BERNICIA
HOMES

Report of the Board and Financial Statements

2015/16

Contents

Report of the Board

Board of Management

Chair	W Worth
Members	H Parker S Anderson A Pegg B Renforth K Riddell X Stena T Stevenson A Tarn

Executive Management Team

Group Chief Executive	W Heads
Deputy Chief Executive	J Johnston
Executive Director, Resources	M Smith CPFA (to 31 May 2016)
Executive Director, Finance and Corporate Services	M Axe CPFA (from 1 June 2016)
Operations Director, Care and Support	A Malcolm
Operations Director, Housing Services	J McMillan
Director – Kingston Property Services Limited	C Ord
Company Secretary	W Heads (to 31 May 2016) M Axe CPFA (from 1 June 2016)

Other information

A Registered Society under the Co-operative and Community Benefit Societies Act 2014
No. 30268R

Registered with the Homes and Communities Agency (HCA) No L4512R

Registered under the Housing Act 1974

Registered Office
Oakwood Way
North Seaton Industrial Estate
Ashington
Northumberland
NE63 0XF

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

Principal solicitors
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

Report of the Board

The Board of Management presents its report and financial statements for the year ended 31 March 2016. These financial statements comprise the results of Bernicia Group Limited. The basis of consolidation is set out in Note 1.

Principal Activities

Bernicia Group Limited (the "Group") is a Registered Provider (RP), which is registered with the Financial Conduct Authority (FCA) under the Co-operative and Community Benefit Society Act 2014 as a Registered Society (RS).

The principal activity of the Group is the development and management of social housing primarily for rent including properties that are part sold under shared ownership arrangements. A significant part of the housing stock is supported housing and the Group will extend to other markets where they complement its principal activities.

The Group operates a number of key business streams including:

- General needs housing for rent, for tenants who are unable to rent or buy at open market rates.
- Care & Support, including supported housing and care for people who need additional housing related support or additional care and sheltered housing, particularly for the elderly.
- Development and regeneration, as a partner of the Homes & Community Agency (HCA) and a member of the Spirit Partnership, the Group develops new housing for rent and shared ownership and supported housing schemes and provides development services to other RPs and organisations.

During the period, the Group was the parent to Cheviot Housing Association Limited and Wansbeck Homes Limited, both RP's with charitable status and Kingston Property Services Limited, Livingspaces (UK) Limited and Avoca Estate Management Limited who are for profit trading subsidiaries whose aims are to generate a profit for reinvestment in our core objectives.

About Bernicia

Objectives

The overriding objective of Bernicia is to help people in need of housing. We are a social landlord, at heart, building, renting, selling and managing houses, providing estate and facilities management and specialist care and support services to over 50,000 customers.

Within our communities we devise plans to develop community assets, provide employment and training support and a range of products and services to support financial inclusion and services and activities to promote health and wellbeing, tackling isolation and loneliness and supporting independence.

We have been building Bernicia to be 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 work as a superb 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, which are then reinvested into existing and new homes, services and our people to help us achieve our mission of making the difference for our customers and community.

Bernicia Group Structure

The principal activities of the Group are the provision of social housing, support and care services as well as services to the private residential market.

The Bernicia Group (Bernicia) consists of Bernicia Group Limited, a non-charitable, non-asset owning Registered Provider (RP, No L45120) and a Registered Society (under the Co-operative and Community Benefit Societies Act 2014, No. 30268R), Cheviot Housing Association Limited (Cheviot) and Wansbeck Homes Limited (Wansbeck), both asset owning RPs and Registered Societies (under the Co-operative and Community Benefit Societies Act 2014) with charitable status. All three entities are registered with the Financial Conduct Authority (FCA). Bernicia is also the parent company of three trading Subsidiaries, Kingston Property Services Limited, Avoca Estate Management Limited and Livingspaces (UK) Limited. All three trading subsidiaries are registered with Companies House.

The three boards operate under a unified board structure with the Group Board sitting with shared members serving all three entities, and with agendas in two distinct parts, Group and Social Housing. Each company continues to exist as a separate legal entity. The Governance Structure is aligned to the Group's operational structure and streamlines governance arrangements and improves decision making. On the 1st June 2016, Four Housing Group joined Bernicia through a transfer of engagement and a virtual single board structure has been adopted. Further details of the merger are given on page 15.

