Bernicia Group

Report of the Board of Management and Financial Statements

Registered society number 7711

31 March 2018

Contents

Report of the Board of Management

BOARD OF MANAGEMENT

Chair:	W Worth	
Members:	S Anderson	(resigned 26 September 2017)
	L Charles-Jones	(co-optee to 26 September 2017, board member from 26 September 2017)
	J Holmes	(co-optee to 26 September 2017, board member from 26 September 2017)
	D Jennings	(co-optee from 1 July 2017 to 30 January 2018, board member from 30 January 2018)
	H Parker	(resigned 26 September 2017)
	A Pegg	
	B Renforth	(resigned 26 September 2017)
	K Riddell	
	X Setna	
	T Stevenson	
	A Tarn	

SENIOR MANAGEMENT TEAM

Group Chief Executive:	W Heads	(to 31 March 2018)
	J Johnston	(from 1 April 2018)
Group Deputy Chief Executive:	J Johnston	(to 31 March 2018)
Executive Director, Finance and Corporate Services:	M Axe	
Company Secretary:	M Axe	

Registered Office:
Oakwood Way
Ashwood Business Park
Ashington
Northumberland
NE63 0XF

Auditor:
KPMG LLP
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

Principal solicitors:
Womble Bond Dickinson
One Trinity, Broad Chare
Newcastle upon Tyne
NE1 2HF

Principal bankers:
Barclays Bank plc
Barclays House
5 St Ann's Street
Quayside
Newcastle upon Tyne
NE1 3DX

Other information:
A Registered Society (under the Co-operative and Community Benefit Societies Act 2014) No. 7711

Registered with Homes England No. 4868

Report of the Board of Management *(continued)*

About Bernicia

Bernicia Group ('Bernicia') is a registered provider of social housing with the Regulator of Social Housing (RSH) (formerly the regulatory arm of the Homes and Communities Agency).

The Bernicia Group is predominantly and at its heart, a social landlord, and is one of the largest in the North East of England. We are proud of our north east heritage, with our geographical location spanning from the Scottish border in the north, to North Yorkshire in the south, and to the Durham dales in the west.

The overriding objective of Bernicia is to help people in need of housing. We are a leading social landlord, building, renting, selling and managing homes, and providing estate and facilities management to over 60,000 customers and employing over 500 people.

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. Services and activities are provided to promote health and wellbeing, tackle isolation and loneliness and support independence.

We strive to ensure that Bernicia is a business that people want to work with and be part of. We are recognised and respected by our customers, colleagues, business partners and within communities where we are renowned as an organisation that gets the job done.

We continue to strengthen our business, generating surpluses through our operational activities, improving our efficiency and maximising profits through our commercial activities. Surpluses are reinvested into our existing and new homes, services and our people to help us achieve our mission to invest in neighbourhoods and communities and offer a wide range of homes and services to meet the requirements of our residents and customers.

Change in Group Chief Executive

After serving as the Group Chief Executive of Bernicia for 10 years, Bill Heads stepped down from the position on 1 April 2018. Following a due process, the Board appointed John Johnston, who has served as Deputy Chief Executive since 2008, to the post.

Bernicia Group structure

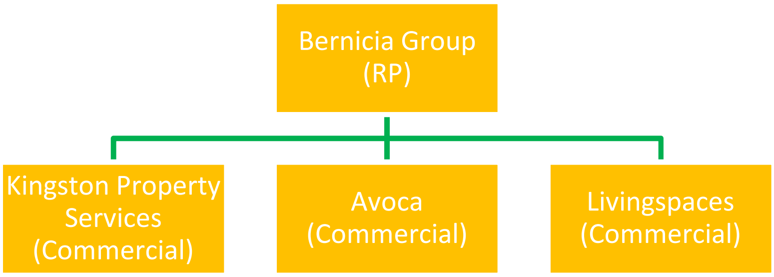
Building on the merger of Bernicia and Four Housing in 2016, the Group amalgamated the four social housing subsidiaries into a single Registered Provider named Bernicia Group. Following consultation with tenants and negotiation with lenders, the amalgamation took place on 1 February 2018 and saw Bernicia Group Limited, Cheviot Housing Association Limited (Cheviot), Wansbeck Homes Limited (Wansbeck), Three Rivers Housing Association Limited (Three Rivers) and Berwick Borough Homes Limited (Berwick) amalgamate into a single, new entity.

This approach represents the third phase of the merger plan; the three phases were Consolidation, Integration and Simplification.

Report of the Board of Management *(continued)*

The amalgamation is expected to realise significant savings for the Group as the new entity is able to leverage the assets of all four associations to increase its borrowing capacity, use existing cash reserves more efficiently for future developments in addition to benefiting from simplified reporting and administrative requirements.

Bernicia Group has 3 commercial subsidiaries.

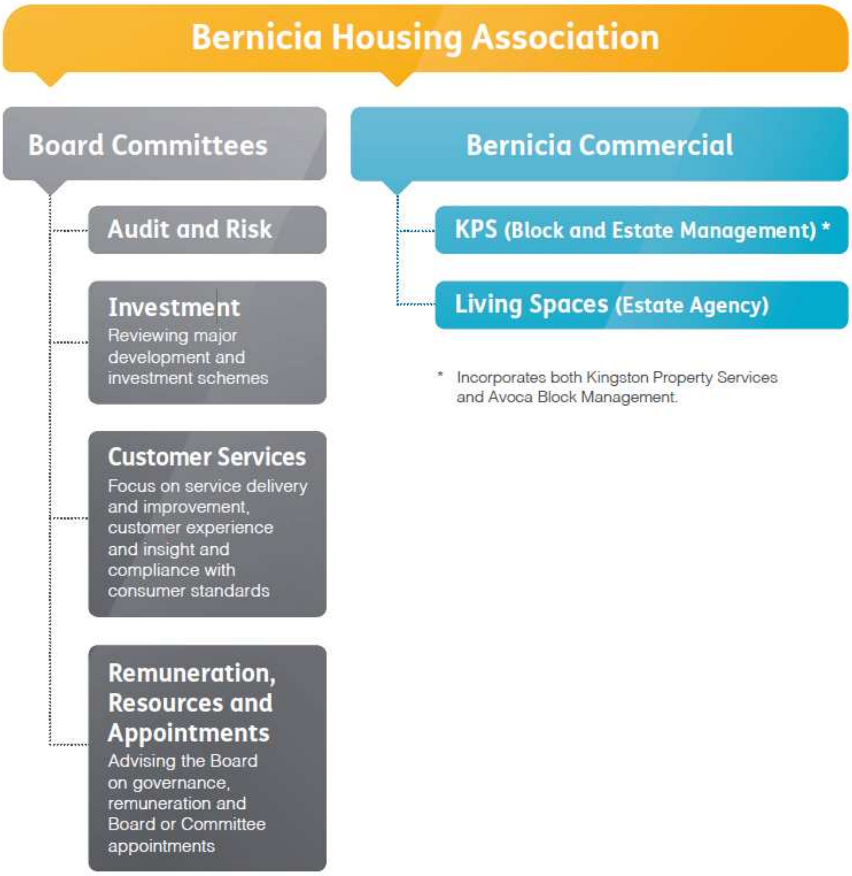


Bernicia's governance structure

Since the merger of the Bernicia and Four Housing Groups on 1 June 2016, a 'one organisation' approach was adopted in our governance structure and across our business operations which has facilitated a smooth transition through the amalgamation. Prior to the simplification, the parent and social housing subsidiaries shared a unified Board structure with commonality of Chair and members, supported by a single Executive Team and management structure that has continued within the new entity.

A full governance review was undertaken during 2017/18. Following on from the review a new governance structure has been approved by Board which is as follows and will be adopted during 2018/19.

Report of the Board of Management *(continued)*



The Bernicia companies

Business model

Bernicia Group

The newly formed Bernicia Group has charitable status, is an asset owning Registered Provider with the Regulator of Social Housing (No 4868) and a Registered Society with the FCA (No7711) under the Co-operative and Community Benefit Societies Act 2014 and the Housing Act 1974, respectively.

Bernicia Group manages over 16,000 properties across the North East of England which includes units transferred as part of the large scale voluntary transfer of housing stock from Wansbeck Council in February 2008 and Berwick-upon-Tweed Council in November 2008.

Commercial subsidiaries

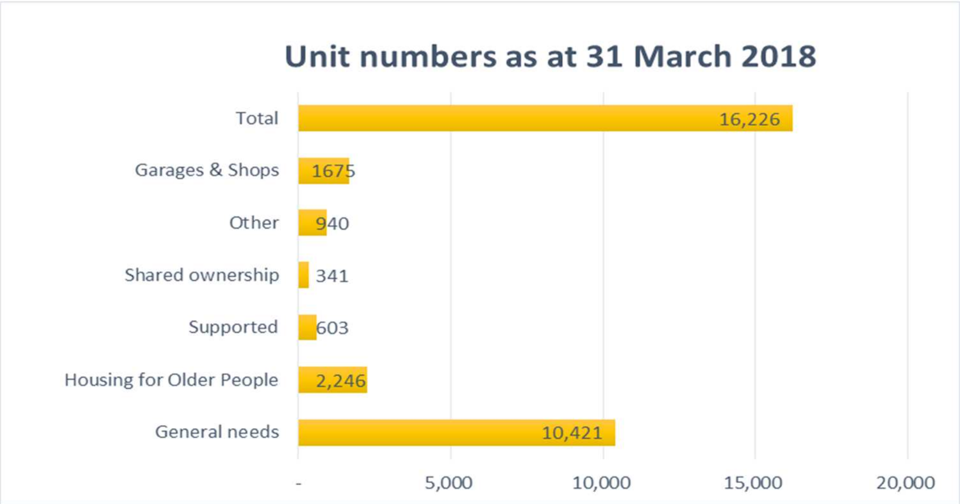
Bernicia Group has 3 commercial subsidiaries: Kingston Property Services, Avoca Estate Services Management and Livingspaces that are all private limited companies and that were all formerly subsidiaries of Cheviot. The principal activity of Kingston Property Services is leasehold block, facilities and estates management. The principal activity of Avoca is leasehold and estates management. The principal activity of Livingspaces is as a residential sales and lettings agency. A single commercial board oversees the operations of the commercial companies.

Report of the Board of Management *(continued)*

Housing stock owned and managed

The Group continues to develop now homes across a range of property types and tenures. We provide housing, care and support services for single people, couples, families, older residents and those requiring additional support and assistance.

Housing properties by category



Bernicia's new corporate strategy and future plans

During 2017/18 a new corporate and associated operational strategies were developed, all of which run for a five year period and are effective from 1 April 2018. Our business strategy continues to place our work as a social landlord at the heart of what we do. Our vision is "Housing people, helping people". We believe that a good home makes lots of other things possible, so we aim to continue to provide great homes and services that do just that.

Our purpose, or mission, is to invest in homes, services and people in order to make a positive impact on the communities of the North East. We will invest to provide quality new and existing homes, and provide services that respond to our tenants, customers and market place requirements, in our people and the communities within which we operate.

Our values, or the "Bernicia way", is how we will conduct ourselves. We will value our customers, work together, respect each other, and have the highest levels of accountability and integrity. We will deliver what we say we will do. This is something that out tenants, customers and partners can rely on. To summarise, our values are:

- Customer focused;
- Teamwork;
- Integrity;
- Respect for our people;
- Leadership;
- Accountability.

Report of the Board of Management *(continued)*

The Group's Business Strategy forms the basis of our Annual and Operational Strategies and Plans. This details the specific targets and measures in our core social housing business.

The Group has four strategic outcomes:

- Delivering an exceptional housing service;
- Investing in homes, neighbourhoods and communities;
- Building an effective organisation;
- Helping to deliver the regional agenda.

Delivering an exceptional housing service

We aim to retain high levels of customer satisfaction by maintaining our focus on the customer, and through providing products and services that respond to existing and newly emerging need and aspiration.

We plan to use digital technologies to transform our service delivery models and ensure that customers can access services in ways and at times that suit their needs and preferences.

We will promote a customer-centric culture, give great customer experience and deliver operational excellence, and we will have a set of clear standards known as The Bernicia Promise.

We will continue to strive to reduce waste, to improve our repairs and estate services, and ensure that our new housing software package enables and innovates.

Our success measures include:

- Transactions conducted online (via self-service);
- Customer enquiries resolved at first point of contact;
- Customer satisfaction with the overall service.

Investing in homes, neighbourhoods and communities

We will actively manage our assets and continue to invest to maintain the quality of our existing homes. We will increase the quantum of new homes that we provide and will extend our housing tenure offer. We will deliver 500 new homes by 2023 and hope to exceed this target if opportunities and resources permit. We will also continue to invest in social and economic wellbeing initiatives.

We will continue to ensure that our homes meet the Bernicia Standard, and we will also help address fuel poverty and improve the wider estate environment. We will explore the opportunity to further expand the role of our Property Maintenance Division, as we feel that our in-house contractor gives us greater control of a key service and delivers added value opportunities for local people.

We will continue to have a keen focus on improving the lives of our customers, and use technology, and early intervention to address financial inclusion. Our own business will create opportunities for customers around training, volunteering and employment.

Our success measures include:

- New homes delivered year on year;
- Improving the average NPV of our stock;
- Energy efficiency (measured by average SAP ratings of our properties).

Report of the Board of Management *(continued)*

Building an effective organisation

We will deliver strong corporate governance and leadership, and will maintain our financial viability through sound management, by being efficient, by being clear about our priorities and working effectively to deliver them.

We will invest in our staff, and encourage a customer-focussed, can-do attitude, through a culture that supports our people to grow and develop. Our investment in technology along with ensuring that we have the skills, capacity and capabilities will enable us to deliver our plans.

We have undertaken a governance review and are implementing its recommendations. This ensures that we have the right leadership, skills and structures to deliver on this strategy. We will continue to review collective and individual effectiveness and ensure that we have clear succession planning.

We will continue to understand and control costs and be as efficient as possible, balancing our funds between core functions, service delivery, investment in existing homes, new supply and community wellbeing.

We will be an employer of choice and have high levels of staff engagement, motivation and development.

Our success measures include:

- At least V2 G1 regulatory judgement;
- Retaining IIP or similar accreditation;
- Meeting our financial targets.

Helping to deliver the regional agenda

As a social housing sector, we have long campaigned for housing to be given greater importance and for the value of social housing provision to be recognised. Recent government policy statements indicate that this message is being received.

As a force for housing good in the North East, Bernicia will respond positively to the opportunities that this presents, and work collaboratively with a range of partners to help influence and deliver our plans for the region.

Having just completed a merger, we will not actively pursue further growth through merger at this time, however, should opportunities arise for us to forge new alliances with like-minded organisations we would welcome discussions. We will ensure that we maintain and grow our knowledge and understanding of our communities and markets through research and business intelligence. Throughout, we will actively seek to work together and with others, to champion the needs of our customers. We will deliver maximum benefit to our communities and deliver clear economic or social return for Bernicia.

Our success measures include:

- Positive stakeholder perception survey.

Operating environment and risks

The external environment

Our operating environment continues to rapidly change. Article 50 was triggered in March 2017, thereby formally starting the process for Britain to leave the European Union. A leave deadline of March 2019 has been set. In March 2018 the UK and EU agreed on a large part of the agreement that will lead to the orderly withdrawal of the UK; that said many issues still remain unresolved.

Report of the Board of Management *(continued)*

A transition period has been agreed, running from the UK's last Brexit day, 29 March 2019 to 31 December 2020. During that time many more negotiations will need to be undertaken. For our sector, there continues to be uncertainties regarding the supply chain, banking arrangements and access to credit, to name but a few.

That aside, we consider the Group to be well positioned to meet the challenges ahead, having financial strength and resilience and a dedicated and flexible workforce.

A fragility to the financial landscape continues to remain. The first quarter of 2018 saw a slow-down in economic growth, with growth of 0.1% being reported compared to 0.4% at December 2017. This was the lowest growth experienced since quarter 4, 2012. Nevertheless, the UK has now experienced 21 consecutive quarters of economic growth.

Interest rates continue to be forecasted to remain low though longer-term, there is still an expectation of an upward trend; the question is when.

Inflation remains above the government target of 2%, reflecting the impact of price increases following sterling's post Brexit depreciation. Pay inflation is starting to pick up with real pay growth occurring for the first time for a number of years.

In some areas, there appears to be a "softening" of the Government's deficit reduction measures, with additional funding being made available to the NHS and public sector pay restraint being lifted. In other areas the continued hardened approach remains.

Registered providers (RP's) still face many challenges. The second of a four year 1% real rent reduction commenced in 2017/18. Right to buy opportunities have not eroded the Group's property base, however the potential roll out nationally of the extension to right to buy remains a real issue. Welfare reform implementation is now being rolled out, with the full effect of roll out being set to bite by the end of 2018/19. There also still remains uncertainty around future funding levels for supported housing. On a positive note, the Local Housing Allowance Caps that had previously been indicated by the Government have been removed.

Those risks previously identified, linked to building more homes, changing customer preferences and demand for services and continuing financial pressures all remain. New issues, uncertainties and risks resulting from the new political environment will be factored into our future plans.

Key risks

During 2017/18 Board Members attended a Risk Strategy Event. This resulted in a revised Risk and Assurance Framework, and at the event Members also determined the Risk Appetite for the Group. The Board has identified the following key risks to achieving our corporate objectives:

Impact of the operating environment - Changes in government policy around welfare reform and rents against the context of a challenging and changing economic and operating environment, is placing ever increasing demand on the Group's resources and its income. To protect the financial viability of the Group we seek to manage our resources within the constraints of existing loan covenants. In addition, the Group, like other organisations, continues to view cyber security as a risk. We are mitigating both of these by:

- Regular reviews of financial and contingency planning (Re-modelling and stress testing).
- Setting minimum acceptable levels of headroom in our 30 year business plan.
- Regularly reviewing and updating our treasury strategy.

Report of the Board of Management *(continued)*

- Support and validation of financial plans and assumptions by external consultants.
- Robust performance monitoring of key indicators including budgets.
- Targeting resources to support income optimisation.
- Ensuring flexibility into our plans, priorities and objectives.
- Strengthening our partnerships and alliances to help inform decision making and reduce costs.
- Setting realistic but challenging efficiency savings targets.
- Independent cyber security, ethical hacking and phishing.
- Increased cyber security measures.

