Group Audit and Risk Committee

This committee is responsible for overseeing internal audit, external audit, the effectiveness of internal controls, the risk management framework and reviewing the consistency of accountancy policy and integrity of the Group's financial statements. The external and internal auditors attend key meetings and have direct access to the Chair of the committee. The committee keeps the relationship with the auditors under review.

Group Finance Committee

Responsible for detailed financial plans for the Group's operations within the financial objectives set by the Board. Members monitor and review Bernicia's financial performance and oversee control of its assets, approving the financial aspects of detailed development plans, proposed by subsidiaries. The committee also approve the Group's business plans and make policy recommendations to the Board on aspects of financial planning, long term financing and treasury management and monitor the progress of these functions within the Group, with particular attention to the management of financial risk.

Group Appointments and Remuneration Committee

This committee is responsible for the recruitment of board members, the board member appraisal system, advising on general corporate governance issues and the pay and remuneration of the Board and Executive Team.

Group Corporate Development Committee

Responsible for overseeing the provision and development of Group Corporate Services, including organisational development, human resources, communications and information technology.

Subsidiary Company Governance

Each subsidiary company has its own board and reports on its activities to the Group Board and board committees where appropriate.

Tenant Involvement

Tenants are actively encouraged to become involved in decision making by the Group, which promotes mechanisms through which tenants can influence operations. We have board members who are tenants and there are clear reporting arrangements between resident groups, scrutiny panels and the Board. There are also customers on other committees and panels in the Group.

Board Member Payment

Eight of the nine non-executive board members positions are remunerated, one position is unpaid. The payments received by members in the financial year 2013/14 were as follows:

Position	Fee
Group Chairman	£9,000
Group Board Member	£3,600
Supplement for acting as committee chair	£2,000

The Report of the Board

Report and Financial Statements, Year ending 31 March 2014

Report and Financial Statements

For the year ended 31 March 2014

The Board presents its report on the Bernicia Group together with the audited financial statements for the year from 1 April 2013 to 31 March 2014.

Principal Activities

The principal activities of the Group are the provision of social housing, support and care services, as well as the commercial housing market. The Group consists of a parent, the Bernicia Group Limited, a registered provider of social housing (RPSH) and two stock owning registered providers Wansbeck Homes (Wansbeck) which was established to facilitate the transfer of Wansbeck District Council's housing stock and Cheviot Housing Association (Cheviot) an established traditional registered provider, along with two trading subsidiaries. The Group's trading subsidiaries are;

Kingston Property Services Ltd which is a provider of property services and block management to the private residential sector; and

LivingSpaces UK Ltd. A Newcastle based estate agency providing services relating to property sales and the private rented market.

Legal Status

Registered Society, registered under the Co-operative and Community Benefit Societies Act 2014 (No. 30268R) and with the Homes and Communities Agency (No. L45120). It was registered on 26 June 2007.

Business Review

A review of Bernicia's operational and financial performance for the year ended 31 March 2014 can be found in the Operating and Financial Review on pages 6 to 25.

Income and Surplus for the Year

The Group's activities generated turnover for the period of £39.6 million on which a surplus of £9 million was achieved. At 31 March 2014 reserves stood at £53.9 million.

Legal Proceedings

During the course of its activities Bernicia may be involved in legal proceedings incidental to its operations. The outcome of such proceedings, either individually or in aggregate, is not expected to have a material effect upon the results of our operations of financial position.

Equality and Diversity

The Group values diversity and is committed to equality of opportunity in access and delivery of its services. The Group is committed to equal opportunities in employment for job applicants and existing staff and supports the employment of disabled people. It has an Equality and Diversity Strategy, which provides a framework for the Equality and Diversity Policy. Detailed action plans are in place, monitored for delivery and development by an Equality & Diversity Panel comprising board members, tenants and staff.

Staff and board members receive mandatory training on equality and diversity issues. We have committed to the Chartered Institute of Housing Equality & Diversity Charter and this year received the Equality Standard Gold award from Equality North East.

Health and Safety

The Board of Bernicia recognises and accepts its legal and moral responsibilities relating to health and safety matters and seeks to ensure the health, safety and welfare of all its employees, residents and customers and other persons who may be affected by the way it carries out its activities. The Group has an established Health and Safety Committee that reviews policy and procedures to ensure that a health and safety culture is embedded within the business.

Investment for the Future

Bernicia is committed to investing in our properties and the communities which we serve. During the year we invested £19.5 million on planned improvements and major repairs to our properties.

Policy on Payment to Creditors

It is Group Policy to agree terms of payment at the start of the business with any supplier, to ensure that all suppliers are aware of the terms of payment and to pay in accordance with its contractual and other legal obligations.

Environmental Matters

The Bernicia group is committed to carrying out its activities in a sustainable way. We strive to meet exacting environmental standards for all our new Homes and Communities Agency funded developments including compliance with our Affordable Warmth Strategy.

Employee Involvement and Consultation

Employees have a critical role in the success of the Group and are at the heart of the Group's ability to provide quality services and meet key objectives.

The Group have a People Strategy, Building Brighter Futures, which details our strategic approach to people management so that it has the right numbers of people with the right skills in the right place at the right time; providing rewarding jobs and opportunities within an excellent working environment. In November 2013 the Group retained Investors in People Gold accreditation. We aim to be a best practice employer and have an established leadership and management development programme to enable our managers to coach and develop our people.

The Group invests a significant sum in the training and development of its staff and during 2013/14 invested £145,076 in providing 330 training courses. There wes a total of 1809 staff attendances at training events, which included e-learning modules introduced as a cost effective and efficient training solution. We consult actively with our employees through formal and informal mechanisms including briefings, road-shows, staff conferences and surveys to gain full and open feedback.

Auditors

KPMG LLP are auditors to the Group. They have indicated their willingness to continue in office and a resolution to reappoint KPMG LLP as auditor will be put to the members at the Annual General Meeting. The auditors' fees for audit and non-audit work are disclosed in note 3 to the financial statements.

Donations

The Group made no charitable donations in the year (2013: nil) and made no political donations.

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, its cash flows, liquidity position and borrowing facilities are described on pages 6 to 25.

The Group meets its day to day working capital requirements through the current account, which is cash positive at the year-end. The Group meets its development programme requirements through a combination of grant and debt funding. Note 18 to the accounts highlights the current level of debt and repayment terms. The current economic conditions create uncertainty particularly over the longer term availability of grant and bank finance.

The Group's forecasts and projections show that the Group should be able to continue to operate within the level of its current facilities and no matters have been drawn to its attention to suggest that future funding may not be forthcoming on acceptable terms.

After making enquiries, the Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, it continues to adopt the going concern basis in preparing these financial statements.

Post balance sheet events

The Group Board consider that there have been no events since the year end that have had a significant effect in the Group's financial plan.

Internal Control

The Board has responsibility for ensuring that a system of internal control is maintained and reviewed. The Board recognises no system of internal control can provide absolute assurance or eliminate all risks. The system of controls has been designed to manage risk and provide reasonable assurance that key business objectives will be achieved. It gives reasonable assurance about the preparation and reliability of financial and operational information and the safeguarding of the Group's assets and interests.

Role and Responsibilities

The Board has established a hierarchy of responsibility. The Board has overall responsibility for the system of internal control and management of risk, including the effectiveness of internal control. The examination of internal control has been delegated to the Audit Committee. Managers across the business are responsible for implementing the policies on risk and control, including the design, operation and monitoring of these controls and general risk management. All employees have some responsibility for internal control, are accountable for achieving objectives and must understand the risk implications of activities.

Key Elements of Internal Control

The Board, working with the Executive Team, have established a framework of controls. The key elements of these are:

Internal Audit and Non-Negotiable Controls

The Group has a contract with internal auditors Deloitte to provide internal audit services during 2013-14 and they had direct access to the Audit Committee. They worked in line with the Institute of Internal Auditing Standards and the associated cost of practice. They followed an approved plan, based on assessment of risk across the Group. During this accounting year, the following activities were examined by internal audit: Non-Negotiable Controls (Development), Non-Negotiable Controls (Regeneration & Asset Management), Risk Management, Housing Management, Value for Money, Employee Lift Cycle, Budgetary Control, Procure to Pay, Payroll – Data Analysis, General Computer Controls, Non-Negotiable Controls Validation, Follow-Up of previous audit actions. The annual audit option confirmed – "Bernicia Group Limited has a basically sound system of internal controls which should provide substantial assurance regarding the effective achievement of the Group's objectives". A programme of non-negotiable control testing was also carried out by a dedicated Compliance Team, with results reported to Audit Committee on a quarterly basis.