Where we operate

We own and manage over 8,000 homes, across seven local authority areas in the North East of England with 72% of our homes located in Northumberland and 28% in the Tyne and Wear conurbation.

Business Strategy

Our business strategy places our work as a social landlord at the heart of what we will be doing to provide quality homes, customer focussed services and help people. The strategy sets out 3 strategic outcomes which will be delivered through a number of operational objectives focussed on customer and business outcomes and reflecting any political, economic and social change which influences our business, these outcomes are:

Relevant Services - provide the right service to the right people

We will listen and respond to what our customers say about their needs and services.

Changes in the demographic profile of our tenants and the challenges faced by them in managing the impact of Welfare Reform will result in greater need for individual support to help people sustain tenancies. To help, we will look to adjust the style of services we offer so that we provide the right service to the right people.

We plan to invest in new technology to enhance customer contact, make information more accessible and support the delivery of our services.

We will continue to focus on achieving performance standards that are important to our customers in providing reliable and quality services.

Great Property and Places - help create places where people want to live

Great Property and Places – help create places where people want to live.

Our approach to providing great property and places has three strands to it:

- We work with customers, communities and stakeholders to establish views and facilitate joint working to help create those places where people want to live.
- We invest in our communities, delivering housing and environmental improvements by improving existing homes.
- We work in partnership to develop aspirations and increase opportunities for people. We will provide support for community projects, create and support jobs through investment in apprenticeships, training and by supporting local businesses.

Positive engagement with stakeholders and partners is vital in creating places where people want to live.

Fantastic Organisation - grow our business responsibly to provide greater efficiencies and more surplus to invest in our homes, services, communities and our people and business.

We want Bernicia to be seen as a fantastic organisation by our customers and stakeholders. For us that means an organisation that gets the job done, is a great landlord, invests in new and existing homes and communities and is a brilliant place to work.

We plan to enhance services creating and delivering the right service to the right people, invest in our properties and estates providing great places to live and invest in the development and well-being of our staff to take the business forward and provide the opportunity and environment for people to prosper. To achieve this we need to be a strong business which manages resources efficiently and generates surplus to enhance our financial capacity.

Our success will help us grow our business. Responsible growth by building more new homes with differing tenure options, extending the range of our services and providing them to other organisations and expanding our commercial activities will provide greater efficiencies and more surplus to re-invest in our social purpose.

Financial Strength

To deliver these outcomes we need to maintain our financial strength, which we will achieve by strong operational performances effective management of resources and careful risk management. Producing healthy operating margins and strong cash flows with further growth ambitions which adds to our surpluses. This enhances the Group's financial capacity to do more but also gives us the capability to absorb adverse changes to our budget.

Values

Our approach is built around the five core values that drive all that we do:

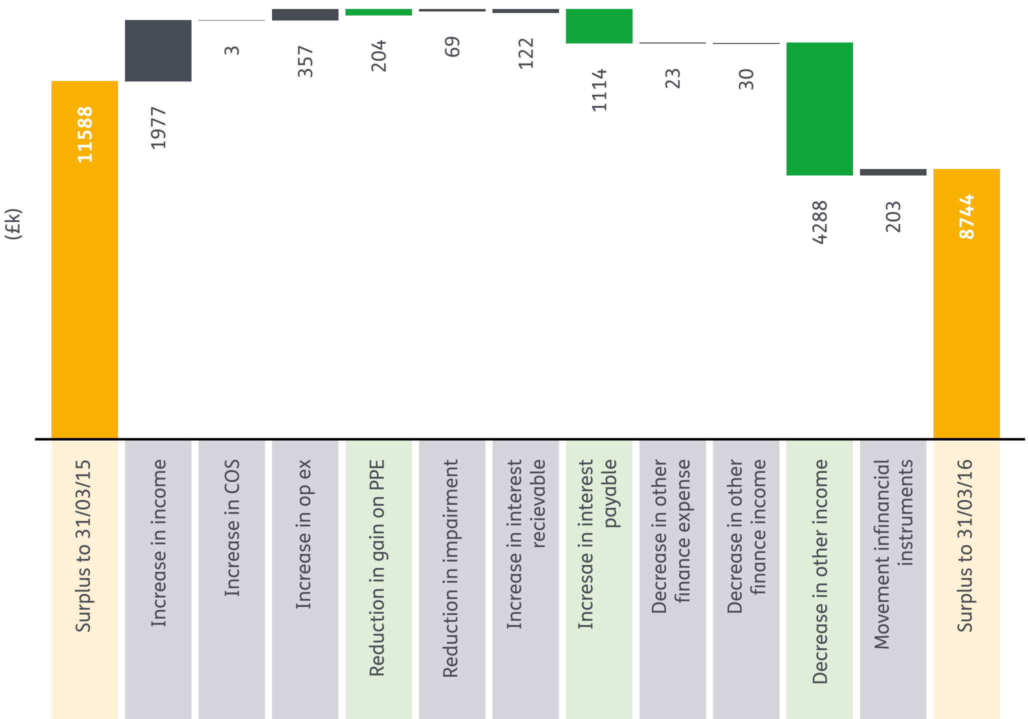
- Customer Service
- Team Working
- Integrity
- Quality
- Leadership