Pensions - As pension costs increase, the Group continually revises the financial impact on the business and the decisions we make. We have a significant number of employees (110) who are members of the now closed LGPS (administered by Northumberland County Council), others (66) who are in the closed SHPS final salary scheme and others in active SHPS defined benefit structures. A fourth deficit reduction plan covering our participation in SHPS is expected following the last triennial valuation. With the uncertainty created by Brexit and its impact on the value of investments held by pension schemes, there is no certainty that this will be the last. We are mitigating this risk by:

- Annually reviewing the Group Pensions Scheme.
- Continued specialist advice.
- Including provisions for future deficit payments into our 30 year business plan.
- Developing a new Pension Strategy in 2018/19.

We have also transferred members from the closed final salary SHPS structure to lower risk structures.

Regulation - The protection of social housing assets is a major requirement for the sector, meaning that historically the regulatory framework has been at the heart of ensuring this objective is successfully met by providers. This has included ensuring that we not only protect but also make best use of our assets. Changes to the Housing and Planning Act 2016 introduced deregulatory measures, effective from 6 April 2017. These changes broadly relate to the removal of, changes to and the introduction of various consent requirements, full details of which can be found at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/590274/Detailed_overview_of_legislative_changes.pdf. These changes have removed elements of previous bureaucracy, however RP's are still expected to follow due process and ensure that appropriate documentation is retained to support and changes or actions taken. That aside, we are mitigating this by:

- Ensuring that our Governance arrangements are strong and effective, and aspiring to achieve "Excellence in Governance".
- Utilising specialist staff within dedicated areas of Business Assurance and Governance.
- Dedicated responsibilities and controls in relation to regulatory returns.
- Conducting self-assessments against Regulatory Framework and subsequent action planning.

Report of the Board of Management *(continued)*

- Maintaining an Asset & Liabilities register.
- Board and Committee oversight including training and briefings.
- Business Planning and decision making within the parameters of the Group's risk appetite.
- External review of governance arrangements.

The Group's approach to risk management

We understand that there are a variety of complex, interplaying factors which affect our business. Risks to our business include economic factors, government policy and social change. How we handle these provides us with opportunities and threats which form the context of our business. Our strategic objectives sit within this context, but we identify and monitor operational and strategic risks and change our approach accordingly to ensure our objectives are not put at undue risk.

All staff share the responsibility to identify and manage risk. Each risk is assessed and given a score based on impact and probability. Risks are recorded along with key controls to manage the risk, who is responsible for the control and how the control effectiveness is monitored.

The management of operational risks can be escalated in the organisation to the Senior Management, or Executive Team who will retain effective management of the risk, providing an overview of key operational risk.

Risk is a standard item on all Board and Committee agendas. Members have the opportunity to raise any matters which will be investigated and assessed and added to the risk register where appropriate.

The Group Risk Register details key risks that impact on our strategic objectives. It is prepared by the Executive, reviewed quarterly by the Audit Committee and approved annually by the Group Board as part of the annual planning process.

Our plans for the future are impacted by the external environment, including factors such as government policy and changes in regulation which we pro-actively prepare for. These are factored into our forward planning - along with risks which we have identified over previous years that still remain current.

In conclusion, the current financial environment remains challenging and it is likely to stay that way in the short to medium term. However, we believe Bernicia is in a sound position and will manage the impact of these challenges and we expect to continue to deliver our agreed Development Programme, implement plans to enhance services and invest in existing homes and communities. The recent merger and subsequent amalgamation continues to provide the opportunity to deliver further efficiencies and increase the resilience of our financial plans.

The year under review

Financial review

The Group has delivered a strong and solid set of financial results and has out-performed the budgets and forecasts set, this is despite the challenging economic landscape and operating environment faced by the Group and the sector.

Report of the Board of Management *(continued)*

Financial results: three year summary

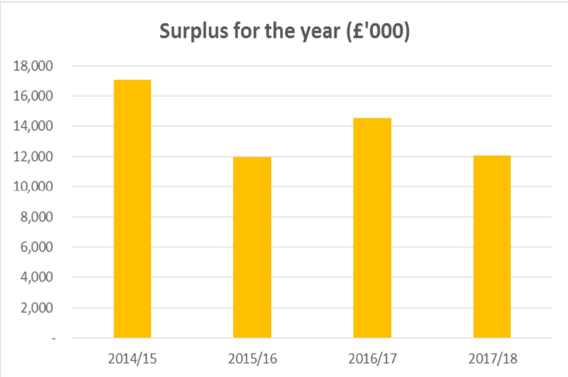
Statement of Comprehensive Income	**2018 £'000**	**2017 £'000**	**2016 £'000**
Turnover	74,991	74,934	71,057
Operating costs and cost of sales	(55,501)	(54,126)	(52,459)
Operating surplus	**19,490**	**20,808**	**18,598**
Net interest charge	(8,771)	(7,984)	(8,094)
Gain/(loss) on disposal of assets	1,350	546	614
Share in surplus in associate	-	374	286
Movement in fair value of investment property	31	92	(8)
Gift Aid	-	734	480
Taxation	(5)	(17)	(18)
Surplus for the year	**12,095**	**14,553**	**11,858**

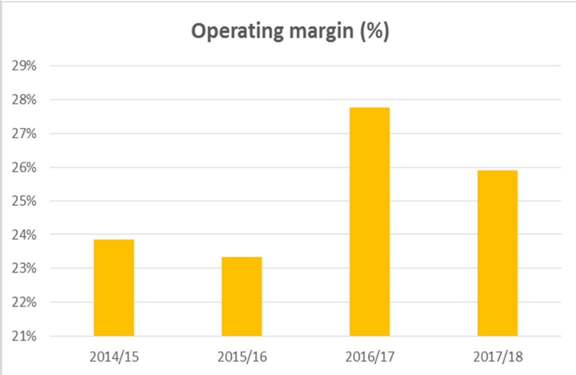
Statement of Financial Position	**2018 £'000**	**2017 £'000**	**2016 £'000**
Housing properties	430,399	425,791	413,097
Other fixed assets	15,893	16,649	20,370
Total fixed assets	**446,292**	**442,440**	**433,467**
Net current assets	56,087	80,136	85,998
Pension asset	1,404	2,247	1,190
Total assets less current liabilities	**503,783**	**524,823**	**520,655**
Creditors: amounts falling due more than one year	(196,248)	(226,158)	(235,518)
Deferred capital grants	(165,363)	(167,661)	(169,805)
Total net assets	**142,172**	**131,004**	**115,332**
Revenue reserve	142,172	131,004	115,332
Capital and reserves	**142,172**	**131,004**	**115,332**

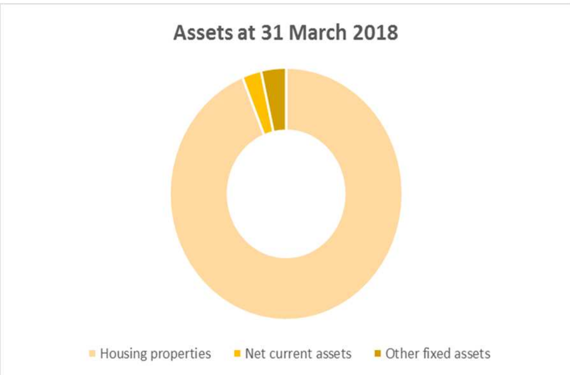
Asset data	**2018**	**2017**	**2016**
Social housing stock owned at year end (no.)	13,611	13,460	13,372
Non-social housing and other property types	2,615	2,506	N/A
Average existing use value (EUV-SH) per unit (£)	30,060	26,742	*32,333

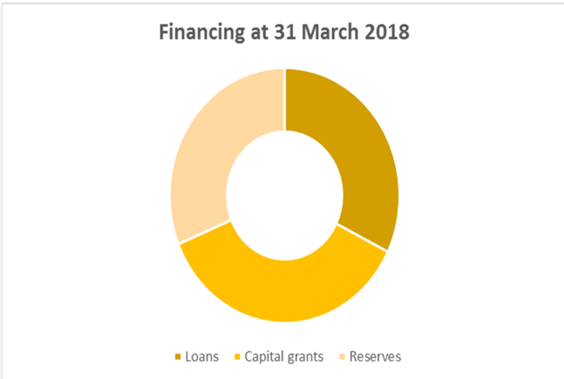
* Existing Use Value – Social Housing (EUV-SH) only available for former Three Rivers and Berwick properties

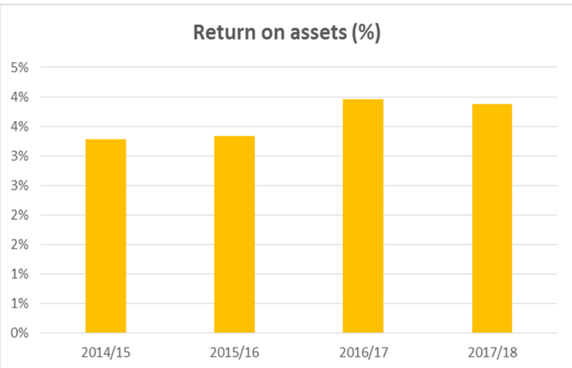
Report of the Board of Management *(continued)*

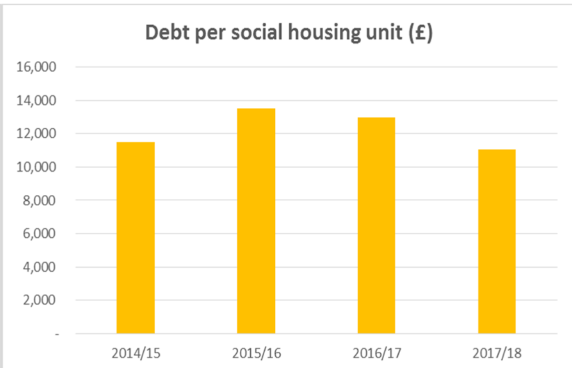












Financial position

The Group's consolidated statement of comprehensive income for the year ended 31 March 2018 is shown on page 38 of the financial statements, and its consolidated statement of financial position as at 31 March 2018 is shown on page 40.

The Group delivered a strong result, generating a surplus of £12.1million (2017: £14.5million) whilst operating in an increasingly challenging environment from both an economic and regulatory perspective. The Group continues to realise the benefits of the merger and we look forward to continued benefits as we move forward.

Report of the Board of Management *(continued)*

In order to ensure that it can achieve its investment and regulatory objectives, the Group has continued to develop its excellent working relationships with Homes England (HE), the Regulator of Social (RSH) Housing and the Regulatory Committee. In December 2017, RSH confirmed that Bernicia meets the requirements set out in the Governance and Financial Viability Standard issuing a V1 grade for financial viability. Bernicia continues to hold G1 status from its previous governance assessment. Bernicia therefore meets RSH's governance and viability requirements and has the financial capacity to deal with a wide range of adverse scenarios.

Accounting policies

The Group's principal accounting policies are set out in the notes to the financial statements on pages 45 to 85. Accounting policies have been reviewed and updated for FRS 102 and the Housing SORP 2014: Statement of Recommended Practice for registered social housing providers. The policies that are most critical to the understanding of the financial results relate to the accounting treatment of housing properties, government grants, the capitalisation of costs, housing property depreciation and the treatment of shared ownership properties.

Significant judgements and estimation uncertainties

Any significant judgements and estimation uncertainties included in the financial statements are set out in the accounting policies note.

Housing properties

At 31 March 2018, the Group owned 13,611 and managed a further 127 housing properties (2016: owned 13,460 and managed 104).

The Group holds its housing properties at cost. As at 31 March 2018, the carrying value of housing properties is £430.4million (2017: £425.8million). Housing properties are valued for loan security purposes (excluding properties under construction), and the estimated value of secured and unsecured properties is £379.6million (2017: £359.9million).

There was no property impairment recognised during the financial year (2017: £94k).

The Group's investment in housing properties this financial year was funded through a mixture of social housing grant, loan finance and internally generated cash surpluses. The Group's treasury management arrangements are considered below.

Other freehold land and buildings

Other freehold land and buildings includes garages, commercial properties and office buildings owned by the Group. No impairment adjustment has been made during the financial year (2017: £nil).

Cash flow statement

Cash inflows and outflows during the financial year are shown in the consolidated statement of cash flows on page 44 of the financial statements.

The Group generated a cash inflow from operating activities of £24.1million (2017: inflow £31.1million). The cash inflow in the financial year was funded mainly by operating activities. Net cash outflows in respect of financing was £32.7 million (2017: £14.1million), social housing grant of £1.4million (2017: £3.7million) and property sales of £3.0million (2017: £1.1million) resulting in a net decrease in cash of £22.1million (2017: decrease of £2.0million).

Cash at bank and in hand decreased to £28.1million (2017: £50.3million).

Report of the Board of Management *(continued)*

Reserves

After the transfer of the surplus (including other comprehensive income) for the financial year of £11.2million (2017: £15.7million) at the financial year end, the Group's reserves amounted to £142.2million (2017: £131.0million).

Treasury Management

Treasury activities focus on ensuring that the Group has sufficient liquidity to fund its operations for a minimum of two years, mitigating the impact of adverse movements in interest rates, ensuring that loan covenants are met and ranking the preservation of capital ahead of returns when making investment decisions. The Group has at 31 March 2018, sufficient liquidity to fund operations for the next five years.

Capital Structure

Liquidity is secured from free cash flow from operations, government grant and external lending facilities. At 31 March 2018, the Group had drawn loans totalling £150.4million (2017: £174.5million) and had available undrawn credit facilities of £38million (2017: £27.3million). Cash equivalents held at the year-end totalled £28.1million (2017: £50.3million).

Funding

Following the amalgamation of the four social housing subsidiaries, the Group restructured its financing. New loans of £104million and a revolving credit facility of £67.5million were secured, existing loans of £22million were repaid.

The refinancing is expected to generate capacity in excess of £25million for the Group over the course of the 30 year business plan.

Debt Repayment Profile

The Treasury Strategy ensures that the Group spreads the repayment and refinancing of loans. The Group has repayments of £48.5million (2017: £19.8million) due over the next five years and has facilities in place to undertake this. A further £101.9million matures after year 5, representing 67.8% of total debt (2017: £154.7million, 88.7%).

Counterparty Risk

The Group operates a conservative counterparty risk management strategy that aims to minimise the risk of a financial loss, reputational loss or liquidity exposure as the result of counterparty to any Treasury transaction becoming insolvent.

As at 31 March 2018, all cash investments are held with counterparties who meet the criteria of our Treasury Management Policy.

Currency Risk

The Group borrows and invests surplus cash only in sterling and does not have any foreign currency risk.

Interest Rate Management

The Group manages its exposure to fluctuations in interest rates with a view to achieving a level of certainty in its net interest costs. The Group's interest rate strategy is focused on achieving the prescribed balance between fixed and floating rate debt at an acceptable level of risk and cost.

As at 31 March 2018, 78% of the Group's drawn debt (inclusive of hedging activity) was fixed at rates between 1% and 11.6%.

Report of the Board of Management *(continued)*

Loan Covenant Compliance

Loan covenants are primarily based on interest cover, gearing ratios and asset cover. Covenants are monitored monthly and were comfortably met throughout the year and at the year-end for all loan facilities.

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 and are presented at old subsidiary level:

Key performance indicators	2017/18 Actual	2017/18 Target
Appointments made and kept		
➢ Cheviot	92.70%	92.00%
➢ Wansbeck	94.60%	92.00%
➢ Three Rivers	84.80%	92.00%
➢ Berwick	89.40%	92.00%
Emergency repairs (of all emergency repairs notified in the year, the number completed within 24 hours as a % of all emergency repairs completed in the period)		
➢ Cheviot	100.00%	99.00%
➢ Wansbeck	100.00%	99.00%
➢ Three Rivers	100.00%	99.00%
➢ Berwick	100.00%	99.00%
Customers "satisfied" with repairs		
➢ Cheviot	92.00%	92.00%
➢ Wansbeck	96.00%	92.00%
➢ Three Rivers	93.20%	92.00%
➢ Berwick	90.10%	92.00%
Gas servicing (% of properties with a valid certificate)		
➢ Cheviot	99.96%	100.00%
➢ Wansbeck	99.94%	100.00%
➢ Three Rivers	100.00%	100.00%
➢ Berwick	99.93%	100.00%
Solid fuel servicing (% of properties with a valid certificate)		
➢ Cheviot	100.00%	100.00%
➢ Wansbeck	100.00%	100.00%
➢ Three Rivers	100.00%	100.00%
➢ Berwick	100.00%	100.00%
Current tenant arrears		
➢ Cheviot	2.93%	3.25%
➢ Wansbeck	3.02%	3.50%
➢ Three Rivers	3.90%	3.50%
➢ Berwick	2.43%	3.50%
Transfer to former tenant arrears		
➢ Cheviot	0.49%	0.75%
➢ Wansbeck	0.75%	1.25%
➢ Three Rivers	1.12%	1.00%
➢ Berwick	0.52%	1.00%

Report of the Board of Management *(continued)*

Key performance indicators	2017/18 Actual	2017/18 Target
Rent collected (rent received as a % of rent charged to date)		
➢ Cheviot	98.91%	99.25%
➢ Wansbeck	99.32%	99.00%
➢ Three Rivers	98.58%	99.00%
➢ Berwick	99.81%	99.00%
Rent loss as a result of void properties		
➢ Cheviot	1.90%	2.50%
➢ Wansbeck	1.06%	2.50%
➢ Three Rivers	2.47%	3.00%
➢ Berwick	0.93%	2.00%
Average number of days to relet		
➢ Cheviot	36.79	33.00
➢ Wansbeck	24.49	30.00
➢ Three Rivers	45.79	50.00
➢ Berwick	33.15	30.00
Total voids (available to let)		
➢ Cheviot	1.57%	1.25%
➢ Wansbeck	0.84%	1.25%
➢ Three Rivers	1.86%	2.00%
➢ Berwick	0.95%	1.00%
Total voids (unavailable to let)		
➢ Cheviot	0.37%	0.50%
➢ Wansbeck	0.27%	0.50%
➢ Three Rivers	2.40%	1.75%
➢ Berwick	0.42%	0.50%
Customer service calls answered within service standard (40 seconds)	73.00%	80.00%
Percentage calls abandoned	5.30%	4.00%
Complaint timescales met		
➢ Cheviot & Wansbeck	99.00%	95.00%
➢ Three Rivers & Berwick	99.00%	95.00%
Number of live complaints		
➢ Cheviot & Wansbeck	8	-
➢ Three Rivers & Berwick	3	-
Investment in existing properties		
➢ Cheviot	£2,540,000	£2,530,000
➢ Wansbeck	£6,573,000	£6,788,000
➢ Three Rivers	£2,243,000	£2,282,000
➢ Berwick	£2,311,000	£2,366,000

Report of the Board of Management *(continued)*

Key performance indicators	2017/18 Actual	2017/18 Target
Number of properties receiving investment works		
➢ Cheviot	779	737
➢ Wansbeck	1,295	1,260
➢ Three Rivers	568	426
➢ Berwick	372	436
SAP rating		
➢ Cheviot	72.92	39.00*
➢ Wansbeck	70.86	39.00*
➢ Three Rivers	73.43	39.00*
➢ Berwick	64.03	39.00*
*Government 2020 target		
Approved schemes 2015-20 programme (scheme cost)	£51,795,000	£52,370,000
HE completion targets	97	92
Other completions	40	No target set

The table above reflects the KPIs monitored by Bernicia throughout the year. Following the simplification of the Group, a single set of KPIs have been set for performance monitoring from 1 April 2018.