Business Continuity

A detailed Business Continuity Plan is in place and is both reviewed and tested. This is strongly linked to our virtualisation strategy.

Audit Committee

The Audit Committee plays a key role in ensuring that strong internal controls have been established and are regularly reviewed. The committee also ensures, through monitoring the work of internal and external audit services, they provide adequate assurance on their review of internal controls.

Policy on Fraud

The Group has a fraud policy which has been communicated to all Board members and staff. The procedure for reporting and investigating any alleged fraud are defined in this policy. There were no known instances of attempted or actual fraud resulting in material financial loss to the Group during 2013-14.

Anti-Money Laundering Policy

The Group has an approved Anti-Money Laundering Policy, highlighting responsibilities regarding the prevention and detection of money laundering and procedures to be followed where money laundering is detected or suspected. The Chief Executive has been designated as the Money Laundering Reporting Officer. No reports of money laundering were received during the year.

Risk Management

The Group has a risk management framework and is pro-active in the identification of current and future risks which may prevent it from achieving its business objectives. The strategic risk register identified the impact and likelihood of particular risk and the controls that are in place to mitigate against those risks. This register is reviewed regularly by the Senior Management Team. It is also reviewed every six months by the Board and quarterly by the Audit Committee. The register is also complimented by a sensitivity analysis of the controls. This is also underpinned by a suite of operational risk registers, with controls on both registers monitored by the Compliance Team.

Policies on Internal Control

The Group has established policies and procedures to monitor and emphasise the need for strong internal control. These include for example, a set of Standing Orders and Financial Regulations that require adequate segregation of duties. A Scheme of Delegation sets out delegated powers of committees of the Board and Officers of the Group.

Reports to the Board

Regular reports to the Board provide information on financial and operational progress against objectives as well as performance against the transfer promises. Performance is measured against agreed KPI's and externally benchmarked. Budgets are set before the beginning of each financial year.

Reports on income and expenditure against these budgets are presented to the Board on a quarterly basis. Variance analysis and any corrective action is proposed and discussed at the Board meetings. All reports to the Board consider risks, particularly around the financial impact of any proposed actions. Board is provided with minutes of all committee meetings.

Business Planning

Long-term business planning is undertaken through a twice-yearly update of the Business Plan, which is formally considered by the Board. During 2013-14, the plan has been externally validated by (appointed consultants) Smith-Williamson, who have given full assurance on the key assumptions. These were examined and tested to ensure that the Group will be able to deliver its key objectives.

Recruitment and Development of Staff

The quality and integrity of staff are essential for maintaining good internal control. The Group has policies in place to ensure that all staff recruited have the necessary competences and qualifications for their role. During 2013-14 a programme of development and training was in place, along with a number of HR related policies to enforce our approach to internal control, including a Code of Conduct for Employees, Disciplinary Policy, Grievance Policy and Confidential Reporting Policy (Whistleblowing).

Probity Policy

A probity policy is in place as part of Standing Orders which is based on National Federation guidance. There have been no breaches of Probity reported during the year.

Code of Governance

In accordance with the Regulatory Standard on 'Governance and Financial Viability' the Group has adopted the National Housing Federation's Code 'Excellence in Governance' and complies with the main principles.

Compliance with the Regulatory Framework

There was no regulatory intervention during the year, but the regulator considered that our first Value for Money Self-Assessment only partially demonstrated compliance with the transparency requirements of the standard and that future improvements would be required. These are being put in place and we continue to map our ongoing compliance against the standard.

Summary

The Board delegated authority for the review of internal controls to the Audit Committee. The Chief Executive's annual report on internal control assurance, combined with internal audit assurance levels have been considered by Audit Committee on behalf of the Group and offer a reasonable to significant level of assurance. The compiling of the Statement on Internal Control did not identify any significant material breaches, either in the controls themselves, or around action sources of assurance. The Audit Committee carefully considered the statement and has recommended it to Group Board, who retain overall responsibility for the effectiveness of internal control.

The Board concludes that an effective system of internal control has been in place for the year ended 31 March 2014.

Statement of Compliance

In presenting the operating and financial review on pages 6 to 38 the Board has endeavoured to follow the principles regarding purpose, audience, timeframe, reliability, comparability and financial and non-financial measures as set out in the Statement of Recommended Practice for accounting by Registered Social Landlords 2010 Updated.

Disclosure of Information to Auditor

The Board members, as at the date of this Board report, confirm that, so far as they are each aware, there is no relevant information of which the Group's auditor is unaware. Each Board member confirms that all steps have been taken to make themselves aware of any relevant audit information and establish that the Group's auditor is aware of that information.

The report of the Board was approved on 12th August 2014 and signed on its behalf by:

I A Armstrong MBE
(Chairman)

Statement of Board Members' Responsibilities

The Board is responsible for preparing the Board's Report and financial statements in accordance with applicable law and regulations.

Industrial and Provident Society Law requires the Board to prepare financial statements for each financial year. Under those regulations the Board has elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to give a true and fair view of the state of affairs of the Group and of the Association and of the surplus or deficit for that period.

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

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

The Board is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and of the Association and enable it to ensure that its financial statements comply with the Industrial and Provident Societies Acts 1965 to 2003, the Housing and Regeneration Act 2008 and the Accounting Requirements for Private Providers of Social Housing 2012. The Board has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

To the Members of Bernicia Group Limited.

We have audited the financial statements of The Bernicia Group Limited for the year ended 31 March 2014 set out on pages 40 to 74 which comprise the Income and Expenditure account, Group statement of Total Recognised Surpluses, the Group and Association Balance Sheets, the Group Statement of Cashflows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Group's members, as a body, in accordance with section 128 of the Housing and Regeneration Act 2008 and section 9 of the Friendly and Industrial and Provident Societies Act 1968. Our audit work has been undertaken so that we might state to the Group's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group and the Group's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Board and Auditors

As more fully explained in the Statement of Board's Responsibilities set out on page 38, the Group's Board is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeuk private.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the Group and Association as at 31 March 2014 and of its surplus for the year then ended; and
- have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2003 and the Industrial and Provident Societies (Group Accounts) regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2012.

Matters on which we are required to report by exception

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

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

Mick Thompson (Senior Statutory Auditor)
For and on behalf of KPMG LLP
Chartered Accountants
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX
19th September 2014

Group Income and Expenditure Account

For the year ended 31 March

	Notes	2014 £000	2013 £000
Turnover	2a	39,669	37,636
Operating expenses	**2a**	**(30,835)**	**(32,042)**
Operating surplus	3	8,834	5,594
Surplus on disposal of housing accommodation	2c	351	383
Impairment		-	(38)
		9,185	5,939
Interest receivable and similar income	7	80	51
Interest payable and similar charges	8	(3,984)	(4,626)
Other finance income	9	390	290
Other income	10	3,354	2,058
Surplus on ordinary activities before taxation		**9,025**	**3,712**
Tax on surplus on ordinary activities	**11**	**(1)**	**(2)**
Surplus for the year	21	9,024	3,710
Transfers to designated reserves	21	(257)	(86)
Transfer to income and expenditure account		**8,767**	**3,624**

All activities are continuing.