The year under review

Financial Performance

The Group's operating results have been prepared in accordance with Financial Reporting Standard 102 (FRS102) and the 2014 Housing Statement of Recommended Practice (SORP). 2016 has been the year of adoption. The 2015 results have been restated for comparative purposes. Note 36 to these accounts presents to the readers and explanation of the transition to FRS102 from old UK GAAP.

The Bernicia Group has delivered another strong and solid set of financial results in line with budgets and forecasts. The operating surplus of £12,397k (2015: £10,066k) shows an increase on the previous year's, this is mainly as a result of the grant funding in respect of the decent homes works at Wansbeck being fully drawn down in 2015. As the bridge graph shows below, this reduction in grant funding (other income) of £4.3m masks the strong growth in rental income of £2m:



Income from lettings has increased as a result of the CPI based rent formula applicable to the sector and the full year effect of number of units that came into management during the year. The other major change in the year is the increase in interest payable by £1.1m following the completion of the new £40.5m private finance facility at the beginning of the year. This facility will be used to fund our continued investment in new homes and we have plans for the provision of over 400 homes to be delivered in the period to 2019/20.

We completed the acquisition of Avoca Estate Management. The addition of Avoca will complement our existing commercial portfolio which includes Kingston Property Services Limited and Livingspaces (UK) Limited. The future profits and cash flows of the commercial portfolio will be utilised in the delivery of our core social objectives.

The Group has maintained a strong base and ensures it has sufficient reserves (2016: £74m; 2015 £65m) to meet future stock reinvestments and manage exposure to risk.

Cash Flow Statement

The Group generated a net cash inflow from operating activities of £16.3m (2015: £11.2m), an increase primarily driven by rental income growth and an decrease in debtors in the year.

Capital expenditure and financial investment net cash outflow totaling £12.1m (2015: £2.3m), with expenditure on housing properties of £13.6m and £0.9m of other fixed assets purchased in the year. The acquisition of Avoca cost £1.1m. Capital grants of £2.1m were down from £8m in 2015 as that was the final year of receipt of gap funding in respect of Wansbeck Homes (£6 million). Disposal of housing properties generated £1.3m in the year.

Cash at bank and in hand increased to £42m (2015: £18.6m).

Treasury Management

Treasury activities focus on ensuring that the Group has sufficient liquidity to fund its operations for a minimum of one year, 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.

Capital Structure

Liquidity is secured from free cash flow from operations, government grant and external lending facilities. At 31 March 2016, the Group had drawn loans totalling £90.7m (2015: £66.9m) and available undrawn credit facilities of £31m. The increase is related to the drawdown of £36m of the £40.5m private placement completed during the year. The balance is to be drawn down in 2016. Cash equivalents held at the year-end totalled £42m.

Sources of Funding

During the course of the year the Group completed the £40.5m private placement drawing down £36m.