Details of how our performance across a number of key indicators compares to others can found in the Value for Money section of this report, starting on page 19.

Responsive repairs and servicing (Health and Safety)

Headline performance:

- 46,500 repairs completed
- Satisfaction above 95%
- 100% of emergencies attended to within 24 hours
- 99.96% properties with a valid safety certificate at the end of the year.

During the year, the appointment system was rolled out to Three Rivers and Berwick. Appointments kept for these former subsidiaries was lower than target, however the number of appointments made and kept is continuing to approve. Cheviot and Wansbeck continued to achieve this target.

For each subsidiary, all emergency repairs were attended to in timescale and satisfaction levels for all except Berwick exceeded targets.

100% of properties held a valid solid fuel safety certificate at year end and over 99.9% of properties held a valid gas safety certificate at year end. During quarter 4, seventeen properties failed to have a gas service by the due date. All occurrences were due to access issues and we remained compliant.

Housing management and customer service

Headline performance:

- 99.13% rent collected
- 1,584 properties relet
- 99% response times met for complaints
- 147,200 telephone calls handled.

Report of the Board of Management *(continued)*

Income management - we remained focused on maximising our main source of income, our social housing rent. Despite challenging times, performance on rent collection and void loss both exceeded their target though increased marginally, for all associations except Cheviot and Three Rivers. Collection rates for these subsidiaries was marginally below the target set.

Overall, the Group collected an additional £1.2million cash. This was as a result of overall performance targets being exceeded.

Customer service and complaints – A major milestone was achieved in 2017/18, with the two call centres being integrated in October 2017. This has allowed tenants and customers to contact us via a single number and for staff to use the same systems and processes to offer consistent service standards, and most significantly repairs by appointment across the whole of our operating area. Call handling performance dipped in the last quarter of the year. Plans are in place to address this.

Timescales for responding to complaints were fully met and the number of complaints remained relatively consistent and low throughout the year.

Stock investment

Headline performance:

- £14 million work programme agreed and successfully completed
- 95% High levels of tenant satisfaction
- £330,000 grant funding secured to improve energy efficiency
- New 5 year, £70million stock investment framework procured and awarded.

The investment programme was successfully delivered, with the exception of one contract completion being delayed. All works were completed in accordance with the agreed stock investment budget and high levels of tenant satisfaction were recorded.

Development

Headline performance:

- 137 new homes completed during 2017/18
- 100% Homes England funded schemes delivered on time and within overall budget
- 209 started on-site during 2017/18
- 15 (100%) shared ownership properties sold.

During the year we met all targets agreed with the Homes England (97 units), in addition, we also completed a further 40 S106 homes. During the year, Bernicia started onsite with 209 homes.

Staff

Headline performance:

- 68 new employees recruited
- 13 of these new recruits were apprentices
- £246k invested in training and development.

We recognise that an engaged, motivated and skilled workforce is integral to our success. Investment in our people continues to provide a return on investment, evidenced by our excellent performance and customer satisfaction results. We have invested in a new integrated HR, OD and payroll system to improve effect and efficiency for all users. A reduction in sickness absence reflects our investment in health, wellbeing and support initiatives and low turnover of staff suggests our retention strategies are also proving to be a success.

Report of the Board of Management *(continued)*

Value for Money

Introduction

A new Value for Money (VFM) strategy was approved by Board in April 2018. The strategy runs for a five year period from 1st April 2018 to 31st March 2023 and reflects the requirements of the Regulators, new 2018 VFM Standard and Code of Practice.

Value for money (VFM) is a concept that we apply daily in our lives. We are constantly choosing which items or services to buy and judging what is the right balance between quality and cost. Bernicia as an organisation is no different. For us, it is about obtaining the maximum benefit with the resources available. It is a way of doing things that underpins everything we do; from performance management to procurement, from business planning to consultation. Value for money is integrated within all areas of Bernicia's strategic planning and operational delivery.

The VFM strategy built on the work already achieved following the merger in June 2016. Post-merger the Group had a strong financial base, however, we recognised that more could still be achieved.

The new strategy is based upon the strategic objectives and outcomes for the Group. It considers the medium and longer term aspirations for the Group, and presents the measurable targets, based on outcomes that are associated with the aims and purpose of Bernicia.

Bernicia will ensure that it achieves optimum economy, efficiency and effectiveness in the delivery of our strategic objectives, recognising the need to balance factors such as available resources, risks and other responsibilities to ensure long term financial viability.

In terms of deriving "optimal benefit" from resources and assets, Bernicia will take a measured and proportionate approach, taking into account the requirements of all the Regulator of Social Housing's (RSH's) Standards, in particular the Value for Money and Governance and Viability Standard. In optimising the financial return from assets and activities, Bernicia will ensure that the approach taken is consistent with our overall purpose and strategic objectives.

What VFM means to Bernicia

Our definition of VFM is simple – we want to optimise the value derived from the money and other assets we have available, and in doing so deliver our corporate objectives in the most cost effective way.

The value we produce is directly related to our social purpose – our vision is "Housing people, helping people". We believe that a good home makes a lot of other things possible, so we aim to provide great homes and services that do just that. We are "housing people" – professional and passionate about what we do. For Bernicia, VFM is about making as big a difference as is possible with the resources available to us.

In taking decisions, the Bernicia Board balances financial investment decisions against the overall objectives of the organisation. It takes into account issues such as the geographical areas where we operate, the local housing markets and the nature of the communities that we want to help. Of particular note is the relatively deprived nature of our communities and the positive impact that good quality affordable housing and associated services can have on the quality of life.

As a socially responsible landlord, we regularly consider how we can optimise value for money gains, we challenge what we do and how we do it, in order to ensure that optimal value is achieved across the whole of Bernicia.

Report of the Board of Management *(continued)*

In addition, we recognise and strive to optimise the return from our assets which are crucial to our long term business and financial plans. We do this with due regard to our mission, social objectives and values. Whilst we fully understand the financial impacts of investing or disinvesting in our existing homes, our strategic asset management decisions give great consideration to the positive social return that our homes provide.

Why is VFM important

Evidencing that we achieve optimum value for money is a regulatory requirement. The Value for Money Standard 2018 requires social housing providers to clearly articulate their strategic objectives, have an approach agreed by Board on how value for money will be achieved, have an appetite for delivering new housing supply and ensure that optimum benefit is derived from resources and assets in order to optimise economy, efficiency and effectiveness in delivering strategic objectives.

Regulation aside, the principles of value for money make good business sense, after all, why would any organisation not strive to optimise such benefits?

The key elements of the VFM standard are as follows:

- There should be a **robust approach** to achieving value for money. This will include a robust approach to decision making and rigour in appraising options for improving performance.

- There should be **regular and appropriate consideration by Board** of potential value for money gains.

- Value for money should be a **whole business approach**, and where there is investment in non-social housing activity, consideration should be given to whether the return from such activity is commensurate with the risk involved. Where this is not the case Board should seek justification.

- There should be **appropriate targets in place** for measuring performance in achieving value for money. Performance against the targets should be regularly monitored and reported.

In terms of demonstrating VFM, going forward, the annual statutory accounts will contain updates in respect of performance against our own value for money targets, performance against metrics set out by the regulator, and how our performance compares to our peers. For the year ending 31 March 2018 (only) performance against the metrics are reported, along with our metric targets for the forthcoming 5 years.

Rent reduction and merger savings

The Government's July 2015 budget announced changes to the rent formula for the sector. 2017/18 was the second of a four year, 1% real rent reduction programme. To counteract the reduction in rental income, savings of £4.8million per annum were required to be made by the Group by Year 4. In addition, a further £2.0million per annum of savings were identified from our 2016 merger resulting in an overall target of £6.8million per annum by 2020.

The merger business case identified a four year plan to consolidate, integrate, restructure and develop a new corporate strategy, and this was supported by the four year saving target. We have implemented the plan and launched our new corporate strategy some two years earlier than originally planned, thus the savings plan has been superseded.

Report of the Board of Management *(continued)*

The final report to Board on merger savings was presented in April 2018. This was supported by an independent report which corroborated, that against a target of £6.8million, savings and efficiencies of £6.6million per annum had been achieved

The merger and efficiency savings delivered have created additional resilience in the Group's business plan to provide additional capacity to invest in homes and services and withstand any future challenges.

Key achievements in 2017/18

The main achievement has been the simplification of the Group into a single provider in February 2018. In addition we have also achieved the following:

Performance

- In line with previous year's trends, exceeded key financial targets with consistent gains in performance.
- Maintained strong operational performance in the face of challenging economic and social conditions.
- Provided more new homes and additional investment in our existing homes and communities.
- Delivered all of our 2016 to 2018 value for money action plan, with the exception of developing an Accommodation Strategy. This important piece of work is scheduled to be completed in 2018/19.

Investing in our business

- We have further embedded our approach to the provision of pre-tenancy advice and support to prevent tenancy failure, and the sharing of practices across the enlarged group which resulted in strong rent collection and arrears performance.
- Ensured that the Group has healthy cash balances of £28.1million, undrawn facilities of £40.1million, and unencumbered security which could be used to generate at least £111.2million of new facility
- We have provided £8.2million internal subsidy in new housing supply, of which 137 were handed over in 2017/18, and a further 76 were on site at the end of the financial year.
- We invested £246k in the development and training of our people.
- We invested resources to strengthen our approach to risk management and health and safety.

Efficiencies

Last year's value for money efficiency targets were focussed on the savings required to counteract rent reduction and the additional savings which would be delivered from the merger. In 2017/18 we completed predominantly all of our merger and rent reduction savings targets, £6.6million per annum versus £6.8million. Specific savings are detailed in previous sections.

In addition to the merger and rent reduction savings we have simplified our Group structure into a single registered provider. This has not only streamlined processing and ways of working across the Group, but has also reduced forecast interest charges by c£25million over the life of our business plan.

Report of the Board of Management *(continued)*

Best use of our assets

Asset management

Our property and assets are crucial to our long term business plans. We have a new five year Asset Management Strategy, commencing in April 2018, which governs the decisions we make on future stock.

Our strategy is based on 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 enabling us to take a view on the future potential of each asset we own.

In informing our decisions we consider:

Stock condition information	Surveying of our existing stock enabling better planning of work and expenditure. This has helped us to identify savings of £2.8million per annum to the investment programme as part of our rent reduction mitigation strategy.
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 this we categorise our estates as high, medium high, medium and low risk.
Financial return on assets	To help us determine the 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 into account income and expenditure.

This information tells us a considerable amount about our properties and estates. We have a full financial appraisal of our current stock, and this helps us form an overall assessment when making decisions to invest in our existing homes.

In taking those decisions, Board balances financial investment decisions against the overall objectives of the organisation, which takes into account issues such as the geographical areas where we operate, the local housing market and the nature of the communities that we want to help. Of particular notice is the relatively deprived nature of some of the communities and the positive impact that good quality affordable housing can have on the quality of life.

During 2017/18:

- We invested £511k in estate and community sustainability initiatives.
- The investment programme was supplemented by external grant funding of £208k, in the form of Energy Company Obligation (ECO) Warm Zone and Heat Networks funding streams and Fuel Poor Connection schemes.
    - The ECO and Warm Zone grants funded over £45k of cavity wall insulation renewals, mainly to homes in Berwick, Durham and Hartlepool.
    - ECO grants also contributed £42k to the conversion of Etal House to a new gas supply.
    - The Fuel Poor Connections contributed £120k to new gas installations for three large off grid schemes in Northumberland and Tyne and Wear.

Report of the Board of Management *(continued)*

- Across the former Three Rivers and Berwick stock, income of £106k was generated from Solar Thermal and Photovoltaic (PV) roof mounted systems.
- A new five year investment framework was procured, with resulting scheduled prices consistently reflecting cost reductions when compared to independently verified rates.
- We continued with the social value aspects of our procurement arrangements, with an emphasis on local supply chains and the creation of apprenticeship roles. This has resulted in four apprentice roles being created and supported over the life of the new framework.
- We re-procured the Redecoration five year framework. This procurement exercise has driven down costs whilst ensuring quality standards are maintained.
- Developed and/or made available for rent 137 units, of which 97 were delivered through Homes England's various affordable homes programmes. The remaining 40 were section 106 units acquired from developers.
- The Construction Services Team, as Principle Contractor, again, maintained good performance delivery of stock investment programmes matching the external contractor performance in line with the framework agreement in respect of quality, costs and programme timescales whilst utilising sub-contractor resources to deliver against Bernicia's social value agenda to benefit the local economy
- We have continued with our pilot to internally develop our new build programme. The programme has capitalised on building units on small infill plots in already established communities. 46 units have been built across 6 sites and all targets of quality, cost and programme timescale were achieved.
- The costs in respect of the external provision of repairs services were maintained without increase for the year. This was due to existing contracts which form part of our sub-contract framework being extended.
- Re-provision and re-design of our repairs management function has resulted in a number of positions that were vacant due to retirement and natural attrition, not being replaced. This has generated saving of £31k in 2017/18, with future savings also being forecasted in future years.

In terms of assessing the overall returns from our assets a sustainability matrix is used. The matrix is re-ran in full every five years and uses a range of indicators including demand and socio economic factors to assess sustainability of estates, and provide us with an indication of the social value that our estates provide to our communities.

The Group has implemented a sustainability matrix strategic asset management systems (SAMS), which focuses primarily on general needs and elderly bungalow properties. The current classification is shown below:

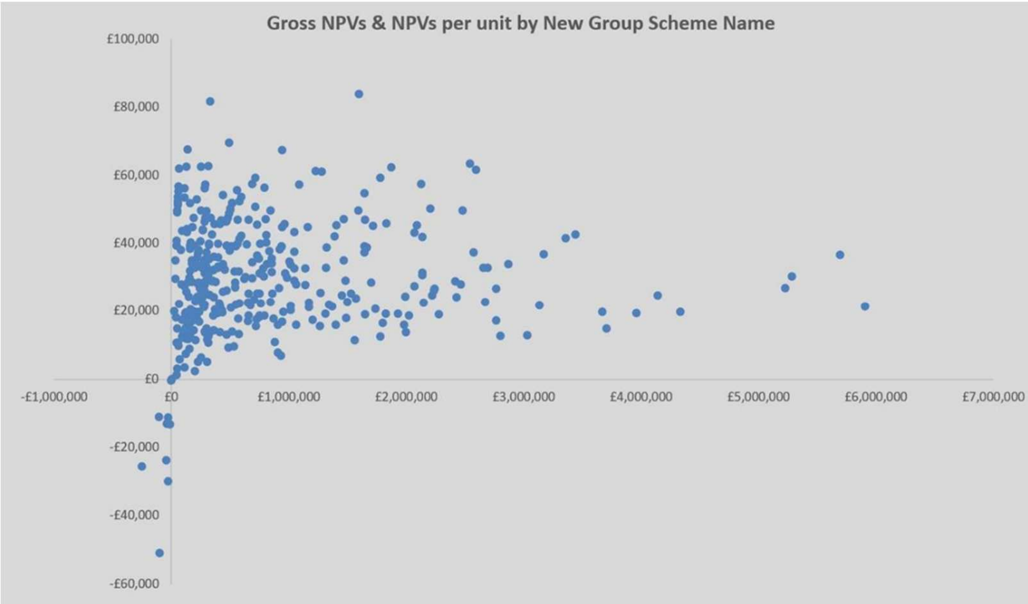
SAMS NPV analysis	2016/17 %
Red	3.9
Amber	8.8
Green	87.3

Red ≤ Zero NPV, Amber > 0 and ≤ £10,000, Green ≥ £10,000

Report of the Board of Management *(continued)*

Financial return on assets

We use the SAMS system to model the financial return from our assets. This determines the net present value (NPV) of each of our estates and property types once current and future expenditure and income assumptions are factored in. The results of this analysis is shown below:



We also use an NPV model to aid our investment decisions in the provision of new homes. The level of capital funding that is available for new development and the revenue streams that it produces are such that each new unit requires an internal subsidy to be provided for a positive NPV to be produced. This internal subsidy is generated from the surpluses generated from our existing assets and the amount that can be provided is therefore dependent upon and related to the financial performance of the Group. In 2017/18 the Board agreed to provide an internal subsidy of £8.2million for the 137 units handed over and available for rent in the year, and the 76 units on site at the end of the (an average of £38k per unit).

How we perform

As part of our continued emphasis on value for money and understanding our performance, presented in the following sections is how Bernicia has performed against the new value for money metrics published by the Regulator. As this is the first year of the metrics and the simplified group no benchmarking information is available at the present moment in time. Benchmarking information will be available for future years which will facilitate comparison with our peer group.