Group Satement of Total Recognised Surpluses

For the year ended 31 March

	Notes	2014 £000	2013 £000
Surplus for the year	21	9,024	3,710
Actuarial gain / (loss) for the year	19b	2,350	(100)
Unrealised (loss) / gain on investment revaluation		(22)	30
Total recognised surplus for the year		**11,352**	**3,640**

Group Balance Sheet

At 31 March

	Notes	2014 £000	2013 £000
Fixed assets			
Housing properties – gross cost	12a	229,439	214,324
Less: Social housing grant	12a	(72,818)	(72,154)
Other public grants	12a	(36,574)	(33,367)
Depreciation	12a	(17,874)	(15,670)
		102,173	**93,133**
Other tangible assets	12b	9,470	9,520
Intangible fixed assets	12c	1,136	1,199
Long term investment	13	713	733
		113,492	**104,585**
Current assets			
Stock	14	303	504
Debtors - due within one year	15a	3,921	4,145
- due after more than one year	16	44,176	52,012
Cash at bank and in hand		12,955	11,670
		61,355	68,331
Creditors: amounts falling due within one year	17	11,652	9,870
Net current assets / (liabilities) - due within one year		5,527	6,449
Net current assets - debtors due after more than one year		44,176	52,012
Pension asset	19b	770	-
Total assets less current liabilities		163,965	163,046

	Notes	2014 £000	2013 £000
Creditors: amounts falling due after more than one year			
Housing loans	18a	65,829	66,421
Obligations under finance leases and hire purchase agreements	18b	79	55
		65,908	**66,476**
Pension liability	**19b**	**-**	**2,020**
Provision for liabilities and charges			
Improvement provision	20	44,176	52,012
		44,176	**52,012**
Capital and reserves			
Pension reserve	21	(4,270)	(6,620)
Designated reserves	21	7,594	7,337
Revenue reserve	21	50,511	41,744
Investment revaluation reserve	21	46	77
		53,881	**42,538**
		163,965	**163,046**

These financial statements were approved by the Board on 12th August 2014 and were signed on its behalf by:

I A Armstrong MBE
(Chairman)

Mr I Darling
(Vice-Chairman).

W T Heads
(Company Secretary)

Association Balance Sheet

At 31 March 2014

These financial statements were approved by the Board on 12 August 2014 and were signed on its behalf by:

I A Armstrong MBE
(Chairman)

Mr I Darling
(Vice-Chairman).

W T Heads
(Company Secretary)

	Notes	2014 £	2013 £
Current assets			
Debtors	15b	9	9
Total assets		**9**	**9**
Capital and reserves			
Share capital	22	9	9
		9	9

	Notes	2014 £000	2013 £000
Net cash inflow from operating activities	**24**	**13,041**	**8,438**
Returns on investments and servicing of finance			
Interest received		60	50
Interest paid		(4,306)	(4,061)
Net cash outflow from investments and loan servicing		**(4,246)**	**(4,011)**
Taxation			
UK Corporation Tax		(8)	(42)
Net cash outflow from taxation		**(8)**	**(42)**
Capital expenditure and financial investment			
Expenditure on housing properties		(16,239)	(16,785)
Capital grants received		998	982
VAT shelter income		1,644	1,229
Gap funding grant		5,895	4,979
Purchase of other fixed assets		(410)	(4,298)
Purchase of investment		(2)	-
Disposal of housing properties		858	750
Purchase of subsidiary undertaking		-	(1,294)
Net cash outflow from capital expenditure		**(7,256)**	**(14,437)**
Net cash inflow / (outflow) before financing		1,531	(10,052)
Financing			
Loan advances		-	19,250
Sinking fund and loan repayments		(213)	(1,345)
Net cash (outflow) / inflow from financing		**(213)**	**17,905**
Increase in cash	**26**	**1,318**	**7,853**

1. Accounting policies

Basis of accounting

The Association is incorporated under the Industrial and Provident Societies Act 1965 and is a Registered Provider of Social Housing. The financial statements have been prepared under the historical cost accounting convention and in accordance with the applicable Accounting Standards in the United Kingdom, the Accounting Requirements for Providers of Registered Social Housing 2012 and the Statement of Recommended Practice Accounting by Registered Social Housing Providers update 2010.

The Group was registered as an Industrial and Provident Society on 27 June 2007 and commenced trading on 25 February 2008, therefore, 25 February 2008 is referred to throughout.

Basis of consolidation

The Group was created on 25 February 2008 when Bernicia Group Limited assumed control of Cheviot Housing Association Limited and Wansbeck Homes Limited.

The Group income and expenditure account and balance sheet consolidate the results and financial position of the association and its subsidiary undertakings outlined on page 2. Intra-group turnover, surpluses and balances are eliminated fully on consolidation.

Turnover

Turnover represents rental income, service charges and fees receivable, revenue grants and proceeds from first tranche sales of shared ownership properties held in current assets during the period.

Housing properties and depreciation

Housing properties developed are stated at cost. The properties acquired by the stock transfer to Wansbeck Homes were added at fair value.

Shared ownership properties are held at cost. These assets are held as fixed assets for the share retained or to be retained and as stock within current assets for the share to be sold. The surplus or deficit on the disposal of fixed assets, including first and subsequent tranches of shared ownership properties is accounted for in the income and expenditure account in the period in which the disposal occurs.

Freehold land is not depreciated. Freehold properties other than freehold land have been assigned estimated useful economic lives of 120 years (i.e. from date of construction or, where deemed appropriate, from date purchased or modernised by the Group). Depreciation is charged so as to write down the cost (net of social housing grant) on a straight line basis over the remaining expected useful economic lives of the assets.

Structure	100 Years
Roofs	70 Years
Windows	30 Years
Doors	30 Years
Boilers	15 Years
Kitchens	20 Years
Bathrooms	30 Years
Heating	30 Years
Electrics	40 Years
Lifts	20 Years

Leasehold properties are depreciated so as to write down the cost (net of social housing and similar grants) on a straight line basis over the remaining term of the lease, subject to a maximum of 99 years.

For those properties with an estimated useful economic life of 50 years or more, impairment reviews are carried out on an annual basis in accordance with FRS 11, 'Impairment of Fixed Assets and Goodwill'.

Social housing and similar grants

When housing developments have been financed wholly or partly by social housing or similar grants the cost of these developments has been reduced by the amount of grant received. Total grants received in excess of total costs on schemes in the course of development are transferred to creditors. 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.

Social housing grant can be recycled by the Group under certain conditions, if a property is sold, or if another relevant event takes place. In these cases the social housing grant can be used for projects approved by the Homes and Communities Agency. However, the grant may have to be repaid if certain conditions are not met.

Capitalisation of interest

Interest on loans financing specific housing property developments is capitalised up to the date of practical completion of each development. Where a loan is not specifically drawn down to fund a development, no interest is capitalised.

Capitalisation of acquisition and development costs

Acquisition and development costs are capitalised in respect of direct, incremental employee costs and overheads incurred during the development period.

Improvement works to existing properties

Costs of improvement works to existing properties are only capitalised when there is a demonstrable enhancement of economic benefits of the asset.

Other tangible fixed assets and depreciation

Other fixed assets are stated at cost.

Depreciation is provided on all tangible fixed assets, at rates calculated to write-off the cost, less estimated residual value of each asset evenly over its expected useful life as follows:

Office premises	50 years
Office equipment	4 years
Fixtures and fittings	10 years
Scheme fixtures and fittings	10 to 120 years
Motor vehicles	4 years
Freehold	Remaining term of the underlying tenant leases

Stock

Stocks and work in progress are stated at the lower of cost and net realisable value.

Leased Assets

Assets acquired under finance leases have been capitalised and are being depreciated according to the normal depreciation policy. Interest charged under the agreements is charged to the income and expenditure account in the accounting period in which it is incurred.

Costs in respect of operating leases are charged to the income and expenditure account on a straight line basis over the lease term.

Supported Housing

The treatment of income and expenditure in respect of supported housing projects depends on whether the Group carries the financial risk.

Where the Group carries the financial risk, e.g. for losses from voids and arrears, all the project's income and expenditure is included in the income and expenditure account.

Where the project is managed by an agency and the agency bears the financial risks, the income and expenditure account includes only that income and expenditure which relates solely to the Group.

Right to buy sales

The gains or losses on disposal of social housing properties under right to buy arrangements are calculated as being the difference between the proceeds of a sale of a property and the balance sheet value of the property. Gains or losses are recognised in the Income and Expenditure Account at the date of transfer of title after deducting any element of proceeds that is payable under right to buy sharing arrangements.

Set up costs

Set up costs incurred by Wansbeck Homes Limited are charged directly to the Income and Expenditure Account in the period in which they occurred.

VAT

Income and expenditure is shown inclusive of value added tax where applicable. Amounts recovered from HM Customs and Excise under the provisions related to partial exemption are credited to expenditure.