Debt Repayment Profile

The Treasury Strategy ensures that the Group does not have to refinance material amounts of debt in any one year. The Group has £9 million of re-financing over the next five years and has facilities in place to undertake this. £82m (90%) matures after year 5.

Counterparty Risk

The Group operates a conservative counterparty risk management strategy that aims to minimize 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 2016, all cash investments are held with counterparties who meet the criteria of our Treasury Management Policy, and are rated F1 and above in short term (3 months) deposits and A- and above in longer term (in excess of 3 months) by Fitch Ratings.

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 2016, 80% of the Group's drawn debt (inclusive of hedging activity) was fixed at rates between 3.95% and 14.75%.

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

Key Performance Indicators	2015/16 Actual	2015/16 Target	2014/15 Actual
Repairs and Gas Servicing			
Emergency repairs (of all emergency repairs notified in the year, the number completed within 2 hours as a % of all emergency repairs completed in the period)	99.10%	99%	99.80%
Average number of days taken to complete a repair	9.37	9	9.2
Customers "very satisfied" or "satisfied" with repairs	93.60%	90%	91.50%
Gas servicing (% of properties with a current LGSC)	99.99%	100%	100%
Properties meeting Decent Homes Standard	100%	100%	100%
Arrears			
Current tenant arrears	2.84%	3.35%	2.78%
Voids			
Operational void loss	2.09%	2.60%	1.99%
Average number of days to re-let	32.48	30	27.02
Total voids (available to let)	0.91%	1.25%	0.88%
Rents			
Rent collected (rent received as % of rent charged to date)	99.60%	99.25%	99.55%
Overall customer satisfaction with services	**89%***	**n/a**	**92%**
New Homes			
Homes completed in year	93**	n/a	52
Staff			
Absence (% of absenteeism)	2.50%***	n/a	2.91%

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.

Repairs and Gas Servicing - we carry out repairs at the first available appointment, as agreed with the tenant. Whilst the average days to complete a repair has exceeded the target and shows a small (0.17 days) increase on the previous year, customer satisfaction with the repairs service, whilst already high, increased to 93.6%. On gas servicing we set a target of 100% though performance is effected by tenants granting access to their property. When this isn't given, we will seek a court order at the earliest opportunity. The property without a valid certificate at the year end has since been serviced.

Rents, Arrears and Voids - 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 when compared to the previous year. Whilst void loss increased this was anticipated and planned for, as we held empty a number of properties to facilitate the delivery of a range of agreed estate sustainability schemes. This has also effected re-let times which exceeded both the target and the previous year's performance.

Resident Satisfaction - we continue to work closely with our tenants to ensure services are relevant to the needs of the end user. The overall satisfaction indicator is from the triennial STAR survey and whilst we anticipated that this would fall from the high levels recorded in 2012, it is pleasing to note that it remains in line with our peer group. In addition to the STAR survey, we collect real time satisfaction returns across our business operations. We continued to record high levels of satisfaction with 5 of the 10 areas showing sustained or improved satisfaction with the services provided. One area we will be examining further is complaints where, whilst satisfaction with the outcome has increase significantly (83% from 74%), the satisfaction with the process has fallen (from 81% to 78%). We examine areas of complaint or dissatisfaction to determine whether lessons can be learnt and also accept that on occasion, whilst disappointing no clear cause or reasonable remedy can be identified.

New Homes - during the year we met all targets agreed with the Homes and Communities Agency, 93 homes were handed over of which 66 are on a brownfield site adjacent to Ashington town centre and 23 were Section 106 units acquired from private developers.

Staff - a skilled and motivated workforce is key to the success of our business. We continued to invest in our apprenticeship, training and support programmes and to improve internal communications and the provision of quality business support information. We launched a new staff engagement tool and invested in a new intranet and performance management system. Our high performance levels, low sickness absence and staff turnover is a reflection of the success of our people strategy and the dedication of our workforce.

Value for money statement

Introduction

We see Value for Money as a way of getting the most out of our resources to achieve more for our current and future tenants.

It is a fundamental business principle and is an integral part of our overall strategy rather than a separate activity or strategy.

Our approach starts with the Board setting the strategic direction and priorities for the Group and we have worked to embed Value for Money into all we do and believe this is demonstrated by the way we run our business and what we achieve.