Report of the Board of Management *(continued)*

Metric	2018 Group	2018 Association
Metric 1 – Reinvestment % This metric looks at our investment in properties (existing stock as well as new supply) presented as a percentage of the value of total properties held	6.85%	6.85%
Metric 2 – New supply delivered % This metric sets out the number of new social housing and non-social housing units that have been acquired or developed in the year as a proportion of total social housing units and non-social housing units owned at the end of the financial year. A. New supply delivered (social housing units) B. New supply delivered (non-social housing units)	 0.94% 0.00%	 0.94% 0.00%
Metric 3 – Gearing % This metric assesses how much of the adjusted assets are made up of debt and the degree of dependence on debt finance. It is often used as a key indicator of an Association's appetite for growth.	28.11%	28.26%
Metric 4 – Earnings before interest, tax, depreciation, amortisation, major repairs included (EBITDA MRI) Interest Cover % The EBITDA MRI interest cover measure is a key indicator for liquidity and investment capacity. It seeks to measure the level of surplus that an Association generates compared to the interest payable; the measure avoids any distortions stemming from the depreciation charge.	183.73%	176.02%
Metric 5 – Headline social housing cost per unit The unit cost metric assesses the headline social housing cost per unit as defined by the regulator.	£3,277	£3,277
Metric 6 – Operating margin % The operating margin demonstrates the profitability of operating assets before exceptional expenses are taken into account. Increasing margins are one way to improve the financial efficiency of a business. In assessing this ratio, it is important that consideration is given to the Association's purpose and objectives (including social objectives). A. Operating margin (social housing lettings only) B. Operating margin (overall)	 28.73% 25.99%	 28.73% 26.47%
Metric 7 – Return on capital employed (ROCE) % This metric compares the operating surplus to total assets less current liabilities and is a common measure in the commercial sector to assess the efficient investment of capital resources. The ROCE metric supports Association's with a wide range of capital investment programmes.	4.10%	4.00%

Report of the Board of Management *(continued)*

The Board agreed the Group's five year budget from 2018 to 2023. Based upon the approved budget, our five year targets against the seven metrics are as follows:

Metric	2018/19	2019/20	2020/21	2021/22	2022/23
1 Reinvestment	4.4%	4.7%	4.6%	4.9%	5.1%
2A New supply delivered (social housing units)	0.3%	0.6%	0.6%	0.6%	0.7%
2B New supply delivered (non-social housing units)	0.0%	0.0%	0.0%	0.0%	0.0%
3 Gearing	29.0%	29.2%	29.2%	29.3%	29.3%
4 EBITDA MRI Interest Cover	210.7%	206.9%	224.8%	234.3%	256.9%
5 Headline social housing cost per unit	£3,546	£3,387	£3,461	£3,551	£3,582
6A Operating margin (social housing lettings only)	26.0%	24.2%	23.1%	23.2%	23.5%
6B Operating margin	23.5%	22.4%	23.1%	23.2%	23.5%
7 Return on capital employed	3.8%	3.6%	3.7%	4.1%	3.7%

In addition to the seven metrics, Bernicia has developed a further suite of metrics and success factors against which operational performance and the delivery of the five year strategies, effective from 1st April 2018 will be measured.

The 2019 Value for Money statement will consider all of these metrics and will also contain narrative about how we compare to others.

Key financial ratios

Historically the Group has reported performance against a number of key financial ratios covering growth, profitability and our ability to service debt, some of which are presented earlier as part of the Regulators new seven metrics. The table below sets out the changes over the last three years (post FRS102 introduction) and compares our performance to the latest available data for the sector (2017 Global Accounts). From 2018/19, performance against the seven metrics only will be reported.

Report of the Board of Management *(continued)*

Key financial ratios	2018	Global benchmark 2017*	2017	2016
Growth				
➢ Growth in turnover	1.1%	0.0%	1.0%	2.9%
➢ Growth in total assets	(4.5%)	4.4%	(0.3%)	(3.8%)
➢ Growth in total debt	(16.9%)	4.3%	(3.5%)	16.8%
Profitability				
➢ Operating margin	25.9%	30.0%	27.8%	25.1%
➢ Op margin – social housing	27.6%	34.0%	30.0%	29.4%
➢ Effective interest rate	5.9%	5.3%	4.6%	4.6%
Debt servicing ability				
➢ EBITDA MRI interest cover	188%	170%	204%	181%
➢ Adjusted net leverage	28.4%	Not available	29.1%	30.8%
➢ Debt to turnover	2.0	3.6	2.3	2.4

* *The Global Benchmark is taken from the 2017 Global Accounts of Housing Providers and is the mean cost across social housing providers.*

Growth

Growth in turnover has been achieved despite 2017/18 being the second year of real rent reduction. Rent from new units into management and the contribution from trading subsidiaries has also contributed to the position. The next two years growth will of course be affected adversely be the annual rent reduction.

Property assets have grown in the year by £4million, however other assets have reduced by £29million. With regards to property assets, £1.2million was written out in advance of major sustainability works being carried out on one of the schemes in the south of the region. The other asset reduction was mainly due to the reduction of cash balances, £24million, following the settlement of a number of loan facilities following the amalgamation of the Group.

Reduction in debt of 16.9% reflects the movements in loan funding following amalgamation. During the year, a former Three Rivers facility was settled, along with a number of variable rate drawings.

Profitability ratios

Operating margins have reduced when compared to the previous years. Turnover has been maintained at the 2017 level. Operating costs have increased by £1.4million, however this is due to lower levels of investment programme capitalisation (£1.5million). Excluding capitalised maintenance, operating costs have therefore also been maintained at the 2017 level.

Debt servicing ability

This remains strong and all are well below the sector averages. During 2017/18 the Group simplified its Governance structure, into a single RP. The simplification has created additional capacity for investment to support the Group's overall objectives.

Report of the Board of Management *(continued)*

Future investment plans

Due to the positive impact that good quality housing can have on the deprived communities where we work, whilst we have always fully understood the financial impacts of providing new and investing in existing homes, our strategic asset management decisions are driven by the positive social return that our homes provide.

The business case for merger stated that Bernicia's aim was to build more new homes. The Group's financial capacity to develop increased as a result of the merger and has been further enhanced by simplification and group amalgamation, thereby providing the scope to increase the planned new homes developed as efficiencies resulted from the merger are realised.

New Development and Asset Management Strategies have been approved by Board and are effective from 1 April 2018. Both strategies support the new Corporate Strategy, and set out our investment plans for the following five years. Our future investment strategy will continue to be kept under review in light of changes in government policy on housing (a move from providing 'traditional rented' accommodation to more diverse tenures), rent controls and the impact of welfare reform. Changes in our operating environment will increasingly lead us to make decisions on investing in our existing stock and building new homes on the basis of the relative financial returns and the associated risks presented by the differing options available to us in conjunction with need and social value.

Added social value

Optimising resources, be it financial or physical, and obtaining value for money across the business creates the opportunity for reinvestment in providing quality homes and services and delivering added value initiatives.

The added social value activities we continue to focus on are financial wellbeing, social wellbeing and building brighter futures.

Examples of our added value work during 2017/18 included:

Financial wellbeing

Performance of our Intensive Housing Management Team remained strong throughout the year with 152 tenancies, at risk of failure, being successfully maintained. Financial gains for tenants referred to the service amounted to £127k, with £67k hitting rent accounts as a result of backdated housing benefit and discretionary housing payment awards.

Shelter estimate that the cost of a failed tenancy is £8,619, which means that by preventing 13 evictions the cost of the Intensive Housing Management Team is covered. This has led to an informed business case and decision to increase resources to extend the service across the whole group.

A decision made to let long term empty commercial properties on peppercorn rent for community benefit has led to providing bases for two social enterprises. The first being a local radio station run by volunteers who broadcast a mix of music, topical debate and campaigns such as teaming up with the Legal Money Lending Service to combat loan sharks. The second is the new Northern Soul Kitchen which provides affordable meals from unsold food on a pay as you feel basis. Workshops on reducing food waste and shopping on a budget are also ran as part of the project.

The Money Wise Project delivered by the Children's Safety Education Foundation at a local Academy provided training to 400 students with the help of a Bernicia grant. The training covered housing costs including student accommodation, loan sharks, credit scoring, budgeting priorities and benefits of having a bank or credit union account.

Report of the Board of Management *(continued)*

A range of financial advice and products continue to be offered from local venues across our operating areas including Credit Union / Community banking, Universal Credit support and clothing and food banks.

Social wellbeing

Bernicia holds the Better Health at Work and Continuing Excellence award which evidences our commitment to staff wellbeing.

Our notional cost of sickness absence for the year reduced by 12.5% from 2016/17. This reflects the introduction of consistent absence management approaches across the business to both prevent sickness and provide expert support to expedite a return to work following illness.

Turnover of staff has reduced from 14.1% to 10% reflecting the success of integration plans and remains below the CIPD benchmark of 16.5%.

The Kicks project is a weekly football and life skills programme for 8-19 year olds delivered by the Newcastle United Foundation. Each session has attracted over 50 participants with almost 50% living in our properties. The programme offers workshops on tackling drugs, alcohol, peer pressure, anti-social behaviour and hate crime. Additionally there are opportunities for older participants to achieve FA Level 1 Football Coaching qualifications.

A local multi award winning amateur boxing and fitness club in a rural area has become self-sustaining in terms of fixed outgoings but has benefitted from financial support to fund new equipment and instructor courses to expand the services currently offered.

The club has over 110 active members with ages ranging between 8yrs – 70yrs and a gender split of 60% female and 40% male. This is an initiative that we are pleased to support as a valuable social community asset.

Brighter futures

As part of our Building Brighter Futures Programme Bernicia has appointed 12 apprentices and 1 estate services trainee generating c£340k of added social value.

Through our Runway Programme we have hosted 600 work experience opportunities with partners including Northumberland College's construction students, the North East Local Enterprise Partnership's Gatsby Career Benchmarks, delivered a 'Talk about Talk' programme for students with communication difficulties, and offered work placements for students, as well as mentoring a 'Career Ready' programme which assists students to recognise employment opportunities. The social value from our Runway Programme is c£525k.

We have optimised our apprenticeship levy to upskill staff with Housing and ICT qualifications, and secured £3,000 government incentive for employing apprentices aged 16-18.

Helping people in our communities get ready to go into work has also remained a priority in creating social value.

Our two Learning Hives have gone from strength to strength with 69 people gaining employment during the year. Through our service level agreement with a local Community Trust the 'Here for You' project has supported people with CV production, training and confidence building and the STEP Inside Job Club has continued from a local community centre funded and owned by Bernicia and run by a local charity.

An average of 3.57 training days has been undertaken by each staff member, an increase of 1.54 days from last year. To date 41.9% of training has been developed and delivered in-house, an increase of 23.55% from 2016/17. Fourteen members of staff have completed professional qualifications, all of which reflects our commitment to invest in staff development.

Report of the Board of Management *(continued)*

We have offered harmonised terms and conditions of employment across the Group resulting in the creation of circa 6,750 additional hours of productivity.

Future plans

As previously mentioned, a new Corporate Strategy and supporting operational strategies have been approved by Board. Our future plans revolve around the delivery of these ambitious plans.

Their successful delivery will position the Group well in readiness for opportunities after 2023.

Corporate governance

The Group has adopted the National Housing Federation's (NHF) Code of Governance 2015 and undertakes an annual assessment of compliance.

The Group recognises that good governance is a pre-requisite to excellent performance. The Group continually reviews and benchmarks its governance arrangements to ensure that it can comply with the highest standards of corporate governance and has systems in place to deal effectively with governance issues as they inevitably arise.

During the year, the Board commissioned an independent review of its governance arrangements to ensure that they continue to support best practice and the delivery of the new corporate strategy. The review concluded:

"We confirm that our review indicates that Bernicia complies with the Governance and Viability Regulatory Standard and the requirements of the NHF Code of Governance."

The review does make a number of recommendations to further enhance our effective and efficient governance framework and they are being implemented during 2018/19. The Board made the decision during the year to diverge from the Code and reappoint the Chair for an extra year. The Board made this decision in the best interests of maintaining good and effective governance during a period of significant change. In all other respects, Bernicia complies with the requirements of the Code of Governance.

The Board has also adopted a Standards of Behaviour policy that is in line with the requirements of the NHF's Code of Conduct 2012. Copies of the Group's policies are available on request.

A statement of the responsibilities of the Board of Management in respect of the financial statements is given on page 35. Below is a brief description of the role of the Board followed by a statement regarding the Association's internal controls.

The Group complies with the current Governance and Financial Viability Standard. In particular, it does so by:

- (a) maintaining a thorough, accurate and up to date record of its assets and liabilities and particularly those liabilities that may have recourse to social housing assets
- (b) carrying out detailed and robust stress testing against identified risks and combinations of risks across a range of scenarios and putting appropriate mitigation strategies in place as a result
- (c) before taking on new liabilities, ensuring that it understands and manages the likely impact on current and future business and regulatory compliance.

Report of the Board of Management *(continued)*

Tenant involvement

The Group encourages tenant involvement in all aspects of the business including individual consultation on operational matters and tenant scrutiny panels. Service users' opinions are canvassed regularly on an individual basis, and collectively periodically. Tenants' scrutiny panels and other representative forums help staff to put customer priorities into policy and practice. Clear reporting arrangements exist between tenant groups and the Board. The Group is committed to improving further opportunities for tenant involvement and the scrutiny of performance and will be implementing the relevant recommendations from its governance review in this respect.

The Board

The Board comprises members with a wide range of skills and experience who are recruited openly by public advert, supplemented by independent committee members and co-optee board members to meet on specific identified needs. Co-optee's are also recruited as part of board succession planning. A full skills and experience gap analysis was undertaken during the year and this is being used to inform the recruitment of new members and co-optees taking place during 2018/19.

The Board holds at least six meetings per annum, setting and monitoring the strategy and performance, ensuring adequate funding and formulating policy on key issues. Following the governance review, a further two, now making four, committees have been introduced. The committees, Audit and Risk, Investment, Customer Services and Remuneration, Resources and Appointments, have delegated to them some of the Boards functions. Representatives from the Group sit on each committee. Day to day management is delegated to the Group Chief Executive and the other executive officers. Up until 31 March 2018, the Bernicia executive management team comprised the Chief Executive, the Deputy Chief Executive and the Executive Director, Finance and Corporate Services. From 1st April the executive management team comprised of the Chief Executive and the Executive Director, Resources. It meets regularly and members attend meetings of the Board and committees. During 2018/19 the executive team will be further strengthened with two new posts being added, Customer and Assets and Growth. The introduction of these posts aligns to the new strategy delivery.

Statement on internal control

The Board has responsibility for ensuring an effective system of internal control is maintained and reviewed, while recognising it can't provide absolute assurance or eliminate all risk. It is designed to manage risk and provide reasonable assurance that key objectives can be achieved. It provides reasonable assurance in terms of the preparation and reliability of financial and operational information, as well as the safeguarding of the Group's assets and interests.

Roles and Responsibilities

The Board has established a hierarchy of responsibility and has overall responsibility for the system of internal control and management of risk. The Board cannot delegate ultimate responsibility for the system of internal control, but has delegated authority to Audit Committee to regularly review the effectiveness of it. Staff are responsible for implementing policies and in the design, operation and monitoring of appropriate controls within the Risk and Assurance Framework. Through monitoring the work of internal and external audit services, as well as other assurance activities, Audit Committee can provide adequate assurance on the effectiveness of internal controls.

Report of the Board of Management *(continued)*

Simplification of Group Structure

During 2017-18, the Group successfully amalgamated into one entity – a process that was managed through a bespoke risk map which contained multiple controls. This included the use of expert advisors.

Key Elements of Internal Control

The Board, working with the Audit Committee and Executive Team, established controls which are in place across the Group and form the Risk and Assurance Framework:

Business Assurance Map – A primary tool, this provides assurance over the key and critical business processes carried out by the Group. It sets out the established 'three lines of defence' it has in place and informs future assurance planning.

Policies on Internal Control - The Group has established policies and procedures which are accessible for staff and designed to contribute to effective internal control. These policies, frameworks and supporting documentation include: Governance Framework, Standing Orders, Financial Regulations and Delegated Financial Authority, Audit Policy, Confidentiality Policy, Whistle Blowing Policy, Fraud and Corruption Policy, Probity Policy, Information Governance Framework, Standards of Behaviour.

Risk Maps - A Strategic Risk map, Executive Risk Map, suite of Operational Risk Maps and Bespoke (project-based) Risk Maps are all in place to help monitor, manage and mitigate against risks across the Group at all levels.

Internal Audit & Non-Negotiable Controls **-** RSM were the internal auditors during 2017/18, with direct access to the Audit Committee and working to recognised Internal Auditing standards and the associated code of practice – as well as the approved Internal Audit Strategy. During the year, the following activities were examined by internal audit, providing either substantial or reasonable assurance: Asset & Liabilities Register, Common Asbestos, Improvement Programme Methodology, CDM Regulatory Compliance, Core Financial Controls, Rent Collection and Arrears, Gas Servicing Data & LPG Multi-Fuel Servicing, ICT Cyber Security. The audits for Fleet Management and KPS Review (Financial Controls) received partial assurance. Non-Negotiable Controls Validation, Follow Up (x2) were advisory audits and no significant issues were identified.

The annual internal audit opinion confirmed an adequate and effective framework for risk management, governance and internal control is in place, with some further enhancements recommended to ensure it remains this way.

Non-Negotiable Control Testing - A comprehensive programme of non-negotiable control testing was also carried out by with results reported to Audit Committee on a quarterly basis. More than 95% of the tests found that controls were fully or mostly effective.

Business Continuity - A Business Continuity Plan is in place and is reviewed.

Anti-Fraud Measures - The Group has anti-fraud policy and procedures. There were no known instances of attempted or actual fraud resulting in material financial loss to the Group during 2017/18.

Anti-Money Laundering Policy - An anti-money laundering policy is in place. A number of large cash transaction entries were made into the register during the year, but no reports required submission to the authorities.