The Group has an approved VAT Shelter Scheme operative from 25 February 2008 and lasting for 10 years from that date. There is a VAT Shelter Sharing Agreement with the Council which was part of the transfer agreement. As a result, the VAT incurred on the property stock improvement programme is recoverable. The balance of VAT recoverable at the period end is included as part of the overall net VAT current asset or current liability in the balance sheet.

Pension costs

The Group operates two pension schemes, with membership in the Social Housing Pension Scheme which is open to new employees joining the Group and the Local Government Pension Scheme which was provided for employees TUPE transferring from Wansbeck District Council to Wansbeck Homes Limited. Both pension schemes provide benefits based upon final pensionable pay. The assets of the schemes are held separately from those of the Group.

Local Government Pension Scheme

Pension scheme assets are measured using market values. For quoted securities the current bid price is taken as market value. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised surpluses and deficits, actuarial gains and losses.

The pension scheme was transferred on 25 February 2008, and is available for employees possessing TUPE rights, transferring from Wansbeck District Council. On 25 February 2008, the assets and liabilities in respect of the transferring staff were assumed by Wansbeck Homes Limited.

Social Housing Pension Scheme

The Group participates in an industry wide pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Group. The Group is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 'Retirement benefits', accounts for the scheme as if it were a defined contribution scheme. As a result the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

Improvement provision

Provisions represent the Group's liabilities to undertake the refurbishment works under the Development Agreement entered into with Wansbeck District Council, as detailed in Note 20.

Designated reserves

Whilst reserves have been designated for future major works to properties, these sums are not considered to represent a definable provision or liability for such works. Other designated reserves reflect surpluses generated by sale of housing assets activity which are set aside for expenditure on future Development.

Goodwill

The difference between the fair value or book value of assets and liabilities and the purchase consideration paid represents goodwill. This is shown in the Balance Sheet and is amortised over a maximum of 20 years as permitted by FRS 10 Goodwill and intangible assets.

Taxation

Cheviot Housing Association Limited and Wansbeck Homes Limited are considered to pass the tests set out in Paragraph 1 Schedule 6 of the Finance Act 2010 and therefore meets the definition of a charity, for Corporation Tax purposes. Accordingly the charity is potentially exempt from taxation in respect of income or capital gains received within categories covered by chapter 3 part ii of the Corporation Tax Act 2010 or section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

Kingston Property Services Limited and Livingspaces (UK) Limited are registered for UK taxation. The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised without discounting in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19.

Long term Investments

Investments on the balance sheet are deposits held by lenders and are therefore related to loan balances due. These are regarded as other financial assets and are to be recognised and measured at fair value with gains and losses recognised immediately in the statement of total recognised gains and losses (STRGL) as required by FRS 26 Financial instruments: Recognition and Measurement.

2a. Turnover, operating expenses and operating surplus by class of business (Group)

	Notes	2014 Turnover £000	2014 Operating Cost of sales £000	2014 Operating expenses £000	2014 Operating surplus/ (deficit) £000	2013 Turnover £000	2013 Operating Cost of sales £000	2013 Operating expenses £000	2013 Operating surplus/ (deficit) £000
Income and expenditure from social housing lettings:									
General needs housing 5,313 units (2013: 5,258)	2b	20,969	-	17,643	3,326	20,042	-	18,651	1,391
Housing for the elderly 2,708 units (2013: 2,733)	2b	14,019	-	10,134	3,885	13,344	-	10,772	2,572
Supported Housing 124 bedspaces and 58 self-contained units (2013: 105 bedspaces and 57 self-contained units)	2b	334	-	327	7	309	-	260	49
Shared ownership accommodation 124 units (2013: 123)	2b	343	-	28	315	335	-	72	263
		35,665	**-**	**28,132**	**7,533**	**34,030**	**-**	**29,755**	**4,275**
Other activities:									
Leasehold property management 11,653 units (2013: 11,395)		3,204	-	2,597	607	2,865	-	2,359	506
Serviced right to buy units 280 units (2013: 280)		35	-	-	35	34	-	-	34
Commercial and other units 54 shop units and 1,254 garages (2013: 57 and 1,257)		325	-	18	307	334	-	16	318
Private rented 5 units (2013:nil)		5	-	25	(20)	-	-	-	-
Other operating income	6	435	-	-	435	373	-	-	373
Release of deferred income		-	-	-	-	-	-	(151)	151
Amortisation of goodwill		-	-	63	(63)	-	-	63	(63)
		39,669	**-**	**30,835**	**8,834**	**37,636**	**-**	**32,042**	**5,594**

2b. Income and expenditure from lettings (Group)

	General Housing £000	Housing for the elderly £000	Supported Housing £000	Shared Ownership £000	Total 2014 £000	Total 2013 £000
Income from lettings						
Rent receivable net of identifiable service charges	19,338	10,869	230	337	30,774	29,481
Service charges receivable	359	2,295	104	6	2,764	2,562
Supporting people income	-	424	-	-	424	472
Water rates receivable	1,619	787	-	-	2,406	2,366
Gross rents receivable	21,316	14,375	334	343	36,368	34,881
Less: rent losses from voids	(347)	(356)	-	-	(703)	(851)
Net rents receivable	20,969	14,019	334	343	35,665	34,030
Other grant income	-	-	-	-	-	-
Total income from lettings	**20,969**	**14,019**	**334**	**343**	**35,665**	**34,030**
Expenditure on letting activities						
Management	3,625	455	43	2	4,125	3,894
Services	917	2,873	143	5	3,938	4,076
Routine maintenance	3,634	1,919	28	-	5,581	4,980
Planned maintenance	840	276	-	-	1,116	923
Programmed repairs expenditure	4,903	2,657	-	-	7,560	10,531
Rent losses from bad debts	495	245	-	-	740	306
Depreciation	1,488	897	108	12	2,505	2,329
Water rates payable	1,584	745	-	-	2,329	2,316
Other costs	157	67	5	9	238	400
Total expenditure on lettings	**17,643**	**10,134**	**327**	**28**	**28,132**	**29,755**
Operating surplus on letting activities	**3,326**	**3,885**	**7**	**315**	**7,533**	**4,275**

2c. Surplus on disposal of housing accommodation (Group)

	2014 £000	2013 £000
Proceeds from sales	858	750
Less: Cost of sales	(318)	(228)
Share of net proceeds payable under transfer agreement	(189)	(139)
	351	**383**

2d. Surplus on disposal of other fixed assets

	2014 £000	2013 £000
Proceeds from sales	-	-
Less: Cost of sales	-	-
	-	**-**

2e. Service charges (Group)

The service charges receivable from housing accommodation split between those eligible for housing benefit and those not eligible were as follows:

	2014 £000	2013 £000
Eligible for housing benefit	2,644	2,446
Not eligible for housing benefit	120	116
	2,764	**2,562**

2f. Accommodation managed by others (Group)

The following organisations manage supported housing bed-spaces on behalf of the Group:

	2014 No.	2013 No.
Sunderland City Council	90	91
St. Anne's	34	22
Lifeways	13	18
Stonham	9	16
Northumberland Care Trust	9	13
Community Integrated Care	9	9
Real Life Options	8	9
Norecare NTW	4	8
Mencap	4	4
New Prospects	2	2
	182	**192**

3. Operating surplus (Group)

This is stated after charging / (crediting):

	2014 £000	2013 £000
Auditors' remuneration- audit services	34	34
Depreciation of housing properties	2,505	2,329
Depreciation of other fixed assets	454	556
Loss on disposal of housing components	126	234
(Profit) / Loss on disposal of fixed assets	(2)	2
Release of deferred income	-	(151)
Amortisation of goodwill	63	63

4. Directors’ emoluments (Group)

The remuneration of Senior Management Officers in the period was as follows:

	2014 £000	2013 £000
Emoluments (including pension contributions)	734	730
Emoluments (excluding pension contributions)	**648**	**638**

The remuneration paid to the Chief Executive and highest paid officer of the Group and Association was:

Emoluments (including pension contributions)	129	128
Emoluments (excluding pension contributions)	**118**	**117**

The Chief Executive is an ordinary member of the pension scheme, has no enhanced or special pension terms and has no other pension arrangements to which the Group contributes.