Bernicia is an efficient business with a good track record of improving housing stock, building new homes and developing financial strength. We have always recognised the need to deliver further efficiencies to generate the surplus which we can then invest in our business, improve the services we provide and build more homes.

Our property and assets are crucial to our long term business and financial plans. We make decisions on future stock investment based on full financial appraisal of our current stock, collectively and individually, together with an assessment of social and environmental factors such as the geographical areas where we operate, the local housing markets and the nature of the communities that were set up to help. Of particular importance is the relatively deprived nature of our communities and the positive impact that good, affordable housing can have on the quality life. Whilst we fully understood 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.

We 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.

A full VFM self-assessment report will be available on our website (www.bernicia.com) from September 2016.

Key achievements in 2015/16

We completed 93 new homes during the year at a cost of £10.3m with just £1.4m (14%) funded through grant from the HCA. These new homes will require a £3.7m internal subsidy to bridge the gap between their net cost and the income they will generate over the next 30 years.

Whilst our preference is to retain property where possible, we have completed the demolition of 16 properties where there was no long term demand for these homes due to the geographical isolation of the estate from local facilities and amenities and decommissioned two sheltered housing schemes as the accommodation no longer met the needs of existing or prospective tenants.

A £40m private placement funding arrangement was completed at the start of the year, this will reduce our overall cost of funds and provide finance for the next five years of our planned investment programme.

Year 3 of our stock investment programme was successfully delivered investing £13m with the benefit of £1.2m savings on contract procurement. We also continued to roll out mobile working including the introduction of hand-held technology for tradesman creating efficiencies in the way we work. In addition we have identified with future savings on the programme of £1.7m pa. Bernicia has previously undertaken significant investment in its housing stock, modernising homes to the "Bernicia Standard" and carrying out significant sustainability projects which have included remodelling of properties and improvements to estate infrastructure and communal environments. We now hold 100% stock condition information and using this information a review of the requirements of our stock over 30 years has been undertaken. It is now forecast that the identified savings could be achieved whilst still maintaining our homes to the agreed Bernicia standard.

An estate management company was acquired during the year to compliment and strengthen our portfolio of trading companies and increase the future contributions they make to our social housing business.

We have embedded our approach to the provision of pre-tenancy advice and support to prevent tenancy failure, something which now forms part of our day to day management service. Our Intensive Housing Management Team helped 255 tenants during the year, with 66% of completed cases achieving a positive outcome.
This approach has resulted in strong rent collection and arrears performance including a significant reduction in amounts transferred to former tenant arrears, an indication that our advice and prevention initiatives are working.

We have delivered a number of added social value initiatives during the year including: fitting 785 adaptations to our homes, at a cost of £91,000 to support continued independent living; delivering 160 work experience and school engagement opportunities for young people including work taster days, employability skills and school engagement through our Runway Programme; and a focus on environmental awareness has seen us achieve the SHIFT (Sustainable Homes Index for Tomorrow) silver award during the year.

In last year's VFM Statement we set ourselves the challenging target of achieving efficiencies with a value of £1.9m in 2015/16. We actually achieved £2.6m thanks to savings on the procurement of contracts exceeding expectations. Operational savings were below the target level as a number of changes were put on hold as a consequence of the merger discussions with Four Housing.

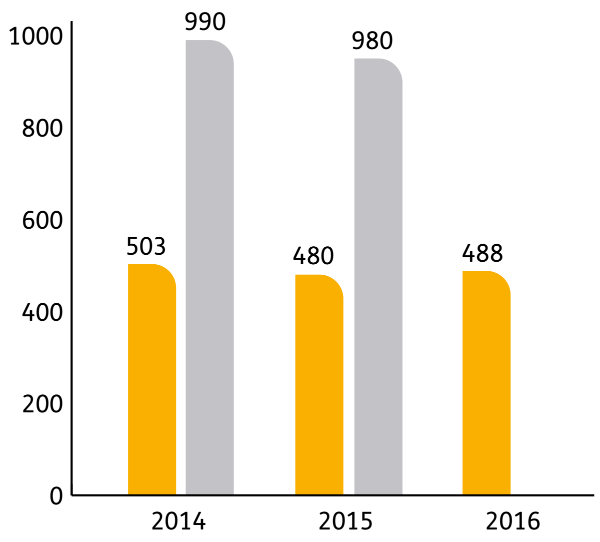
How we perform and how we compare

Details of our operational performance for the year are given earlier in the Strategic Report of the Board. We also compare our performance with that of our peers to benchmark our own performance and ensure that the targets we set are realistic.