Report of the Board of Management *(continued)*

Performance, Stress Testing and Recovery Planning – The Board were provided with information on financial and operational progress against objectives via agreed KPI's which are 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. Board also scrutinised Value for Money and efficiency, as well as receiving information in respect of loan covenant compliance. All reports to the Board contain consideration of risk, particularly around the financial impact of any proposed actions. The Business Plan and key assumptions are reviewed regularly and subject to stress testing with the involvement of members. This informs the Group's Recovery Planning. These plans are also underpinned by data from our Assets and Liabilities Register which is updated regularly. The Register received a rating of substantial assurance in an RSM internal audit during 2018. Board is provided with minutes of all committee meetings. Funders were also provided with financial performance information.

Recruitment and development of staff - The Group continued to ensure staff had the necessary competences and qualifications for their role through development, training, appraisal and performance management. These are underpinned by various HR-related policies.

Probity Policy - A Probity Policy is in place as part of Standing Orders and is based on National Housing Federation guidance. There were no significant breaches reported during the year in relation to probity.

Modern slavery and child labour – We support the principles set out in the UN Universal Declaration of Human Rights and the International Labour Organisation Core Conventions, including the conventions on child labour, forced labour, non-discrimination, freedom of association and collective bargaining. We also support the principles endorsed under the UN Global Compact and UN Guiding Principles on Business and Human Rights (the 'Ruggie' Principles). There were no human rights grievance reports made against the Bernicia Group during the year. We are committed to ensuring that there is no modern slavery in our business and have introduced modern slavery provisions to our terms and conditions of purchase.

Code of Governance - In accordance with the Regulatory Standard on 'Governance and Financial Viability,' the Group continues to adopt the National Housing Federation code 'Promoting board excellence for housing associations'.

Compliance with the Regulatory Framework

The Group operates within the Regulatory Framework. An error on a data return was flagged by the Regulator and this was rectified. The internal auditors subsequently reviewed our processes for returns and found no significant issues.

Summary

The Board continued to delegate authority for the review of the internal control framework 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 and they offered a reasonable to significant level of assurance. The compiling of the Statement did not identify any significant material breaches, either in the controls themselves, or around sources of assurance. After due scrutiny and consideration, Audit Committee has recommended the Statement to the Group Board, who retain overall responsibility for the effectiveness of internal controls. The Board concludes that an effective system of internal control has been in place for the year ended 31 March 2018.

Report of the Board of Management *(continued)*

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are described earlier in this report.

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 25 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, they continue to adopt the going concern basis in preparing these financial statements.

Disclosure of information to the auditor

The Board members, who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditor is unaware; and each director has taken all the steps that they ought to have taken as a Board member to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Auditor

In accordance with Section 83 of the Co-operative and Community Benefit Societies Act 2014, a resolution for the re-appointment of KPMG LLP as auditor of the Group is to be proposed at the forthcoming Annual General Meeting.

The Report of the Board of Management was approved on 24 July 2018 and signed on its behalf by:

Oakwood Way
Ashwood Business Park
Ashington
Northumberland
NE63 0XF

W Worth
Chair

24 July 2018

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

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

Co-operative and Community Benefit Society law requires the Board to prepare financial statements for each financial year. Under those regulations the Board have elected to prepare the financial statements in accordance with UK Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

The financial statements are required by law to give a true and fair view of the state of affairs of the group and the association and of the income and expenditure of the group and the association 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
- assess the group and the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless it either intends to liquidate the group or the association or to cease operations, or has no realistic alternative but to do so.

The Board is responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the association and enable them to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. It is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the association and to prevent and detect fraud and other irregularities.

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

Independent auditor's report to Bernicia Group

Opinion

We have audited the financial statements of Bernicia Group ("the association") for the year ended 31 March 2018 which comprise the Consolidated and Association Statements of Comprehensive Income, Consolidated and Association Statements of Financial Position, Consolidated and Association Statements of Changes in Reserves, Consolidated Statement of Cash Flows and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view, in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, of the state of affairs of the group and the association as at 31 March 2018 and of the income and expenditure of the group and the association for the year then ended;
- comply with the requirements of the Co-operative and Community Benefit Societies Act 2014; and
- have been properly prepared in accordance with the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group and the association in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other information

The association's Board is responsible for the other information, which comprises the Report of the Board of Management. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information

Independent auditor's report to Bernicia Group *(continued)*

Matters on which we are required to report by exception

Under the Co-operative and Community Benefit Societies Act 2014 we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

Board's responsibilities

As more fully explained in their statement set out on page 35, the association's Board is responsible for the preparation of financial statements which give a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to liquidate the group or the association or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the association in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014 and section 128 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to the association those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the association as a body, for our audit work, for this report, or for the opinions we have formed.

Nick Plumb
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

30 July 2018

Consolidated Statement of Comprehensive Income

for the year ended 31 March 2018

	Note	2018 £000	2017 £000
Turnover	3	**74,991**	74,934
Cost of sales	3	**(915)**	(1,921)
Operating expenditure (including £nil *(2017: £535k)* due to restructuring)	3	**(54,586)**	(52,205)
Operating surplus		**19,490**	20,808
Gain on disposal of tangible fixed assets	8	**1,350**	546
Income from associate	19	**-**	374
Interest receivable and similar income	12	**169**	182
Interest payable and similar charges	13	**(8,933)**	(8,092)
Other finance expense	14	**(7)**	(74)
Movement in fair value of investment properties	20	**31**	92
Gift aid receivable		**-**	734
Surplus on ordinary activities before taxation	3-14	**12,100**	14,570
Tax on surplus on ordinary activities	15	**(5)**	(17)
Surplus on ordinary activities after taxation		**12,095**	14,553
Actuarial (loss)/gain in respect of pension schemes	27	**(927)**	1,119
Total comprehensive income for the financial year		**11,168**	15,672

The notes on pages 45 to 85 form an integral part of these financial statements.

These financial statements were approved by the Board on 24 July 2018 and were signed on its behalf by:

W Worth	**T Stevenson**	**M Axe**
Chair	*Member*	*Secretary*

Association Statement of Comprehensive Income

for the year ended 31 March 2018

	Note	2018 £000	Combined 2017 £000
Turnover	3	**70,999**	71,015
Cost of sales	3	**(915)**	(1,921)
Operating expenditure (including £nil *(2017: £535k)* due to restructuring)	3	**(51,291)**	(49,034)
Operating surplus		**18,793**	20,060
Gain on disposal of tangible fixed assets	8	**1,350**	546
Income from associate	19	**-**	374
Interest receivable and similar income	12	**157**	180
Interest payable and similar charges	13	**(8,929)**	(8,091)
Other finance expense	14	**(7)**	(74)
Movement in fair value of investment properties	20	**31**	92
Gift aid receivable		**821**	1,604
Surplus on ordinary activities before taxation	3-14	**12,216**	14,691
Tax on surplus on ordinary activities	15	**(5)**	(17)
Surplus on ordinary activities after taxation		**12,211**	14,674
Actuarial (loss)/gain in respect of pension schemes	27	**(927)**	1,119
Total comprehensive income for the financial year		**11,284**	15,793

The notes on pages 45 to 85 form an integral part of these financial statements.

These financial statements were approved by the Board on 24 July 2018 and were signed on its behalf by:

W Worth	**T Stevenson**	**M Axe**
Chair	*Member*	*Secretary*

Consolidated Statement of Financial Position
At 31 March 2018

	Note	**2018** **£000**	2017 £000
Fixed assets			
Intangible fixed assets	*16*	**2,015**	1,959
Tangible fixed assets	*17*	**439,175**	435,360
Long term investments	*18*	**813**	817
HomeBuy loans receivable		**187**	233
Investment properties	*20*	**4,102**	4,071
		446,292	442,440
Current assets			
Stock	*21*	**273**	771
Debtors (including £45,687k *(2017: £51,584k)* due after more than one year)	*22*	**51,272**	57,589
Cash and cash equivalents	*23*	**28,145**	50,262
		79,690	108,622
Creditors: amounts falling due within one year	*24*	**(23,603)**	(28,486)
Net current assets		**56,087**	80,136
Pension asset	*27*	**1,404**	2,247
Total assets less current liabilities		**503,783**	524,823
Creditors: amounts falling due after more than one year	*25*	**(317,691)**	(343,185)
Provisions for liabilities and charges	*26*	**(43,920)**	(50,634)
Total net assets		**142,172**	131,004
Reserves			
Share capital	*28*	**-**	-
Income and expenditure reserve		**142,172**	131,004
Total reserves		**142,172**	131,004

The notes on pages 45 to 85 form an integral part of these financial statements.

These financial statements were approved by the Board on 24 July 2018 and were signed on its behalf by:

W Worth	**T Stevenson**	**M Axe**
Chair	*Member*	*Secretary*

Registered society number: 7711

Association Statement of Financial Position

at 31 March 2018

	Note	**2018 £000**	Combined 2017 £000
Fixed assets			
Intangible fixed assets	*16*	**203**	-
Tangible fixed assets	*17*	**439,029**	435,221
Long term investments	*18*	**811**	814
HomeBuy loans receivable		**187**	233
Investments in subsidiaries	*19*	**2,367**	2,367
Investment properties	*20*	**4,102**	4,071
		446,699	442,706
Current assets			
Stock	*21*	**273**	771
Debtors (including £45,687k *(2017: £51,584k)* due after more than one year)	*22*	**51,215**	58,204
Cash and cash equivalents	*23*	**27,482**	48,962
		78,970	107,937
Creditors: amounts falling due within one year	*24*	**(22,814)**	(27,707)
Net current assets		**56,156**	80,230
Pension asset	*27*	**1,404**	2,247
Total assets less current liabilities		**504,259**	525,183
Creditors: amounts falling due after more than one year	*25*	**(317,691)**	(343,185)
Provisions for liabilities and charges	*26*	**(43,920)**	(50,634)
Total net assets		**142,648**	131,364
Reserves			
Share capital	*28*	**-**	-
Income and expenditure reserve		**142,648**	131,364
Total reserves		**142,648**	131,364

The notes on pages 45 to 85 form an integral part of these financial statements.

These financial statements were approved by the Board on 24 July 2018 and were signed on its behalf by:

W Worth	**T Stevenson**	**M Axe**
Chair	*Member*	*Secretary*

Registered society number: 7711

Consolidated Statement of Changes in Reserves

	Called up share capital £000	Income and expenditure reserve £000	Total reserves £000
Balance at 31 March 2016	-	115,332	115,332
Total comprehensive income for the financial year			
Surplus from statement of comprehensive income	-	14,553	14,553
Other comprehensive income	-	1,119	1,119
Balance at 31 March 2017	**-**	**131,004**	**131,004**
Balance at 31 March 2017	-	131,004	131,004
Total comprehensive income for the financial year			
Surplus from statement of comprehensive income	-	12,095	12,095
Other comprehensive income	-	(927)	(927)
Balance at 31 March 2018	**-**	**142,172**	**142,172**

Association Statement of Changes in Reserves

	Called up share capital £000	Income and expenditure reserve £000	Total reserves £000
Balance at 31 March 2016	-	115,571	115,571
Total comprehensive income for the financial year			
Surplus from statement of comprehensive income	-	14,674	14,674
Other comprehensive income	-	1,119	1,119
Balance at 31 March 2017	**-**	**131,364**	**131,364**
Balance at 31 March 2017	-	131,364	131,364
Total comprehensive income for the financial year			
Surplus from statement of comprehensive income	-	12,211	12,211
Other comprehensive income	-	(927)	(927)
Balance at 31 March 2018	**-**	**142,648**	**142,648**

Consolidated Statement of Cash Flows
for year ended 31 March 2018

	2018	2017
	£000	£000
Cash flows from operating activities		
Surplus for the financial year	**12,095**	14,553
Adjustments for non-cash items		
Depreciation and impairment of fixed assets	**11,910**	10,617
Amortisation of goodwill	**116**	116
Taxation	**5**	-
Decrease/(increase) in stock	**498**	(57)
Decrease in trade and other debtors	**6,317**	8,202
(Decrease)/increase in trade and other creditors	**(2,219)**	3,458
Decrease in provisions	**(6,714)**	(8,694)
Pension costs less contributions payable	**(14)**	159
Movement in fair value of investment properties	**(31)**	(92)
Gain on sale of tangible fixed assets	**(1,350)**	(546)
Government grants utilised in the year	**(5,271)**	(4,175)
Interest payable	**8,933**	8,092
Other finance expense	**7**	-
Interest receivable	**(169)**	(182)
Gain on disposal of share in associates	**-**	(374)
Net cash from operating activities	**24,113**	31,077
Cash flows from investing activities		
Capitalised housing properties expenditure	**(17,947)**	(27,109)
Purchases of other fixed assets	**(348)**	(865)
Proceeds from sale of tangible fixed assets	**3,225**	1,120
Grants received	**1,387**	3,730
Interest received	**165**	158
Proceeds from disposal of share in associates	**-**	3,968
Net cash from investing activities	**(13,518)**	**(18,998)**
Cash flows from financing activities		
Interest paid	**(8,625)**	(7,397)
New secured loans	**1,000**	4,500
Repayments of borrowings	**(25,087)**	(11,195)
Net cash from financing activities	**(32,712)**	(14,092)
Net decrease in cash and cash equivalents	**(22,117)**	(2,013)
Cash and cash equivalents at 1 April	**50,262**	52,275
Cash and cash equivalents at 31 March	**28,145**	50,262

Notes
(forming part of the financial statements)

1 Accounting policies

Bernicia Group (the "Group") is incorporated under the Co-operative and Community Benefit Societies Act 2014 and is a Private Registered Provider. On 1 February 2018, Bernicia Group Limited and its 4 social housing subsidiaries amalgamated into a single registered provider named Bernicia Group. Further details are given in note 2.

These financial statements were prepared in accordance with the Housing SORP 2014: Statement of Recommended Practice for registered social housing providers, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015 and Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland ("FRS 102"). The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The Association is a Public Benefit Entity as defined by FRS 102 and has applied the relevant accounting standards accordingly.

Measurement convention

The financial statements are prepared on the historical cost basis except for investments and investment properties which are held at fair value through the profit or loss.

Basis of consolidation

The statutory accounts for Bernicia Group incorporate the results of Bernicia Group, Kingston Property Services Limited, Livingspaces (UK) Limited and Avoca Estate Management Services Limited in accordance with FRS 102.9.

Turnover

Turnover represents rental income receivable, fees receivable, grants receivable from local authorities and Homes England which are not capital in nature and proceeds from first tranche sales of shared ownership properties held in current assets during the year.

Service charges

Service charges are set annually and are fixed, with the exception of leaseholder service charges, which are variable. Fees receivable from tenants are presented within turnover and the expense of providing the services is presented within operating costs.

Intangible fixed assets

Goodwill

On acquisition of subsidiaries, the difference between the fair value of assets and liabilities and the purchase consideration paid represents goodwill. This is shown in the Statement of Financial Position and is amortised over its expected useful life. Where there is an indication of impairment, the goodwill is written down to the recoverable amount.

Software

Software is deemed to have a useful economic life of 3 years and is amortised on a straight line basis over this period.

Notes *(continued)*

1 Accounting policies *(continued)*

Tangible fixed assets – housing properties

Initial recognition

Housing properties are initially recorded at cost of acquisition or construction.

Amounts capitalised include the cost of acquiring land and buildings, development costs and related interest charges incurred during the development period.

Shared ownership properties

The share of shared ownership properties which is to be sold in the first tranche sale is held within stock. The remainder, comprising further tranches and the element which is to be retained by the Group is held within fixed assets.

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 carrying value of the property. Gains and losses are recognised in the Statement of Comprehensive Income at the date of transfer of title after deducting proceeds that are payable under right to buy sharing arrangements.

Disposals

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 of the period in which the disposal occurs.

Depreciation

Freehold land is not depreciated. Freehold properties, other than properties under construction, are depreciated to reduce the net book value of housing properties to their estimated residual value on a straight line basis over their remaining expected useful life as follows:

Housing properties held for letting	-	over 70 - 120 years
Supported housing properties	-	over 70 - 120 years
Shared ownership properties	-	over 70 - 120 years

Individual components are depreciated so as to write down the net book value of housing properties to their estimated residual value, on a straight line basis over their remaining expected useful life as follows:

Bathroom	-	30 years
Electrical systems	-	30-40 years
Boilers	-	15 years
Heating (Mechanical & Electrical)	-	30 years
Kitchen	-	20 - 25 years
Windows and doors	-	25 - 30 years
Roof	-	70 years
Solar Panels	-	20 years

The residual value of land is based on the estimated open market value of the land at the date of purchase.

Housing properties are assessed annually to determine whether there is any indicator of impairment. Where housing properties have suffered a permanent diminution in value, the fall in value is recognised after taking account of any relevant grants.

Notes *(continued)*

1 Accounting policies *(continued)*

Tangible fixed assets – housing properties *(continued)*

Capitalisation of interest

Interest on loans financing the development programme is capitalised up to the date of practical completion of the scheme. Interest costs are included at rates based on the Group's weighted average cost of borrowings. 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, or where a component of the tangible fixed asset that has been treated separately for depreciation purposes and depreciated over its useful economic life is restored or replaced.

Impairment

At each reporting date, it is determined whether or not there exist any indicators of impairment for assets held. As a minimum, the indicators listed in FRS 102 Section 27.9 are considered.

It is not possible to estimate the recoverable amount of individual housing property assets as cash flows are not recorded for individual assets. The smallest identifiable group of housing properties is considered to be at a scheme level, therefore, cash-generating units are defined as schemes.

The recoverable amount is the higher of a cash-generating unit's value in use and its fair value less costs to sell. Only where the carrying value exceeds the value in use would the fair value less costs to sell be estimated.

As not all housing properties are held solely for cash inflows, a value in use (in respect of asset held for their service potential) (VIU-SP) is considered the most appropriate method for determining the recoverable amount for each cash-generating unit. The practical expedient permitted in SORP 14.20 is used to initially determine whether there may be an impairment loss on any of the cash-generating units by comparing the carrying value of the cash-generating unit to its expected use value (social housing) (EUV-SH). Where the carrying value exceeds the EUV-SH, a VIU-SP is estimated by determining a depreciated replacement cost of the cash-generating unit.