5.Staff costs (Group)

	2014 £000	2013 £000
Wages and salaries	8,527	8,376
Social security costs	648	632
Other pension costs	1,295	1,065
	10,470	**10,073**

The average monthly full time equivalent number of employees during the period was as follows:

	2014 No.	2013 No.
Operational team	283	284
Finance and administration	55	59
	338	**343**

The full time equivalent number of staff whose remuneration payable in relation to the period of account fell within each band of £10,000 from £60,000 upwards is:

	2014 No.	2013 No.
£60,000 - £70,000	2	4
£70,000 - £80,000	5	4
£80,000 - £90,000	2	2
£90,000 - £100,000	-	-
£100,000 - £110,000	1	1
£110,000 - £120,000	1	1
£120,000 - £130,000	1	1
	12	**13**

6. Other operating income (Group)

	2014 £000	2013 £000
Rate collection allowance	223	218
Office rental	107	119
Sundry income	105	36
	435	**373**

7. Interest receivable (Group)

	2014 £000	2013 £000
Interest receivable from bank deposits	56	27
Interest receivable from financial investment	24	24
	80	**51**

8. Interest payable and similar charges (Group)

	2014 £000	2013 £000
On bank loans and other loans payable wholly or partly after more than five years	3,975	4,621
On obligations under finance leases and hire purchase agreements	9	5
	3,984	**4,626**

No interest was capitalised during the period (2012: £nil).

9. Other finance income (Group)

	2014 £000	2013 £000
Expected return on pension scheme assets	1,570	1,380
Interest on pension scheme liabilities	(1,180)	(1,090)
	390	**290**

10. Other income (Group)

	2014 £000	2013 £000
Revenue grant	2,654	1,367
VAT recoverable under VAT shelter scheme	700	691
	3,354	**2,058**

11. Taxation (Group)

Cheviot Housing Association Limited and Wansbeck Homes Limited are both exempt from UK corporation Tax under charitable rules status.

Kingston Property Services is taxable under UK corporation tax and has incurred a taxation charge of £1,138 in the year (2013: £1,085).

Livingspaces (UK) Limited is taxable under UK corporation tax and has incurred a taxation charge of £nil in the year (2013: £1,180).

The profits chargable to corporation tax have originated from the trading activities of Kingston Property Services Limited and Livingspaces (UK) Limited.

	2014 £000	2013 £000
UK Corporation tax		
Current tax on income for the period	1	7
Deferred tax	-	(5)
Tax on profit on ordinary activities	**1**	**2**

Factors affecting the tax charge for the current period

The current tax charge for the period is lower (2013: lower) than the small profits rate of corporation tax in the UK (2014 and 2013: 20 %). The differences are explained below.

Current tax reconciliation

	2014 £000	2013 £000
Profit on ordinary activities before tax	1	37
Current tax @ 20% (2013: 20%)	1	7
Effects of:		
Expenses not deductible for tax purposes	-	-
Overprovision in prior year	-	-
Total current tax charge (see above)	**1**	**7**

Factors that may affect future tax charges

Kingston Property Services Limited and Livingspaces (UK) Limited qualify for small companies' relief which in the current year is 20%.

12. Tangible fixed assets (Group)

(a) Housing land and buildings

	Completed £000	Housing Properties held for letting Under Construction £000	Completed £000	Supported Housing Under Construction £000	Completed £000	Shared Ownership Housing Under Construction £000	Total £000
Cost:							
At 1 April 2013	132,230	318	74,468	3,776	3,504	28	214,324
Additions – acquisition	-	6,702	-	3,719	-	-	10,421
Additions to existing stock	3,072	-	2,637	-	173	-	5,882
Disposals	(569)	-	(546)	-	(73)	-	(1,188)
Schemes completed	4,209	(3,965)	6,292	(6,536)	186	(186)	-
Reclassification	-	(193)	-	35	-	158	-
At 31 March 2014	**138,942**	**2,862**	**82,851**	**994**	**3,790**	**-**	**229,439**
Social Housing Grant and other development grant:							
At 1 April 2013	60,678	-	42,042	592	2,209	-	105,521
Received – acquisition	-	857	-	434	-	-	1,291
Received for existing stock	1,802	-	1,472	-	-	-	3,274
Disposals	(258)	-	(343)	-	(50)	-	(651)
Disposal proceeds / Recycled Capital Grant Fund	-	20	-	-	-	-	20
Schemes Completed	386	(386)	1,207	(1,207)	-	-	-
Reclassification	(65)	(225)	-	290	-	-	-
Grant in advance	-	-	-	(63)	-	-	(63)
At 31 March 2014	**62,543**	**266**	**44,378**	**46**	**2,159**	**-**	**109,392**
Depreciation:							
At 1 2013	9,847	-	5,421	-	402	-	15,670
Charge for year	1,578	-	909	-	18	-	2,505
Disposals	(121)	-	(164)	-	(16)	-	(301)
Impairment	-	-	-	-	-	-	-
At 31 March 2014	**11,304**	**-**	**6,166**	**-**	**404**	**-**	**17,874**
Net book value:							
At 31 March 2014	**65,095**	**2,596**	**32,307**	**948**	**1,227**	**-**	**102,173**
Net book value:							
At 31 March 2013	**61,705**	**318**	**27,005**	**3,184**	**893**	**28**	**93,133**

(a) Housing land and buildings

Development costs capitalised in the period amounted to £120,657 (2013: £116,463).

Assets with net book value of £4,590,617 (2013: £4,717,766) are securitised.

Units under construction at the year-end numbered 55 (2013: 92 units).

Included within net book value of housing properties are the following amounts in respect of freehold and leasehold properties:

	2014 £000	2013 £000
Freehold	97,937	88,982
Long leasehold	3,078	3,137
Short leasehold	1,158	1,014
	102,173	**93,133**

The total accumulated gap funding grant receivable to 31 March was:

	2014 £000	2013 £000
Capital grants	28,923	25,682
Revenue grants	9,917	7,263
	38,840	**32,945**

The housing properties transferred to Wansbeck Homes Limited were initially recognised in the accounts at £6,500,000, reflecting the fair valuation of the housing stock at the date of transfer.

Enhancement expenditure, where it is considered that the works undertaken increase the value of the property, has been capitalised at cost and the funding received from the Homes and Communities Agency (HCA) has been deducted from housing properties.

The HCA has agreed to provide £41,000,000 in gap funding towards eligible capital expenditure in the period to 31 March 2015 subject to the funding conditions being met.

The gap funding agreed for the period ending 31 March 2014 was £5,895,000.

12. Tangible fixed assets (Group) (continued)

(b) Other

	Freehold offices £000	Office equipment £000	Scheme fixtures & fittings £000	Motor vehicles £000	Freehold Leases £000	Total £000
Cost:						
At 1 April 2013	9,582	1,357	409	1,557	75	12,980
Additions during the year	22	217	96	69	6	410
Disposals	-	(51)	-	(28)	-	(79)
At 31 March 2014	**9,604**	**1,523**	**505**	**1,598**	**81**	**13,311**
Depreciation:						
At 1 April 2013	978	780	301	1,399	2	3,460
Charge for the year	184	172	20	72	6	454
Disposals	-	(51)	-	(22)	-	(73)
At 31 March 2014	**1,162**	**901**	**321**	**1,449**	**8**	**3,841**
Net book value:						
At 31 March 2014	**8,442**	**622**	**184**	**149**	**73**	**9,470**
At 1 April 2013	8,604	577	108	158	73	9,520

12c. Intangible fixed assets

Goodwill associated to the acquisition of Livingspaces (UK) Limited has been included in fixed assets and will be amortised over the maximum permitted period of 20 years.

Cost	**£'000**
At 1 April 2013 and 31 March 2014	1,262
Amortisation	
At 1 April 2013	63
Charge for the year	63
At 31 March 2014	**126**
Net book value	
At 31 March 2014	**1,136**
At 1 April 2013	1,199

13. Long term investments (Group)

	2014 £000	2013 £000
Cost or Valuation		
At 1 April	733	703
Additions	2	-
Disposal	-	-
Revaluation	(22)	30
At 31 March	**713**	**733**

Long term investments are represented as follows:

	2014 £000	2013 £000
Cost or Valuation		
Long term investment in - UK Rents (No 1) plc	146	146
- Haven Funding plc	565	587
- Agents' Mutual Limited	2	-
	713	**733**

The long term loans to UK Rents (No 1) plc and Haven Funding plc represent amounts which are withheld by lenders as a cash reserve under the terms of a loan agreement. The loan to UK Rents (No. 1) plc could be utilised against a shortfall of funds within the other Associations participating in the loan issue.