The replacement cost is the lower of the cost of constructing an equivalent cash-generating unit, based on recent development appraisals, or acquiring an equivalent asset on the open market. The replacement cost is adjusted to reflect the physical deterioration of the asset assuming the same expected useful lives as applied for depreciation purposes.

Where the carrying value exceeds the recoverable amount, an impairment loss is recognised.

Tangible fixed assets – other

Initial recognition

Other tangible fixed assets are initially recorded at cost.

Notes *(continued)*

1 Accounting policies *(continued)*

Tangible fixed assets – other *(continued)*

Depreciation

Depreciation of other tangible fixed assets is charged in equal annual instalments commencing in the year of acquisition at rates estimated to write-off their cost, less any residual value, over the expected useful lives which are as follows:

Freehold office buildings	-	50 - 60 years
Leasehold office buildings	-	over the lease term
Computer hardware	-	3 - 4 years
Fixtures and fittings	-	5 - 10 years
Motor vehicles	-	4 years
Scheme fixtures and fittings	-	10 - 120 years

Freehold land is not depreciated.

Capitalisation of IT staff costs

IT staff costs are capitalised in respect of incremental time spent on the development of fixed asset software during the period.

Long term investments

Investments in equity instruments are measured initially at fair value, which is normally the transaction price. Transaction costs are excluded if the investments are subsequently measured at fair value through profit and loss. Subsequent to initial recognition investments that can be measured reliably are measured at fair value with changes recognised in profit or loss. Other investments are measured at cost less impairment in profit or loss.

Investment properties

The Group holds an investment property portfolio. Within the portfolio are assets primarily reserved for commercial undertakings and residential property dwellings. The Group's intention is to maximise rental income on investment property assets, whilst retaining for the long term increase in capital.

The assets are valued on an annual basis by a qualified Chartered Surveyor. Increases or decreases in the value of assets are recognised immediately in the Statement of Comprehensive Income.

Stock

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

Government grants

As housing properties are accounted for at cost, Government grants are recognised using the accrual model. Government grants relating to assets are systematically recognised in income over the useful life of the housing property structure and its individual components (excluding land) on a pro rata basis. Grants related to revenue are recognised in income on a systematic basis over the period in which the related costs, for which the grant is intended to compensate, are recognised.

Government grants 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 Government grant may be used for projects approved by Homes England, however the grant may have to be repaid if certain conditions are not met.

Notes *(continued)*

1 Accounting policies *(continued)*

Improvement provision

Provisions represent the Group's liabilities to undertake the refurbishment works under Development Agreements entered into by Wansbeck Homes Limited with Wansbeck District Council and by Berwick Borough Housing Limited with Berwick-upon-Tweed Council. The Group has also recognised a debtor in respect of this work, as the Group will benefit which it is obliged to perform. This is explained further in note 26.

Taxation

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

Kingston Property Services, Livingspaces (UK) Limited and Avoca Estate Management 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 which have arisen, but not reversed by the balance sheet date.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated, but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in future or a right to pay less tax in future have occurred at the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable surpluses from which the future reversal of the underlying timing differences can be deducted. Deferred taxation is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been substantively enacted by the balance sheet date. No discounting is applied to reflect the time value of money.

Value Added Tax

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

As part of the development agreements with Wansbeck District Council and Berwick-upon-Tweed Council, the Group has two approved VAT shelter schemes operative from 25 February 2008 and 3 November 2008 respectively, The Wansbeck VAT shelter lasts for 10 years from that date and the Berwick VAT shelter lasts for 15 years from that date. 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 Statement of Financial Position.

Units managed by third parties

The treatment of income and expenditure in respect of supported housing projects and hostels 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.

Notes *(continued)*

1 Accounting policies *(continued)*

Employee benefits

Pension costs

The Group participates in two defined benefit pension schemes, the assets of both are held separately from those of the Group.

Local Government Pension Scheme (LGPS)

Bernicia Group participates in the LGPS which was provided for employees that transferred from Wansbeck District Council and Berwick-upon-Tweed Council, respectively, and who possessed TUPE rights. On 25 February 2008 and 3 November 2008, respectively, the assets and liabilities related to the transferring staff from each were assumed by the Group. The schemes are closed to new members.

The pension scheme assets are measured using market values, for quoted securities, the current bid price is taken as market value. The 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 recognised in the Statement of Comprehensive Income as operating charges, finance items and actuarial gains/losses.

Social Housing Pension Scheme (SHPS)

The Group participates in an industry wide, defined benefit final salary pension scheme, SHPS. Pension costs are assessed in accordance with the advice of an independent qualified actuary. The assets and the liabilities of the scheme attributable to the Group cannot be separately identified, therefore, it is accounted for as a defined contribution scheme. The pension cost reflected in the accounts represents amounts payable by the Group for the year under review combined with any new contractual agreements to fund past service pension deficits.

The value of any contractual agreements to fund past service pension deficits recognised are the expected cash flows, discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The unwinding of the liability is recognised in the Statement of Comprehensive Income as a finance cost.

National Employment Savings Trust (NEST)

The Group participates in NEST which is a defined contribution pension scheme and is accounted for as such.

Termination benefits

Termination benefits are presented within operating costs and include amounts accrued in respect of constructive obligations.

Financial instruments

Capital instruments (other than share capital) are classified as liabilities if they contain an obligation to transfer economic benefits. The finance cost recognised in the income and expenditure account in respect of such instruments is allocated to periods over the term of the instrument at a constant rate on the carrying amount.

Notes *(continued)*

1 Accounting policies *(continued)*

Leased assets

Assets acquired under finance leases that meet the criteria for capitalisation are held as other tangible fixed assets and depreciated over their expected useful lives. Interest charged under the lease is charge to the Statement of Comprehensive Income in the 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.

2 Merger of businesses

On 1 February 2018, Bernicia Group Limited and its 4 social housing subsidiaries amalgamated into a single registered provider named Bernicia Group. The amalgamation has been accounted for as a merger in accordance with FRS102.19 and, as the Group is a Public Benefit Entity, PBE34 of FRS102. Each entity was a Co-operative and Community Benefit Society and Private Registered Provider incorporated in the UK.

At 1 February 2018, the following entities were amalgamated:

Bernicia Group Limited
Cheviot Housing Association
Wansbeck Housing Association
Three Rivers Housing Association
Berwick Borough Housing Association

At 1 February 2018, the following entities were subsidiaries of Bernicia Group Limited and were not amalgamated, they remain subsidiaries of the new entity:

Kingston Property Services Limited
Livingspaces (UK) Limited
Avoca Estate Management Limited
Cheviot Leaseholder Housing Limited
Cheviot Housing Limited
Bernicia Homes Limited

These accounts are prepared on the basis that the new structure has always been in place.

Notes *(continued)*

2 Merger of businesses *(continued)*

The current year's total comprehensive income is analysed as follows:

	Bernicia Group to 31 Jan 2018 £000	Cheviot to 31 Jan 2018 £000	Wansbeck to 31 Jan 2018 £000	Three Rivers to 31 Jan 2018 £000	Berwick to 31 Jan 2018 £000	Combined From 1 Feb 2018 £000	Combined Full year 2018 £000
Turnover	-	16,908	19,669	15,130	6,852	12,440	70,999
Cost of sales	-	(775)	-	(137)	-	(3)	(915)
Operating expenditure	-	(11,602)	(15,290)	(9,556)	(4,759)	(10,084)	(51,291)
Operating surplus	**-**	4,531	4,379	5,437	2,093	2,353	18,793
	-						
Gain on disposal of tangible fixed assets	-	248	154	129	280	539	1,350
Interest receivable and similar income	-	67	39	4	3	44	157
Interest payable and similar charges	-	(2,923)	(337)	(2,514)	(233)	(2,922)	(8,929)
Other finance income/(expense)	-	-	-	(71)	-	64	(7)
Movement in fair value of investment properties	-	-	-	-	-	31	31
Gift aid receivable	-	-	-	-	-	821	821
Surplus on ordinary activities before taxation	**-**	1,923	4,235	2,985	2,143	930	12,216
Tax on surplus on ordinary activities	-	-	-	(5)	-	-	(5)
Surplus on ordinary activities after taxation	**-**	1,923	4,235	2,980	2,143	930	12,211
Actuarial gain in respect of pension schemes	-	-	-	-	-	(927)	(927)
Total comprehensive income for the financial period	**-**	1,923	4,235	2,980	2,143	3	11,284

Notes *(continued)*

2 Merger of businesses *(continued)*

The aggregate carrying value of the net assets of each entity as at 31 January 2018 was as follows:

	31 Jan 2018 **£000**
Bernicia Group	-
Cheviot	38,787
Wansbeck	51,170
Three Rivers	31,639
Berwick	21,049
	142,645

Notes *(continued)*

2 Merger of businesses *(continued)*

The previous year's total comprehensive income is analysed as follows:

	Bernicia Group 2017 £000	Cheviot 2017 £000	Wansbeck 2017 £000	Three Rivers 2017 £000	Berwick 2017 £000	Combined 2017 £000
Turnover	-	20,577	23,667	18,516	8,255	71,015
Cost of sales	-	(1,612)	-	(309)	-	(1,921)
Operating expenditure	-	(10,081)	(20,663)	(12,089)	(6,201)	(49,034)
Operating surplus	**-**	8,884	3,004	6,118	2,054	20,060
Gain on disposal of tangible fixed assets	-	15	258	61	212	546
Share of operating surplus in associate	-	-	-	374	-	374
Interest receivable and similar income	-	130	35	11	4	180
Interest payable and similar charges	-	(4,276)	(416)	(3,115)	(284)	(8,091)
Other finance income/(expense)	-	(53)	39	(75)	15	(74)
Movement in fair value of financial instruments	-	92	-	-	-	92
Gift Aid receivable	-	870	-	734	-	1,604
Surplus on ordinary activities before taxation	-	5,659	2,923	4,108	2,001	14,691
Tax on surplus on ordinary activities	-	-	-	(17)	-	(17)
Surplus on ordinary activities after taxation	-	5,659	2,923	4,091	2,001	14,674
Actuarial gain in respect of pension schemes	-	-	810	-	309	1,119
Total comprehensive income for the financial year	-	5,659	3,733	4,091	2,310	15,793

Notes *(continued)*

3 Particulars of turnover, cost of sales, operating expenditure and operating surplus

Group

	Turnover £000	**Cost of sales £000**	**Operating expenditure £000**	**2018 Operating surplus £000**	2017 Operating surplus £000
Social housing lettings					
General needs housing	**49,422**	**-**	**(34,455)**	**14,967**	13,610
Housing for older people	**12,581**	**-**	**(10,797)**	**1,784**	2,837
Supported housing accommodation	**4,723**	**-**	**(2,426)**	**2,297**	2,493
Shared ownership accommodation	**1,049**	**-**	**(627)**	**422**	575
	67,775	**-**	**(48,305)**	**19,470**	19,515
Other social housing activities					
First tranche low cost home ownership sales	**1,090**	**(915)**	**-**	**175**	22
Support services	**124**	**-**	**(107)**	**17**	-
Development services	**-**	**-**	**(1,256)**	**(1,256)**	(535)
Community services	**-**	**-**	**(113)**	**(113)**	-
Other	**-**	**-**	**(138)**	**(138)**	(855)
	1,214	**(915)**	**(1,614)**	**(1,310)**	(755)
Activities other than social housing activities					
Leasehold management	**4,082**	**-**	**(3,261)**	**821**	958
Other operating income (note 7)	**841**	**-**	**-**	**841**	851
Private rented accommodation	**89**	**-**	**(2)**	**87**	92
Commercial and other	**393**	**-**	**(35)**	**358**	322
Care & Repair	**597**	**-**	**(1,253)**	**(656)**	(175)
Amortisation of goodwill	**-**	**-**	**(116)**	**(116)**	-
	6,002	**-**	**(4,667)**	**1,335**	2,048
Total	**74,991**	**(915)**	**(54,586)**	**19,490**	20,808

Shared ownership transactions

	First tranche £000	**Staircasing £000**	**2018 Total £000**	2017 Total £000
Proceeds	**1,090**	**-**	**1,090**	2,612
Cost of sales (including fees)	**(915)**	**-**	**(915)**	(2,332)
	175	**-**	**175**	280

The amount of costs related to the sale of shared ownership properties released to the Statement of Comprehensive Income from current assets was £915k *(2017: £1,921,000)* and arose from first tranche sales. The amount released from tangible fixed assets during the period was £nil *(2017: £388,000)* and arose from staircasing.

Notes *(continued)*

3 Particulars of turnover, cost of sales, operating expenditure and operating surplus *(continued)*

Association (Combined)

	Turnover £000	Cost of sales £000	Operating expenditure £000	2018 Operating surplus £000	2017 Operating surplus £000
Social housing lettings					
General needs housing	**49,422**	**-**	**(34,455)**	**14,967**	13,610
Housing for older people	**12,581**	**-**	**(10,797)**	**1,784**	2,837
Supported housing accommodation	**4,723**	**-**	**(2,426)**	**2,297**	2,493
Shared ownership accommodation	**1,049**	**-**	**(627)**	**422**	575
	67,775	**-**	**(48,305)**	**19,470**	19,515
Other social housing activities					
First tranche low cost home ownership sales	**1,090**	**(915)**	**-**	**175**	22
Development services	**-**	**-**	**(1,256)**	**(1,256)**	(535)
Community services	**-**	**-**	**(113)**	**(113)**	613
Support services	**124**	**-**	**(107)**	**17**	-
Other	**90**	**-**	**(220)**	**(130)**	(735)
	1,304	**(915)**	**(1,696)**	**(1,307)**	(635)
Activities other than social housing activities					
Other operating income (note 7)	**841**	**-**	**-**	**841**	851
Private rented accommodation	**89**	**-**	**(2)**	**87**	92
Commercial and other	**393**	**-**	**(35)**	**358**	322
Care & Repair	**597**	**-**	**(1,253)**	**(656)**	(175)
	1,920	**-**	**(1,290)**	**630**	1,090
Total	**70,999**	**(915)**	**(51,291)**	**18,793**	19,970

Shared ownership transactions

	First tranche £000	Staircasing £000	2018 Total £000	2017 Total £000
Proceeds	**1,090**	**-**	**1,090**	2,612
Cost of sales (including fees)	**(915)**	**-**	**(915)**	(2,332)
	175	**-**	**175**	280

The amount of costs related to the sale of shared ownership properties released to the Statement of Comprehensive Income from current assets was £915,000 *(2017: £1,921,000)* and arose from first tranche sales. The amount released from tangible fixed assets during the period was £nil *(2017: £388,000)* and arose from staircasing.

Notes *(continued)*

4 Particulars of turnover and operating expenditure from social housing lettings

Group and association

	General needs housing	**Housing for older people**	**Supported housing**	**Shared ownership**	**2018 Total**	2017 Total
	£000	**£000**	**£000**	**£000**	**£000**	£000
Income						
Rent receivable net of identified service charges	**41,680**	**8,633**	**2,822**	**927**	**54,062**	54,368
Service charge income	**1,496**	**2,301**	**1,514**	**81**	**5,392**	5,307
Water rates receivable	**2,429**	**621**	**-**	**-**	**3,050**	3,114
Amortised government grants	**3,817**	**1,026**	**387**	**41**	**5,271**	4,175
Turnover from social housing lettings	**49,422**	**12,581**	**4,723**	**1,049**	**67,775**	66,964
Operating expenditure						
Management	**(5,913)**	**(2,299)**	**(502)**	**(230)**	**(8,944)**	(8,195)
Service charge costs	**(2,991)**	**(1,027)**	**(409)**	**(126)**	**(4,553)**	(5,652)
Routine maintenance	**(6,349)**	**(1,928)**	**(288)**	**(19)**	**(8,584)**	(10,945)
Planned maintenance	**(3,316)**	**(1,132)**	**(208)**	**(47)**	**(4,703)**	(3,641)
Major repairs expenditure	**(4,515)**	**(1,453)**	**(243)**	**(38)**	**(6,249)**	(5,621)
Bad debts	**(574)**	**(81)**	**(11)**	**(29)**	**(695)**	(451)
Water rates payable	**(2,636)**	**(567)**	**-**	**-**	**(3,203)**	(3,165)
Depreciation of housing properties	**(8,050)**	**(2,227)**	**(543)**	**(142)**	**(10,962)**	(9,649)
Other costs	**(111)**	**(83)**	**(222)**	**4**	**(412)**	(130)
Operating expenditure on social housing lettings	**(34,455)**	**(10,797)**	**(2,426)**	**(627)**	**(48,305)**	(47,449)
Operating surplus on social housing lettings	**14,967**	**1,784**	**2,297**	**422**	**19,470**	19,515
Void losses	**640**	**288**	**117**	**5**	**1,050**	1,379

Notes *(continued)*

5 Accommodation owned

Group

The number of units owned for each class of accommodation is as follows:

	2018 Owned and managed Number	**2018 Managed by others Number**	**2018 Managed for others Number**	2017 Owned and managed Number	2017 Managed by others Number	2017 Managed for others Number
General needs housing:						
Social rent	**9,524**	**3**	**97**	8,868	3	92
Affordable rent	**819**	**-**	**-**	809	-	-
Housing for older people	**2,246**	**-**	**14**	2,870	-	12
Supported housing accommodation	**477**	**126**	**16**	401	126	-
Shared ownership accommodation	**341**	**-**	**-**	347	-	-
Serviced Right to Buy	**928**	**-**	**-**	913	-	-
Rent to HomeBuy	**75**	**-**	**1**	36	-	-
Private rented accommodation	**12**	**-**	**-**	12	-	-
Commercial and other:						
Garages	**1,624**	**-**	**-**	1,623	-	-
Shops	**51**	**-**	**-**	58	-	-
	16,097	**129**	**128**	15,937	129	104

Association

The number of units owned for each class of accommodation is as follows:

	2018 Owned and managed Number	**2018 Managed by others Number**	**2018 Managed for others Number**	2017 Owned and managed Number	2017 Managed by others Number	2017 Managed for others Number
General needs housing:						
Social rent	**9,524**	**3**	**97**	8,868	3	92
Affordable rent	**819**	**-**	**-**	809	-	-
Housing for older people	**2,246**	**-**	**14**	2,870	-	12
Supported housing accommodation	**477**	**126**	**16**	401	126	-
Shared ownership accommodation	**341**	**-**	**-**	347	-	-
Serviced Right to Buy	**928**	**-**	**-**	913	-	-
Rent to HomeBuy	**75**	**-**	**1**	36	-	-
Private rented accommodation	**-**	**11**	**-**	-	11	-
Commercial and other:						
Garages	**1,624**	**-**	**-**	1,623	-	-
Shops	**51**	**-**	**-**	58	-	-
	16,085	**140**	**128**	15,925	140	104

Notes *(continued)*

6 Financial assistance and other Government grant receivable

The total accumulated amount of financial assistance and other Government grant received or receivable at the balance sheet date, based upon the properties owned at that date, was recognised as follows:

	Group		Association	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Recognised in the Statement of Comprehensive Income	**63,933**	58,662	**63,933**	58,602
Held as deferred income (note 24 & 25)	**167,376**	171,838	**167,376**	171,838
	231,309	230,500	**231,309**	**230,500**

7 Other operating income

	Group		**Association**	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Rate collection allowance	**294**	299	**294**	299
Office rental	**204**	177	**204**	177
Sale of management services	**136**	139	**136**	139
Sundry income	**207**	236	**207**	236
Total other operating income	**841**	851	**841**	**851**

8 Gain on disposal of tangible fixed assets

	Group		**Association**	
	2018	2017	**2018**	2017
	£000	£000		
Proceeds from sales of housing properties	**3,042**	2,015	**3,042**	2,015
Cost of sales of housing properties (including fees)	**(1,693)**	(1,477)	**(1,693)**	(1,477)
Net gain on disposal of housing properties	**1,349**	538	**1,349**	**538**
Proceeds from sales of other tangible fixed assets	**22**	8	**22**	**8**
Cost of sales of other tangible fixed assets	**(21)**	-	**(21)**	**-**
Net gain on disposal of other tangible fixed assets	**1**	8	**1**	**8**
Gain on disposal of tangible fixed assets	**1,350**	546	**1,350**	**546**

Notes *(continued)*

9 Expenses and auditor's remuneration

Included in the surplus are the following:

	Group		Association	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Planned maintenance and major repairs	**5,718**	9,262	**5,718**	9,262
Charge for the provision of bad debts	**702**	451	**702**	451
Depreciation of tangible fixed assets – housing properties	**10,962**	9,649	**10,962**	9,649
Depreciation of tangible fixed assets – other	**783**	936	**783**	916

Auditor's remuneration:

	Group		Association	
	2018	2017	**2018**	2017
Audit of these financial statements	**47**	5	47	-
Amounts receivable by the Group's auditor in respect of:				
Audit of financial statements of subsidiaries of the group	**6**	58	6	58
Audit -related assurance services	**11**	30	11	26
Taxation compliance services	**8**	16	13	16
Other non-audit services	**7**	-	7	-
Internal auditors' remuneration from internal audit services	**44**	36	44	36

Notes *(continued)*

10 Staff numbers and cost

The average number of persons employed by the Group (including directors) expressed in full time equivalents during the year, analysed by category, was as follows:

	Group		Association	
	2018 Number	2017 Number	**2018 Number**	2017 Number
Operational	**384**	386	**384**	371
Finance and administration	**92**	109	**78**	102
Care and repair	**12**	20	**12**	20
	488	515	**474**	493

The aggregate payroll costs of these persons were as follows:

	Group		Association	
	2018 £000	2017 £000	**2018 £000**	2017 £000
Wages and salaries (including car allowance)	**13,539**	13,630	**13,253**	13,166
Compensation for loss of office	**-**	535	**-**	535
Social security costs	**1,201**	1,248	**1,180**	1,210
Contributions to defined benefit plan accounted for as a defined contribution plan (SHPS)	**340**	1,150	**340**	1,147
Current service cost of defined benefit plan (LGPS)	**994**	819	**994**	818
Contributions to defined contribution plan (NEST)	**23**	21	**23**	21
Contributions to defined contribution plan (Other)	**11**	-	**9**	-
Capitalised	**(308)**	-	**(308)**	-
	15,800	17,403	**15,491**	16,897
Recharges outside the Group	**-**	(94)	**-**	(1,522)
	15,800	17,309	**15,491**	15,375

The number of all staff whose remuneration payable, including pensions and compensation for loss of office, who have been paid by the Group, expressed in full time equivalents in relation to the period of account were as follows:

	Group		Association	
	2018 £000	2017 £000	**2018 £000**	2017 £000
£60,000 - £70,000	**4**	3	**4**	3
£70,001 - £80,000	**4**	6	**4**	6
£80,001 - £90,000	**2**	3	**2**	3
£90,001 - £100,000	**-**	3	**-**	3
£100,001 - £110,000	**2**	1	**2**	1
£110,001 - £120,000	**-**	-	**-**	-
£120,001 - £130,000	**1**	1	**1**	1
£130,001 - £140,000	**-**	2	**-**	2
£140,001 - £150,000	**2**	-	**1**	-
£150,001 - £160,000	**-**	1	**-**	1
£160,001 - £170,000	**-**	-	**1**	-
£170,001 - £180,000	**-**	1	**-**	1
	15	21	**15**	21

Notes *(continued)*

11 Director's remuneration and key management personnel

Remuneration paid to the Directors and key management personnel in relation to the period of account was as follows:

	Group		Association	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Wages and salaries	**635**	803	**635**	705
Group contributions payable in respect of pensions (SHPS)	**16**	43	**16**	38
Group contributions payable in respect of pension (LGPS)	**43**	52	**43**	52
Compensation for loss of office	**-**	195	**-**	195
Non-executive Board members' emoluments	**78**	86	**78**	86
Total expenses reimbursed to key management personnel and members of the Board	**1**	4	**1**	4
	773	1,185	**773**	1,080

Bill Heads was the Chief Executive until 1 April 2018. The aggregate of his emoluments for the year, including Association pension contributions, as the highest paid director, was £149,000 *(2017: £137,000)*. He is an ordinary member of the Social Housing Pension Scheme, has no enhanced or special pension terms and has no other pension arrangements to which the Association contributes.

	Group		Association	
	2018	2017	**2018**	2017
	Number	Number	**Number**	Number
Retirement benefits are accruing to the following number of Directors and key management personnel under:				
Defined benefit schemes	**9**	7	**9**	7

Notes *(continued)*

11 Directors' remuneration and key management personnel *(continued)*

The gross remuneration of the non-executive Board members for their service to the Group in the year was as follows:

	Group		Association	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Mr S Anderson	**3**	6	**3**	6
Mr I Armstrong	**4**	6	**4**	6
Mr C Blakey	**-**	1	**-**	1
Mr B Butterworth	**-**	2	**-**	2
Mr I Darling	**-**	2	**-**	2
Mr F Foster	**4**	4	**4**	4
Mr W Gilbert	**-**	2	**-**	2
Mr P Harding	**-**	1	**-**	1
Mr JP Heron	**4**	4	**4**	4
Mrs I Hunter	**-**	1	**-**	1
Mrs H Parker	**3**	7	**3**	7
Mr A Pegg	**6**	5	**6**	5
Mr B Renforth	**2**	7	**2**	7
Mr K Riddell	**5**	5	**5**	5
Mr E Ritz	**4**	4	**4**	4
Mr X Setna	**5**	5	**5**	5
Mr T Stevenson	**6**	5	**6**	5
Dr M Stewart	**-**	1	**-**	1
Ms A Tarn	**5**	5	**5**	5
Mr W Worth	**13**	13	**13**	13
Ms L Charles-Jones	**5**	-	**5**	-
Mr J Holmes	**5**	-	**5**	-
Mr D Jennings	**4**	-	**4**	-
Non-executive Board members' emoluments	**78**	86	**78**	86

12 Interest receivable and similar income

	Group		Association	
	2018	2017	**2018**	2017
Bank deposits	**169**	158	**157**	156
Net gain on financial assets measured at fair value through profit or loss	**-**	24	**-**	24
Total interest receivable and similar income	**169**	182	**157**	180

Notes *(continued)*

13 Interest payable and similar charges

	Group		Association	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Interest on loans	**9,099**	8,208	**9,096**	8,207
On obligations under finance leases and hire purchase agreements	**-**	3	**-**	3
Net loss on financial assets measured at fair value through profit and loss	**4**	-	**3**	-
Interest payable and similar charges	**9,103**	8,211	**9,099**	8,210
Less amounts capitalised	**(170)**	(119)	**(170)**	(119)
Total interest payable and similar charges	**8,933**	8,092	**8,929**	8,091

14 Other finance expense

	Group		Association	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Unwinding of discount on contractual agreements to fund past service pension deficits	**77**	130	**77**	130
Net interest on net defined benefit plan asset	**(70)**	(56)	**(70)**	(56)
Total other finance expense	**7**	74	**7**	74

15 Taxation

The total tax expense recognised in the statement of comprehensive income is as follows:

	Group		Association	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Current tax				
Current tax on income for the period	**5**	17	**5**	17
Total tax	**5**	17	**5**	17

Notes *(continued)*

15 Taxation *(continued)*

The current tax charge for the period is lower *(2017: lower)* than the rate of corporation tax in the UK of 19% *(2017: 20%)*. The differences are explained below:

Reconciliation of effective tax rate

	Group		Association	
	2018 £000	2017 £000	**2018 £000**	2017 £000
Surplus for the year after taxation	**12,095**	14,553	**12,211**	14,674
Total tax expense	**5**	17	**5**	17
Surplus on ordinary activities before taxation	**12,100**	14,570	**12,216**	14,691
Tax using the UK corporation tax rate of 19% *(2017: 20%)*	**2,299**	2,914	**2,321**	2,938
Tax exempt revenues	**(2,294)**	(2,897)	**(2,316)**	(2,921)
Total tax expense included in profit or loss	**5**	17	**5**	17

Reductions in the UK corporation tax rate to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2017. This will reduce the company's future current tax charge accordingly.

16 Intangible fixed assets

Group

	Goodwill £000	**Software £000**	**Total £000**
Cost			
At 31 March 2017	2,319	121	2,440
Additions	-	238	238
Transfer	-	99	99
At 31 March 2018	2,319	458	2,777
Depreciation			
At 31 March 2017	421	60	481
Charged in the year	116	165	281
At 31 March 2018	537	225	762
Net book value			
At 31 March 2018	**1,782**	**233**	**2,015**
At 31 March 2017	1,898	61	1,959

Notes *(continued)*

16 Intangible fixed assets *(continued)*

Association

	Software £000	Total £000
Cost		
At 31 March 2017	-	-
Additions	238	238
Transfer	99	99
At 31 March 2018	337	337
Depreciation		
At 31 March 2017	-	-
Charged in the year	134	134
At 31 March 2018	134	134
Net book value		
At 31 March 2018	**203**	**203**
At 31 March 2017	-	-

17a Tangible assets

Tangible fixed assets comprise housing properties and other fixed assets with net book values as follows:

	Note	Group 2018 £000	Group 2017 £000	Association 2018 £000	Association 2017 £000
Tangible fixed assets – housing properties	*17b*	**430,399**	425,791	430,399	425,791
Tangible fixed assets – other	*17c*	**8,776**	9,569	8,630	9,430
		439,175	435,360	**439,029**	435,221

Notes *(continued)*

17b Tangible fixed asset – housing properties

Group and association

	Housing Properties held for letting		Supported Housing		Shared Ownership		Rent to Homebuy		
	Completed £000	Under construction £000	Completed £000	Under construction £000	Completed £000	Under construction £000	Completed £000	Under construction £000	Total £000
Cost									
At 1 April 2017	365,858	3,222	130,090	846	14,476	2,035	4,370	-	520,897
Properties acquired	-	1,251	-	1,153	231	-	-	-	2,635
Development of new properties	29	2,457	4	417	-	445	-	3,586	6,938
Works to existing properties	6,550	-	1,755	-	69	-	-	-	8,374
Disposals	(1,934)	-	(1,648)	-	(266)	-	-	-	(3,848)
Completed schemes	8,054	(8,054)	1,418	(1,418)	929	(929)	3,586	(3,586)	-
Transfers	(422)	2,305	(29)	(245)	(306)	(1,551)	248	-	-
At 31 March 2018	378,135	1,181	131,590	753	15,133	-	8,204	-	534,996
Depreciation and impairment									
At 1 April 2017	66,743	-	25,973	-	1,777	-	613	-	95,106
Charged in the year	8,232	-	2,448	-	142	-	140	-	10,962
Disposals	(956)	-	(468)	-	(47)	-	-	-	(1,471)
Transfers	19	-	-	-	-	-	(19)	-	-
At 31 March 2018	74,038	-	27,953	-	1,872	-	734	-	104,597
Net book value									
At 31 March 2018	**304,097**	**1,181**	**103,637**	**753**	**13,261**	**-**	**7,470**	**-**	**430,399**
At 1 April 2017	299,115	3,222	104,117	846	12,699	2,035	3,757	-	425,791

Notes *(continued)*

17b Tangible fixed assets – housing properties *(continued)*

Security

Tangible fixed assets with a net book value of £262,883,000 *(2017: £236,226,000)* are secured.

Borrowing costs

The amount of borrowing costs capitalised to tangible fixed assets – housing properties during the period was £170,000 *(2017: £119,000)* with a capitalisation rate of 3.8% *(2017: 3.8%)*.

Included in the cost of tangible fixed assets – housing properties is £1,823,000 *(2017: £1,653,000)* in respect of capitalised finance costs.

Development costs

The amount of development costs capitalised to tangible fixed assets – housing properties during the period was £468,000 *(2017: £325,000)*.

Land and Buildings

The net book value of tangible fixed assets – housing properties comprises:

	Group and Association	
	2018	2017
	£000	£000
Freehold	**422,586**	418,126
Long leasehold	**3,658**	3,728
Short leasehold	**4,155**	3,937
	430,399	425,791

Notes *(continued)*

17c Tangible fixed assets - other

Group

	Land and buildings £000	Leasehold property improve-ments £000	Office equipment £000	Scheme fixtures and fittings £000	Motor vehicles £000	Total £000
Cost						
At 1 April 2017	9,100	46	5,610	523	1,716	16,995
Additions	-	-	60	25	25	110
Disposals	-	-	-	-	(123)	(123)
Transfer	-	-	(99)	-	-	(99)
At 31 March 2018	9,100	46	5,571	548	1,618	16,883
Depreciation						
At 1 April 2017	1,247	31	4,814	381	953	7,426
Charged in the year	175	2	207	32	367	783
Disposals	-	-	-	-	(102)	(102)
At 31 March 2018	1,422	33	5,021	413	1,218	8,107
Net book value						
At 31 March 2018	**7,674**	**13**	**550**	**135**	**400**	**8,776**
At 1 April 2017	7,853	15	812	126	763	9,569

	2018 £000	2017 £000
Freehold	**7,592**	7,771
Short leasehold	**82**	82
	7,674	7,853

Notes *(continued)*

17c Tangible fixed assets - other *(continued)*

Association

	Land and buildings £000	Leasehold property improve-ments £000	Office equipment £000	Scheme fixtures and fittings £000	Motor vehicles £000	Total £000
Cost						
At 1 April 2017	9,012	25	5,574	506	1,639	16,756
Additions	-	-	60	-	25	85
Disposals	-	-	-	-	(123)	(123)
Transfer	-	-	(99)	-	-	(99)
At 31 March 2018	9,012	25	5,535	506	1,541	16,619
Depreciation						
At 1 April 2017	1,233	25	4,793	381	894	7,327
Charged in the year	175	-	222	11	357	765
Disposals	-	-	-	-	(102)	(102)
At 31 March 2018	1,408	25	5,015	392	1,149	7,989
Net book value						
At 31 March 2018	**7,604**	**-**	**520**	**114**	**392**	**8,630**
At 1 April 2017	7,779	-	781	125	745	9,430

	2018 £000	2017 £000
Freehold	**7,522**	7,697
Short leasehold	**82**	82
	7,604	7,779

Notes *(continued)*

18 Long term investments

	Group		Association	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Valuation				
At 1 April	**817**	775	**814**	772
Additions	**-**	24	**-**	24
Revaluation	**(4)**	18	**(3)**	18
At 31 March	**813**	817	**811**	814

Long term investments are represented as follows:

	Group		Association	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Long term investment in:				
Haven Funding plc	**659**	662	**659**	662
UK Rents (No 1) plc	**146**	146	**146**	146
Foundations UK	**6**	6	**6**	6
Agents Mutuals Limited	**2**	3	**-**	-
	813	817	**811**	814

The long term investment in Haven Funding plc and UK Rents (No 1) 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:

	Group		Association	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Listed investments	**347**	373	**347**	373
Unlisted investments	**466**	444	**464**	441
	813	817	**811**	814

Notes *(continued)*

19 Investments in associates and subsidiaries

Associates

	Group and Association	
	2018	2017
Cost	**£000**	£000
At 1 April	**-**	3,594
Disposals	**-**	(3,594)
At 31 March	**-**	-

Investments in associates related to a 49% holding in Kepier Homes LLP that was held by Three Rivers Kepier Homes Limited, a wholly owned subsidiary of Three Rivers Housing Association. During the prior year, Kepier Homes LLP sold its trade and assets and was subsequently wound up.

Subsidiaries

	Association	
	2018	2017
Cost	**£000**	£000
At 1 April and 31 March	**2,367**	2,367

Investments in subsidiaries comprise 100% of the share capital of Kingston Property Services Limited and Livingspaces (UK) Limited which are registered at Cheviot House, Beaminster Way East, Kingston Park, Newcastle upon Tyne and Avoca Estate Management Limited which is registered at Oakwood Way, Ashwood Business Park, Ashington, Northumberland, NE63 0XF.

20 Investment properties

	Group and Association	
	2018	2017
	£000	£000
Valuation		
At 1 April	**4,071**	3,979
Revaluation	**31**	92
At 31 March	**4,102**	4,071

The fair value of the investment properties has been determined by qualified valuation specialists.