Long term investments are analysed as follows:

	2014 £000	2013 £000
Cost or valuation		
Listed investments	422	451
Unlisted investments	291	282
	713	**733**

Valuation:

Listed investments – market value	**422**	**451**

14. Stock (Group)

	2014 £000	2013 £000
Stores materials held for property maintenance	154	152
Shared ownership properties held for sale	149	352
	303	**504**

15a. Debtors – amounts due within one year (Group)

	2014 £000	2013 £000
Arrears of rent and service charges	3,669	3,636
Less: provision for bad and doubtful debts	(2,474)	(2,800)
	1,195	**836**
Managed property debtors	1,022	931
Amounts due from HMRC	461	705
Other debtors	749	1,011
Prepayments and deferred income	494	662
	3,921	**4,145**

15b. Debtors – amounts due within one year (Association)

	2014 £	2013 £
Unpaid share capital	**9**	**9**

16. Debtors – amounts due after more than one year (Group)

The debtor for improvement costs is as follows:

	2014 £000	2013 £000
At 1 April	52,012	65,947
Capitalised expenditure during the period	(4,311)	(11,018)
Revenue expenditure during the period	(3,525)	(2,917)
At 31 March	**44,176**	**52,012**

At 31 March 2014 an equivalent amount of £44,176,000 is shown in provisions for liabilities and charges. The provision represents the best estimate of the cost of works that Wansbeck Homes Limited has contracted to undertake under the Development Agreement for the repair and upgrading of the housing properties that were subsequently acquired by Wansbeck Homes Limited from Wansbeck District Council on 25 February 2008.

17. Creditors: amounts falling due within one year (Group)

	2014 £000	2013 £000
Bank overdraft	-	33
Lending authority for instalments of interest due and payable	113	364
Housing loans repayable within one year	590	532
Contractors for certified work and retentions unpaid	108	194
Amounts due under finance leases and hire purchase agreements	57	59
Recycled Capital Grant Fund (see below)	171	145
Disposal Proceeds Fund (see below)	-	-
Share of net sales proceeds payable under transfer agreement	189	106
Operating creditors	2,803	1,905
Accruals and deferred income	4,114	5,265
Other creditors	3,221	1,113
Other taxation and social security	104	38
SHG in advance	63	-
Balances held on behalf of clients	119	116
	11,652	**9,870**

(a) Recycled capital grant fund

	2014 £000	2013 £000
At 1 April	145	199
Grants recycled	46	58
Major repairs and works to existing stock	(20)	(112)
At 31 March	**171**	**145**

(b) Disposal proceeds fund

	2014 £000	2013 £000
At 1 April	-	19
Purchase of housing properties	-	(19)
	-	-

18. Creditors: amounts falling due after more than one year (Group)

(a) Housing loans

	2014 £000	2013 £000
Housing loans repayable after more than one year:		
Advanced to Group by:		
Local authorities	31	34
The Housing Finance Corporation	11,585	11,781
Building Societies and Banks	54,948	55,293
Less: Issue costs on the above	(145)	(155)
	66,419	**66,953**
Less: included in creditors:		
amounts falling due within one year	(590)	(532)
	65,829	**66,421**

18. Creditors: amounts falling due after more than one year (Group) (continued)

Loans from Building Societies and Banks include an amount of £5,827,663 (2013: £6,086,438) provided by means of a debenture whereby the right to future rental streams from specific schemes is assigned.

Included within Building Societies and Bank loans is a Barclays Loan of £41m. (2013: £41m).

Within amounts due to The Housing Finance Corporation is a balance of £2,529,383 (2013: £2,474,049) which is represented by capital outstanding of £2,742,488 (2013: £11,309,574) and an accumulated sinking fund balance of £213,105 (2013: £8,835,525). Net interest payable on the loan was £268,314 (2013: £1,139,182) representing interest payable on the capital balance of £268,586 (2013: £1,143,895) and interest receivable on the sinking fund of £272 (2013: £4,713).

Included in the above are loan issue costs that have been set against loan balances and are being released to the income and expenditure account over the term of the loan.

Housing loans are secured by specific charges on the Group's housing properties. Rates of interest vary from 4.5% to 14.75%.

The loans are repayable as follows:

	2014 £000	2013 £000
Within one year	590	532
Between one and two years	655	590
Between two and five years	7,042	10,934
After five years	58,132	54,897
	66,419	**66,953**

(b) Amounts due under finance leases and hire purchase agreements

	2014 £000	2013 £000
Amounts due under finance leases and hire purchase agreements	**79**	**55**

The finance leases are repayable as follows:

	2014 £000	2013 £000
Within one year	57	59
Between one and two years	25	26
Between two and five years	54	29
	136	**114**

(c) Amounts due under operating leases

At 31 March 2014 the group had annual commitments for Land and Buildings under non-cancellable operating leases as set out below.

	2014 £000	2013 £000
Operating leases which expire:		
Within one year	13	1
Within two and five years	-	43
After more than five years	30	-
	43	**44**

19a. Pensions – Social Housing Pension Scheme (Group)

The standard pension disclosure note provided by the Social Housing Pension Scheme (SHPS) has been included; however, historic reference dates do not apply to Wansbeck Homes Limited.

The Group is a member of a larger industry wide pensions scheme, the Social Housing Pension Scheme (SHPS), which provides benefits based on final pensionable pay. Because the Group is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 “Retirement Benefits”, the scheme has been accounted for, in these financial statements as if the scheme was a defined contribution scheme. The scheme is funded and is contracted out of the State Pension scheme.

SHPS is a multi-employer defined benefit scheme. Employer participation in the Scheme is subject to adherence with the employer responsibilities and obligations as set out in the “SHPS House Policies and Rules Employer Guide”.

The Scheme operated a single benefit structure, final salary with a 1/60th accrual rate, to 31 March 2007. From April 2007 three defined benefit structures have been available, namely:

- Final salary with a 1/60th accrual rate.
- Final salary with a 1/70th accrual rate.
- Career average revalued earnings with a 1/60th accrual rate.

From April 2010 there are a further two defined benefit structures available, namely:

- Final salary with a 1/80th accrual rate
- Career average revalued earnings (CARE) with a 1/80th accrual rate.

A defined contribution benefit structure was made available from 1 October 2010.

An employer can elect to operate different benefit structures for their active members and their new entrants. An employer can only operate one open defined benefit structure at any one time. An open benefit structure is one which new entrants are able to join.

The Group has elected to operate the final salary with a 1/60th accrual rate benefit structure for active members as at 1 April 2007 and the final salary with a 1/60th accrual rate benefit structure for new entrants from 1 April 2007. This does not reflect any benefit structure changes made from April 2010.

The Trustee commissions an actuarial valuation of the Scheme every three years. The main purpose of the valuation is to determine the financial position of the Scheme in order to determine the level of future contributions required, in respect of each benefit structure, so that the Scheme can meet its pension obligations as they fall due. From April 2007 the split of the total contribution rate between member and employer is set at individual employer level, subject to the employer paying no less than 50% of the total contribution rate. From 1 April 2010 the requirement for employers to pay at least 50% of the total contribution rate no longer applies.

The actuarial valuation assesses whether the Scheme’s assets at the valuation date are likely to be sufficient to pay the pension benefits accrued by members as at the valuation date. Asset values are calculated by reference to market levels. Accrued pension benefits are valued by discounting expected future benefit payments using a discount rate calculated by reference to the expected future investment returns.

During the accounting period the Group paid contributions at the rate of 8.3% for existing members and 8.3% for new entrants to the scheme. Member contribution rates payable varied between 7.9% and 9.9% depending on their age.

As at the balance sheet date there were 84 active members of the Scheme employed by the Group. The annual pensionable payroll in respect of these members was £2,505,619. The Group continues to offer membership of the Scheme to its employees.

It is not possible in the normal course of events to identify on a reasonable and consistent basis the share of underlying assets and liabilities belonging to individual participating employers. This is because the scheme is a multi-employer scheme where the scheme assets are co-mingled for investment purposes, and benefits are paid from total scheme assets. Accordingly, due to the nature of the Scheme, the accounting charge for the year under FRS 17 represents the employer contribution payable.

The last formal valuation of the Scheme was performed at 30 September 2011 by a professionally qualified Actuary using the Projected Unit Method. The market value of the Scheme’s assets at the valuation date was £2,062 million. The valuation revealed a shortfall of assets compared with the value of liabilities of £1,035 million, equivalent to a past service funding level of 67.0%.

The Scheme Actuary has prepared an Actuarial Report that provides an approximate update on the funding position of the Scheme as at 30 September 2013. Such a report is required by legislation for years in which a full actuarial valuation is not carried out. The market value of the Scheme’s assets at the date of the Actuarial Report was £2,718 million. The Actuarial Report revealed a shortfall of assets compared with the value of liabilities of £1,151 million, equivalent to a past service funding level of 65%.

The financial assumptions underlying the valuation as at 30 September 2011 were as follows:

		% pa
• Investment return pre-retirement		7.0
• Investment return non-pensioner post-retirement		4.2
• Investment return post-retirement		4.2
• Pensionable earnings growth		2.5 per annum for 3 years, then 4.4
• Price Inflation		2.9
• Rate of pension increases	Pre-88 GMP	0.0
	Post-88 GMP	2.0
	Excess over GMP	2.4

Expenses for death in service insurance, administration and Pension Protection Fund (PPF) levy are included in the contribution rate.

Valuation Results

The valuation was carried out using the following demographic assumptions:

Mortality pre-retirement – 41% SAPS S1 Male / Female All Pensioners (amounts), Year of Birth, CMI_2009 projections with long term improvement rates of 1.5% p.a. for Males and 1.25% p.a. for Females.

Mortality post retirement – 97% SAPS S1 Male / Female All Pensioners (amounts), Year of Birth, CMI_2009 projections with long term improvement rates of 1.5% p.a. for Males and 1.25% p.a. for Females.

The long-term joint contribution rates that apply from April 2013 required from employers and members to meet the cost of future benefit accrual were assessed at:

Benefit structure	Long-term joint contribution rate (% of pensionable salaries)
Final salary with a 1/60th accrual rate	19.4
Career average revalued earnings (CARE) with a 1/80th accrual rate	14.0

If an actuarial valuation reveals a shortfall of assets compared to liabilities the Trustee must prepare a recovery plan setting out the steps to be taken to make up the shortfall.

Following consideration of the results of the actuarial valuation it was agreed that the shortfall of £1,035 million would be dealt with by the payment of deficit contributions of 7.5% of Members' Earnings per annum, increasing by 4.7% per annum from 1 April 2013 to 30 September 2020, dropping to 3.1% from 1 October 2020 to 30 September 2023.

These deficit contributions are in addition to the long-term joint contribution rates set out in the table above.

The Scheme Actuary will provide an approximate update on the funding position of the Scheme as at 30 September 2014. Such a report is required by legislation for years in which a full actuarial valuation is not carried out. The results of this approximate update will be available in Spring 2016 and will be included in next year's Disclosure Note.

Employers that participate in the Scheme on a non-contributory basis pay a joint contribution rate (i.e. a combined employer and employee rate).

Employers that have closed the defined benefit section of the Scheme to new entrants are required to pay an additional employer contribution loading of 2.5% to reflect the higher costs of a closed arrangement.

A small number of employers are required to contribute at a different rate to reflect the amortisation of a surplus or deficit on the transfer of assets and past service liabilities from another pension scheme into the SHPS Scheme.

New employers that do not transfer any past service liabilities to the Scheme pay contributions at the ongoing future service contribution rate. This rate is reviewed at each valuation and new employers joining the scheme between valuations up until 1 April 2010 do not contribute towards the deficit until two valuations have been completed after their date of joining the Scheme. New employers joining the scheme after 1 April 2010 will be liable for past service deficit contributions from the valuation following joining. Contribution rates are changed on the 1 April that falls 18 months after the valuation date.

A copy of the recovery plan, setting out the level of deficit contributions payable and the period for which they will be payable, must be sent to the Pensions Regulator. The Regulator has the power under Part 3 of the Pensions Act 2004 to issue scheme funding directions where it believes that the actuarial valuation assumptions and/or recovery plan are inappropriate. For example the Regulator could require that the Trustee strengthens the actuarial assumptions (which would increase the scheme liabilities and hence impact on the recovery plan) or impose a schedule of contributions on the Scheme (which would effectively amend the terms of the recovery plan).

As a result of pension scheme legislation there is a potential debt on the employer that could be levied by the Trustee of the Scheme. The debt is due in the event of the employer ceasing to participate in the Scheme or the Scheme winding up.

19a. Pensions – Social Housing Pension Scheme (Group) (continued)

The debt for the Scheme as a whole is calculated by comparing the liabilities for the Scheme (calculated on a buyout basis i.e. the cost of securing benefits by purchasing annuity policies from an insurer, plus an allowance for expenses) with the assets of the Scheme. If the liabilities exceed assets there is a buy-out debt.

The leaving employer's share of the buy-out debt is the proportion of the Scheme's liability attributable to employment with the leaving employer compared to the total amount of the Scheme's liabilities (relating to employment with all the currently participating employers). The leaving employer's debt therefore includes a share of any 'orphan' liabilities in respect of previously participating employers. The amount of the debt therefore depends on many factors including total Scheme liabilities, Scheme investment performance, the liabilities in respect of current and former employees of the employer, financial conditions at the time of the cessation event and the insurance buy-out market. The amounts of debt can therefore be volatile over time.

The Group has been notified by the Pensions Trust of the estimated employer debt on withdrawal from the Social Housing Pension Scheme, based on the financial position of the Scheme as at 30 September 2013. As of this date the estimated employer debt for the Group was £13,313,507.

The Group's contributions are affected by a surplus or deficit in the scheme, but the Group is unable to identify its share of the underlying assets and liabilities on a consistent and a reasonable basis. The total pension cost to the Group for the year was £435,492 (2013: £309,963). The Group's unpaid contributions at 31 March 2014 were £nil (2013: £nil).

19b. Pensions – Local Government Pension Scheme

The disclosures below relate to the funded liabilities within the Northumberland County Council Pension Fund (the "Fund") which is part of the Local Government Pension Scheme. The funded nature of the LGPS requires the Group and its employees to pay contributions into the Fund, calculated at a level intended to balance the pension liabilities with investment assets. The latest actuarial valuation was carried out as at 31 March 2013 and was updated for FRS 17 purposes to 31 March 2014 by a qualified independent Actuary.

	2014 £000	2013 £000
Present value of funded defined benefit obligations	(23,330)	(25,870)
Fair value of plan assets	24,100	23,850
Net asset / (liability)	**770**	**(2,020)**

Movements in present value of defined benefit obligation	2014 £000	2013 £000
Present value of liabilities	(25,870)	(22,340)
Current service expense	(800)	(740)
Past service income	-	-
Interest expense	(1,180)	(1,090)
Actuarial gain / (loss)	4,520	(1,580)
Contributions by members	(200)	(210)
Benefits paid	200	90
At 31 March	**(23,330)**	**(25,870)**

Movements in fair value of plan assets

	2014 £000	2013 £000
Present value of assets	23,850	19,990
Expected return on plan assets	1,570	1,380
Actuarial (loss) / gain	(2,170)	1,480
Contributions by employer	850	880
Contributions by members	200	210
Benefits paid	(200)	(90)
At 31 March	**24,100**	**23,850**

Expense recognised in the income and expenditure account

	2014 £000	2013 £000
Current service expense	800	740
Past service income	-	-
Interest on defined benefit pension plan obligation	1,180	1,090
Expected return on defined benefit pension plan assets	(1,570)	(1,380)
Total	**410**	**450**

The expense is recognised in the following line items in the income and expenditure account:

	2014 £000	2013 £000
Operating expense	800	740
Other finance income	(390)	(290)
	410	**450**

The total amount recognised in the statement of total recognised gains and losses in respect of actuarial gains is a gain of £2,350,000 (2013: loss of £100,000)

Northumberland County Council employs a building block approach in determining the rate of return on Fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is as follows:

	31 March 2014 %	31 March 2013 %
Equities	7.6	7.8
Property	6.9	7.3
Government bonds	3.4	2.8
Corporate bonds	4.0	3.8
Cash	0.9	0.9
Other	7.6	7.8
Average	6.5	6.6