Notes *(continued)*

21 Stock

	Group and Association	
	2018	2017
	£000	£000
Shared ownership properties held for resale	**49**	564
Consumables	**224**	207
	273	771

22 Debtors

	Group		**Association**	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Rents and service charges arrears	**6,733**	5,339	**6,733**	5,339
Less: Provision for bad and doubtful debts	**(4,549)**	(3,209)	**(4,549)**	(3,209)
	2,184	2,130	**2,184**	**2,130**
Amounts owed by undertakings in which the company has a participating interest	**28**	65	**938**	**23**
Other debtors	**46,589**	53,454	**46,093**	**54,516**
Prepayments and accrued income	**2,471**	1,940	**2,000**	**1,535**
	51,272	57,589	**51,215**	**58,204**
Due within one year	**5,585**	6,005	**5,528**	**6,620**
Due after more than one year	**45,687**	51,584	**45,687**	**51,584**
	51,272	57,589	**51,215**	**58,204**

For the Group, debtors includes Other debtors of £45,687,000 *(2017: £51,584,000)* due after more than one year. £43,920,000 *(2017: £50,634,000)* of these Other debtors due after more than one year relate to contracted refurbishment works described at note 26, and £1,054,000 *(2017: £950,000)* relate to coupons received in advance on loans taken out by Three Rivers and HAPM and FARR insurance.

	Group		**Association**	
	2018	2017	**2018**	2017
	£	£	**£**	£
Unpaid share capital	**9**	9	9	9

Notes *(continued)*

23 Cash at bank and in hand

	Group		Association	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Cash at bank and in hand	**28,145**	50,262	**27,482**	48,962

24 Creditors: amounts falling due within one year

	Group		Association	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Bank loans (see note 25)	**2,167**	3,908	**2,167**	3,908
Rents and service charges received in advance	**1,209**	1,065	**1,209**	1,065
Trade creditors	**1,834**	620	**1,789**	587
Amounts owed to undertakings in which the company has a participating interest	**9**	314	**9**	312
Taxation and social security	**284**	398	**253**	353
Other creditors	**4,579**	4,166	**3,878**	3,478
Accruals and deferred income	**6,038**	8,880	**6,026**	8,869
Amounts due under finance leases and hire purchase agreements	**-**	30	**-**	30
Deferred capital grants (note 25)	**2,013**	4,177	**2,013**	4,177
Grant in advance	**76**	9	**76**	9
Recycled capital grant fund (note 25)	**167**	229	**167**	229
Disposals proceeds fund (note 25)	**119**	53	**119**	53
Interest payable	**1,470**	1,162	**1,470**	1,162
Service charge sinking funds	**1,647**	1,491	**1,647**	1,491
Contractual agreements to fund past service pension deficits (SHPS) (note 27)	**853**	702	**853**	702
Contingent consideration	**1,138**	1,282	**1,138**	1,282
	23,603	28,486	**22,814**	27,707

Notes *(continued)*

25 Creditors: amounts falling due after more than one year

	Group and Association	
	2018	2017
	£000	£000
Bank loans	**146,959**	169,305
Deferred capital grants	**165,363**	167,661
Recycled capital grant fund	**414**	309
Deferred recycled capital grant fund	**120**	64
Disposal proceeds fund	**271**	313
Contractual agreements to fund past service pension deficits (SHPS) (note 27)	**4,564**	5,533
	317,691	343,185

Recycled capital grant fund (RCGF) and Disposal proceeds fund (DPF)

RCGF and DPF relate to funding received from Homes England. The movements in the RCGF and DPF are as follows:

Group and association

	RCGF	**DPF**	**2018**	2017
	£000	**£000**	**£000**	£000
At 1 April	**538**	**366**	**904**	495
Grants recycled	**280**	**24**	**304**	455
New build	**(237)**	**-**	**(237)**	(46)
At 31 March	**581**	**390**	**971**	904
Due within one year	**167**	**119**	**286**	282
Due after more than one year	**414**	**271**	**685**	622
	581	**390**	**971**	904
Amounts 3 years old or older where repayment may be required (£000)	**-**	**56**	**56**	104

Notes *(continued)*

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

Interest-bearing loans and borrowings

All interest-bearing loans and borrowings are secured bank loans.

Bank loans are secured against Tangible fixed assets – housing properties with a net book value of £262,882,000 (*2017: £236,226,000*).

Included within bank loans are borrowings of £117,390,000 (*2017: £132,725,000*) with fixed interest rates ranging from 1.1% to 11.6% (*2017: 2.2% to 14.75%*) and borrowings of £33,000,000 (*2017: £41,785,000*) with variable interest rates ranging from LIBOR plus 0.5% to 3.4% (*2017: LIBOR to 5.65%*).

Borrowings are repayable as follows:

	Group and Association	
	2018	2017
	£000	£000
Within one year	**2,167**	3,908
Between one and two years	**2,234**	3,789
Between two and five years	**44,089**	12,089
In five years or more	**101,900**	154,724
	150,390	174,510
Less: Issue costs	**(1,264)**	(1,297)
	149,126	173,213
Less: Amounts included within Creditors: amounts falling due within one year (see note 24)	**(2,167)**	(3,908)
	146,959	169,305

Notes *(continued)*

25 Creditors: amounts falling due after more than one years *(continued)*

Deferred capital grants

Deferred capital grants are made up as follows:

	Group and Association	
	2018	2017
	£000	£000
At 1 April 2017	**171,838**	173,778
Additions	**1,568**	3,776
Disposals	**(1,400)**	(1,541)
Amortisation	**(4,630)**	(4,175)
At 31 March 2018	**167,376**	171,838

26 Provisions for liabilities and charges

The provision relates solely to the refurbishment of housing stock transferred from the Council as described below.

	Group and Association	
	2018	2017
	£000	£000
At 1 April	**50,634**	59,328
Capitalised expenditure during the year	**(2,542)**	(4,586)
Revenue expenditure during the year	**(4,172)**	(4,108)
At 31 March	**43,920**	50,634

The provision represents the best estimate of the cost of works that the Group has contracted to undertake under two Development Agreements for the repair and upgrading of the dwelling properties that were subsequently acquired by the former Wansbeck Homes Limited and by Berwick Borough Housing Limited from Wansbeck District Council and Berwick-Upon-Tweed Council, respectively, (collectively, “the Councils”) on 25 February 2008 and 3 November 2008, respectively.

Immediately prior to entering into the stock transfer agreement between the Councils and the Group, the Councils and the Group entered into a contract for the Group to perform the refurbishment works required to bring the properties into an agreed state. The contract was for a fixed sum of £173,960,000, which was equal to the expected cost of the works.

Notes *(continued)*

26 Provisions for liabilities and charges *(continued)*

At transfer, the Group contracted with the Councils to acquire the benefit of the agreed refurbishment works (£173,960,000) 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 the Group to recover the VAT on repair/enhancement costs that would otherwise have been expensed.

At the time of the transfer, the Group paid a net amount of £nil to the Councils, representing the acquisition of the properties in their unenhanced condition and the value of the Councils' obligation to carry out the refurbishment works (£173,960,000) less the amount due to be incurred by the Group under the Development Agreements in relation to the anticipated costs of the repairs/improvements (£173,960,000).

The impact of these transactions is that, whilst the Council (Wansbeck District Council and Berwick-upon-Tweed Council, subsequently succeeded by Northumberland County Council) has a legal obligation to the Group to complete the refurbishment works, this work has been contracted back to the Group which is also equally obligated. The underlying substance of the transaction is therefore that the Group acquired the housing properties in their existing condition at their agreed value and will complete certain repairs and improvements in line with guarantees to tenants of not less that £173,960,000.

The effect of these transactions is that the Group has both an asset (the Councils' obligation to have the refurbishment work carried out) and a legally binding obligation to a third party (under the Development Agreements) and this asset and liability is recognised in the financial statements.

At 31 March 2018, £43,920,000 *(2017: £50,634,000)* is included within non-current debtors and £43,920,000 *(2017: £50,634,000)* is included within provisions for liabilities and charges.

27 Employee benefits

Defined benefit plan - LGPS

Group and Association

The information disclosed below is in respect of the Group's share of the Northumberland County Council Pension Fund (the "Fund"), which is part of the Local Government Pension Scheme. Bernicia Group participates in the Fund which provides defined benefits based on members' final pensionable salary.

Net pension asset

	2018 £000	2017 £000
Defined benefit obligation	**(38,290)**	(35,805)
Plan assets	**39,694**	38,052
Net pension asset	**1,404**	2,247

Notes *(continued)*

27 Employee benefits *(continued)*

Movements in present value of defined benefit obligation

	2018 £000	2017 £000
At 1 April	**(35,805)**	(30,334)
Current service cost	**(994)**	(818)
Interest expense	**(930)**	(1,054)
Remeasurement: actuarial (losses)/gains	**(771)**	(3,787)
Contributions by members	**(189)**	(210)
Benefits paid	**399**	398
At 31 March	**(38,290)**	(35,805)

Movements in fair value of plan assets

	2018 £000	2017 £000
At 1 April	**38,052**	31,524
Interest income	**1,000**	1,110
Remeasurement: return on plan assets less interest income	**(156)**	4,906
Contributions by employer	**1,008**	700
Contributions by members	**189**	210
Benefits paid	**(399)**	(398)
At 31 March	**39,694**	38,052

Expense recognised in the statement of comprehensive income

	2018 £000	2017 £000
Current service cost	**994**	818
Net interest on net defined benefit liability	**(70)**	(56)
Total expense recognised in the statement of comprehensive income	**924**	762
Remeasurement: actuarial loss on defined benefit obligation	**(156)**	(3,787)
Remeasurement: (loss)/gain on plan assets less interest income	**(771)**	4,906
Total (expense)/income recognised in the statement of comprehensive income	**(927)**	1,119

Notes *(continued)*

27 Employee benefits *(continued)*

The fair value of the plan assets and the return on those assets were as follows:

	2018 Fair value %	2017 Fair value %
Equities	**66.9**	67.2
Government debt	**18.0**	17.5
Corporate bonds	**7.6**	7.6
Property	**3.9**	3.9
Cash	**0.0**	0.0
Other	**3.6**	3.8
	100.0	100.0
	£000	£000
Actual return on plan assets	**844**	6,016

Principal actuarial assumptions at the year end were as follows:

	2018 %	2017 %
Discount rate	**2.6**	2.6
Future salary increases	**3.6**	3.5
Rate of increase to pensions in payment	**2.1**	2.0
Rate of increase to deferred pension	**2.1**	2.0
RPI inflation	**3.2**	3.1
CPI inflation	**2.1**	2.0

The last full actuarial valuation was performed on 31 March 2016. To measure the defined benefit obligation as at 31 March 2017, the Association used a qualified, independent actuary.

In valuing the liabilities of the pension fund at 31 March 2017, mortality assumptions have been made as indicated below.

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables 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: 22.8 years (male), 24.9 years (female).
- Future retiree upon reaching 65: 25.0 years (male), 27.2 years (female).

Defined benefit plan - SHPS

The Group participates in the scheme, a multi-employer scheme which provides benefits to some 500 non-associated employers. The scheme is a defined benefit scheme in the UK. It is not possible for the Group to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore it accounts for the scheme as a defined contribution scheme.

The scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and Technical Actuarial Standards issued by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.

Notes *(continued)*

27 Employee benefits *(continued)*

The scheme is classified as a 'last-man standing arrangement'. Therefore the Group is potentially liable for other participating employers' obligations if those employers are unable to meet their share of the scheme deficit following withdrawal from the scheme. Participating employers are legally required to meet their share of the scheme deficit on an annuity purchase basis on withdrawal from the scheme.

The Group has been notified by The Pensions Trust of the estimated employer debt on withdrawal from the scheme, based on the financial position of the scheme as at 30 September 2016. At this date, the estimate employer debt for the Group was £62,542,000.

A full actuarial valuation for the scheme was carried out with an effective date of 30 September 2014. This actuarial valuation was certified on 23 November 2016 and showed assets of £3,123m, liabilities of £4,446m and a deficit of £1,323m. To eliminate this funding shortfall, the trustees and the participating employers have agreed that additional contributions will be paid, in combination from all employers, to the scheme as follows:

Deficit contributions

Tier 1 From 1 April 2017 to 30 September 2020:	£40.6m per annum (payable monthly and increasing by 4.7% each year on 1 April)
Tier 2 From 1 April 2017 to 30 September 2023:	£28.6m per annum (payable monthly and increasing by 4.7% each year on 1 April)
Tier 3 From 1 April 2017 to 30 September 2026:	£32.7m per annum (payable monthly and increasing by 3.0% each year on 1 April)
Tier 4 From 1 April 2017 to 30 September 2026:	£31.7m per annum (payable monthly and increasing by 3.0% each year on 1 April)

Note that the scheme's previous valuation was carried out with an effective date of 30 September 2011; this valuation was certified on 17 December 2012 and showed assets of £2,062m, liabilities of £3,097m and a deficit of £1,035m. To eliminate this funding shortfall, payments consisted of the Tier 1, 2 & 3 deficit contributions.

Where the scheme is in deficit and where the Group has agreed to a deficit funding arrangement, the Group recognises a liability for this obligation. The amount recognised is the net present value of the deficit reduction contributions payable under the agreement that relates to the deficit. The present value is calculated using the discount rate detailed in these disclosures. The unwinding of the discount rate is recognised as a finance cost.

Notes *(continued)*

27 Employee benefits *(continued)*

Present values of contractual agreements to fund past service pension deficits

Reconciliation of opening and closing provision

	2018	2017
	£000	£000
At 1 April	**6,239**	6,718
Unwinding of discount factor (other finance cost)	**77**	130
Deficit contributions paid	**(829)**	(794)
Remeasurements – impact of change in assumptions	**(70)**	181
At 31 March	**5,417**	6,235

Impact on the Statement of Comprehensive Income

	2018	2017
	£000	£000
Unwinding of discount factor (other finance expense)	**77**	130
Remeasurements – impact of change in assumptions	**(70)**	181
	7	311

Assumptions

	2018	2017
	%	%
Rate of discount	**1.72**	1.33

Notes *(continued)*

28 Capital and reserves

Share capital

Group and Association

	2018	2017
	£	£
Ordinary shares of £1 each at 1 April	**9**	9
Issued during the year	**3**	-
Surrendered during year	**(3)**	-
At 31 March	**9**	9

The share capital is represented by 1 share held by each member of the Association. Shareholders have a right to attend and vote at general meetings. Shareholders have no rights to a distribution on a winding up and have no rights to dividends.

29 Financial instruments

The carrying amounts of the financial assets and liabilities include:

	Group		**Association**	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Assets held at fair value through profit and loss				
Listed investments	**347**	373	**347**	373
Unlisted investments	**466**	444	**464**	441
Assets measured at amortised cost				
Rent and service charge arrears	**6,733**	2,130	**6,733**	2,130
Other debtors	**46,589**	53,454	**46,589**	52,831
Liabilities measured at amortised cost				
Rents and service charges received in advance	**1,209**	1,065	**1,209**	1,065
Trade creditors	**1,789**	620	**1,789**	587
Bank loans	**149,126**	173,213	**149,126**	173,213
Deferred capital grants	**167,376**	171,838	**167,376**	171,835
Contractual agreements to fund past service pension deficits	**5,417**	6,235	**5,417**	6,235

30 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Group		**Association**	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Less than one year	**50**	94	**50**	94
Between one and five years	**-**	5	**-**	5
	50	99	**50**	99

During the year, £102,000 was recognised as an expense in the profit and loss account in respect of operating leases *(2017: £135,000)*.

Notes *(continued)*

31 Capital commitments

The aggregated amount of contracts for capital expenditure not provided for at year-end was £11,253,000 *(2017: £11,146,000)*.

The aggregated amount of capital expenditure approved which has not been contracted for at year-end was £4,905,000 *(2017: £2,154,000)*.

The proposed financing of such expenditure is as follows:

	Group and Association 2018
Grant	**1,650**
Agreed loans	**14,508**
	16,158

32 Contingent liabilities

The Group has a contingent liability of £4,053,000 *(2017: £3,907,000)* in relation to recycled grant applicable to individual housing property components that have been replaced. This will crystallise on disposal of the property.

33 Related parties

Transactions with key management personnel

Total compensation of key management personnel (the directors) in the year amounted to £1,013,000 (*2017: £1,145,000)*.

Other related party transactions

Group and association

	Administrative expenses charged to 2018 £000	Administrative expenses charged to 2017 £000	**Administrative expenses incurred from 2018 £000**	Administrative expenses incurred from 2017 £000
Spirit Regeneration & Development LLP	**69**	65	**372**	3,893
Kepier Homes LLP	**-**	12	**-**	-
	69	77	**372**	3,893

	Receivables outstanding 2018 £000	Receivables outstanding 2017 £000	**Creditors outstanding 2018 £000**	Creditors outstanding 2017 £000
Spirit Regeneration & Development LLP	**28**	65	**9**	314

Bernicia Group is a member of Spirit Regeneration & Development LLP.

34 Ultimate controlling party

The Board of Management is the ultimate controlling party of Bernicia Group. The results of the Group are not consolidated within the results of any other Group.

Notes *(continued)*

35 Accounting estimates and judgements

Investment properties

The Group holds a number of properties for commercial rental, they have been revalued to fair value at the reporting date in accordance with FRS 102 Section 16.

Impairment of tangible assets

The Group considers whether tangible assets are impaired. For the purpose of impairment assessments, where an indication of impairment is identified the Group estimates the recoverable value and the depreciated replacement cost of the cash-generating units (CGUs). Individual schemes are considered to be CGUs.

Impairment of debtors

The Group makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the current credit rating of the debtor, the ageing profile of debtors and historical experience.

Provisions

The Group contracted to undertake works under Development Agreements with Berwick Council on 3 November 2008 and Wansbeck District Council on 25 February 2008 giving rise to a provision for liabilities as described in note 26. The initial value of the provision represented the best estimate of the cost of works. This provision is reduced each year by the cost value of capital works undertaken on the stock.

Defined Benefit Pension Scheme

The Group has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension surplus in the balance sheet. The assumptions reflect historical experience and current trends. See note 27 for the disclosures relating to the defined benefit pension scheme.