Principal actuarial assumptions (expressed as weighted averages) at the period end were as follows:

	31 March 2014 %	31 March 2013 %
Discount Rate	4.3	4.5
Pension increases	2.4	2.8
Final salary increases	3.9	4.7
Inflation	3.4	3.7

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables known as PNA and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65 year old to live for a number of years as follows:

- Current pensioner aged 65: 22.9 years (male), 25.4 years (female)
- Future retiree upon reaching 65: 25.1 years (male), 27.7 years (female)

History of plans

The history of the plans is as follows:

Balance Sheet

	2014 £000	2013 £000	2012 £000	2011 £000
Present value of scheme liabilities	(23,330)	(25,870)	(22,340)	(18,840)
Fair value of scheme assets	24,100	23,850	19,990	18,040
Surplus / (deficit)	**770**	**(2,020)**	**(2,350)**	**(800)**

Experience adjustments

	2014 £000	2013 £000	2012 £000	2011 £000
Experience adjustments on scheme liabilities	-	-	-	-
Experience adjustments on scheme assets	(2,170)	1,480	(420)	(2,370)
(Deficit) / Surplus	**(2,170)**	**1,480**	**(420)**	**(2,370)**

The Group's regular contributions to the Fund for the accounting period ending 31 March 2015 are estimated to be £850,000. In addition, Strain on Fund contributions may be required.

20. Provision for liabilities and charges (Group)

Improvement provision

The refurbishment provision is as follows:

	2014 £000	2013 £000
At 1 April	52,012	65,947
Capitalised expenditure during the period	(4,311)	(11,018)
Revenue expenditure during the period	(3,525)	(2,917)
At 31 March	**44,176**	**52,012**

The provision represents the best estimate of the cost of works that Wansbeck Homes Limited (WH) has contracted to undertake under the Development Agreement for the repair and upgrading of the housing properties that were subsequently acquired by WH from Wansbeck District Council (the Council) on 25 February 2008.

Immediately prior to entering into the stock transfer agreement between the Council and Wansbeck Homes Limited (WH), the Council and WH entered into a contract for WH to perform the refurbishment works required to bring the properties into an agreed state. The contract was for a fixed sum equal to the expected cost of the works. i.e. £120,155,186.

At transfer, WH contracted with the Council to acquire the benefit of the agreed refurbishment works (£120,155,186) plus the price of the properties (£nil). The nature of the works under the initial agreement has not been specified and a right of set off exists between the contracts. These contracts have enabled WH to recover the VAT on repair/enhancement costs that would otherwise have been expensed.

At the time of the transfer WH paid over a net cash amount of £nil for the properties, to the Council, representing the acquisition of the properties in their unenhanced condition and the value of the Council's obligation to carry out the refurbishment works (£120,155,186) less the amount due to be incurred by WH under the Development Agreement in relation to the anticipated costs of the repairs/improvements (£120,155,186).

The impact of these two transactions is that whilst the Council has a legal obligation to WH to complete the refurbishment works, this work has been contracted back to WH who is also equally obligated. The underlying substance of the transaction is therefore that WH has acquired the housing properties in their existing condition at their agreed value and will complete certain repairs/improvements in line with guarantees to tenants of not less that £120,155,186.

In the opinion of the Board, the commercial effect of these transactions when viewed as a whole is that WH has both an asset (the Council's obligation to have the refurbishment work carried out) and a legally binding obligation to a third party (under the Development Agreement) and these assets and liabilities should be recognised in the financial statements.

At 31 March 2014 £44,176,000 (2013: £52,011,580) is shown in debtors: amounts falling due after more than one year and £44,176,000 (2013: £52,011,580) in provisions for liabilities and charges.

21. Revenue reserves (Group)

	Reserve for major works to housing properties (designated) £000	Development (designated) £000	Pension reserve £000	Investment revaluation reserve £000	Income & expenditure account £000	Total 2013 £000
At 31 March	5,782	1,555	(6,620)	77	41,744	42,538
Transfer	257	-	-	-	(257)	-
Surplus for the year	-	-	-	-	9,024	9,024
Actuarial gain for the year	-	-	2,350	-	-	2,350
Revaluation	-	-	-	(31)	-	(31)
At 31 March	**6,039**	**1,555**	**(4,270)**	**46**	**50,511**	**53,881**

22.Share capital (Group)

	No.	2014 £	No.	2013 £
Shareholding members at 1 April	9	9	9	9
Resignation	-	-	-	-
Appointments	-	-	-	-
Shareholding members at 31 March	**9**	**9**	**9**	**9**

The share capital is represented by one share held by each member of the Association. Shareholders have a right to attend and vote at annual general meetings. Shareholders have no rights to a distribution on a winding up and have no rights to dividends. No provision has been made for the redemption of shares.

23. Capital commitments (Group)

	Group and Association	
	2014 £000	2013 £000
Expenditure contracted less certified costs	13,020	13,568
Expenditure authorised by the Board but not contracted for	2,761	2,183
	15,781	**15,751**

24. Reconciliation of operating surplus to net cash inflow from operating activities (Group)

	2014 £000	2013 £000
Operating surplus	8,834	5,594
Loss on disposal of housing property components	126	234
(Profit) / Loss on disposal of other fixed assets	(2)	2
Depreciation	2,959	2,885
Amortisation of goodwill	63	63
Pension contributions less service expense	(50)	(140)
Deferred indemnity income	-	(151)
Decrease / (increase) in stock	201	(342)
(Increase) / decrease in debtors	(1,330)	468
Increase /(decrease) in creditors	2,240	(175)
Net cash inflow from operating activities	**13,041**	**8,438**

25. Analysis of net debt (Group)

	At 1 April 2013 £000	Cash flow changes £000	Non cash £000	At 31 March 2014 £000
Cash at bank and in hand	11,670	1,285	-	12,955
Overdraft	(33)	33	-	-
Debt due within one year	(532)	532	(590)	(590)
Debt due after one year	(66,421)	(319)	911	(65,829)
	(55,316)	**1,531**	**321**	**(53,464)**

26. Reconciliation of net cash flow to movement in net debt (Group)

	2014 £000	2013 £000
Increase in cash in year	1,318	7,853
Cash to repay loans	213	1,345
Loan advances	-	(19,250)
Change in debt resulting from cash flow	**1,531**	**(10,052)**
Cash balances acquired	-	229
Movement in debt due within one year	321	(533)
Movement in net debt in the year	**1,852**	**(10,356)**
Net debt at 1 April	(55,316)	(44,960)
Net debt at 31 March	**(53,464)**	**(55,316)**

27. Related party disclosure

Bernicia Group Limited is the Parent company for Cheviot Housing Association Limited, Wansbeck Homes Limited, Kingston Property Services Limited, Livingspaces (UK) Limited, Cheviot Leasehold Housing Limited and Cheviot Housing Limited. These financial statements have been prepared in accordance with relavant accounting standards. All inter-company transactions have been eliminated on consolidation of these financial statements.

The relationship of each subsidiary is explained below and a brief summary is provided detailing any balances that are owed/due between those subsidiary companies

Cheviot Housing Association Limited is also related to Kingston Property Services through the directors of the company, who are also members of the Board of the Association. At 31 March 2014, an amount of £820,531 (2013: £469,052) was due from Kingston Property Services Limited to Cheviot Housing Association Limited.

On 25 April 2012 Cheviot Housing Association Limited acquired the share capital of Livingspaces (UK) Limited. The directors of Livingspaces (UK) Limited are also members of the Board of the Association. At 31 March 2014 a balance of £135,852 was due from Livingspaces (UK) Limited to Cheviot Housing Association Limited (2013:£164,308).

Cheviot Housing Association Limited is also related to Wansbeck Homes Limited through a Group structure under Bernicia Group Limited. At 31 March 2014, an amount of £1,759,765 is due to Wansbeck Homes Limited (2013: £1,513,510) by Cheviot Housing Association Limited.

Wansbeck Homes Limited is also related to Kingston Property Services Limited through a Group structure under Bernicia Group Limited. At 31 March 2014, an amount of £15,486 is due to Wansbeck Homes Limited (2013: £7,661) by Kingston Property Services Limited.

The group and subsidiary accounts are available from the registered office.

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