Financial Analysis

The comparative data is from HCA Global Accounts Analysis - 15/16 figures not available.

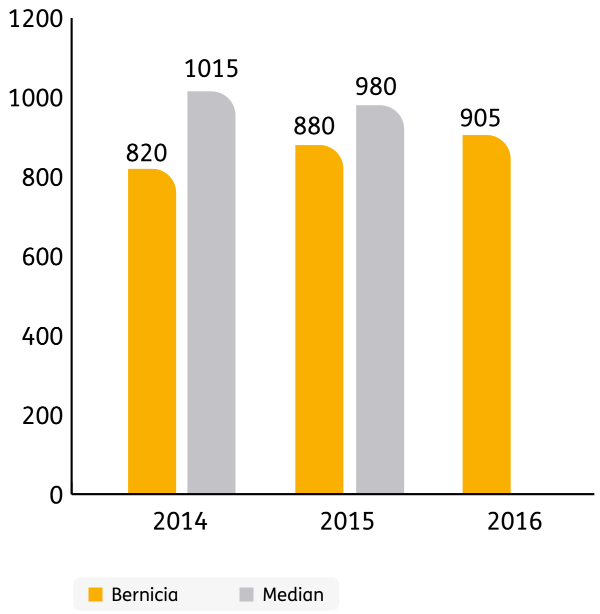
Management Cost per Unit (£)



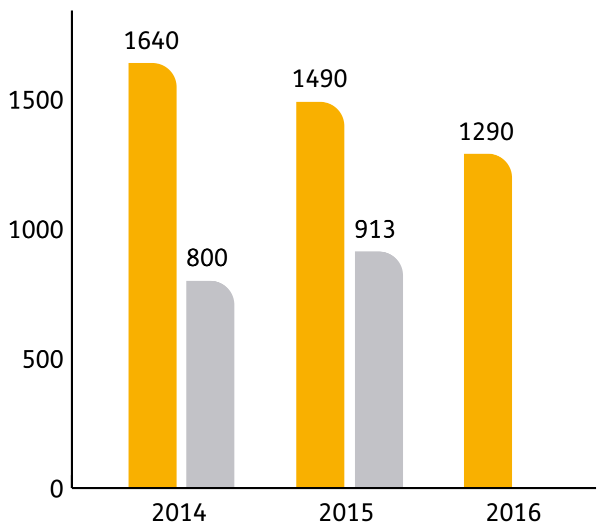
We continue to control our management costs which remain below the level of two years ago. Compared to the sector as a whole they are in the top quartile, being almost half that of the sector average.

The costs of major repairs remained high when compared to our peer group and national benchmarks. Our costs reflect the requirements of our stock transfer subsidiary, Wansbeck homes. As we have now completed a number of agreed sustainability projects, we expect major repair costs will continue to reduce. Given the nature of our stock and our commitment to the Bernicia Homes Standard we do not expect that this will fall below our peer group median level.

Maintenance Cost per Unit (£)



Major Repair Cost per Unit (£)



Housing Management

The comparative data is from Housemark

Current arrears have increased marginally but are still below our peer group average despite the challenging operating environment. This reflects the success of our approach to the provision of pre-tenancy advice and support to prevent tenancy failure, this now forms part of our day to day management service.

We've also seen a reduction in amounts transferred to former tenant arrears, an indication that our advice and prevention initiatives are working.

Current arrears have increased marginally but are still below our peer group average despite the challenging operating environment. This reflects the success of our approach to the provision of pre-tenancy advice and support to prevent tenancy failure, this now forms part of our day to day management service.

We've also seen a reduction in amounts transferred to former tenant arrears, an indication that our advice and prevention initiatives are working.

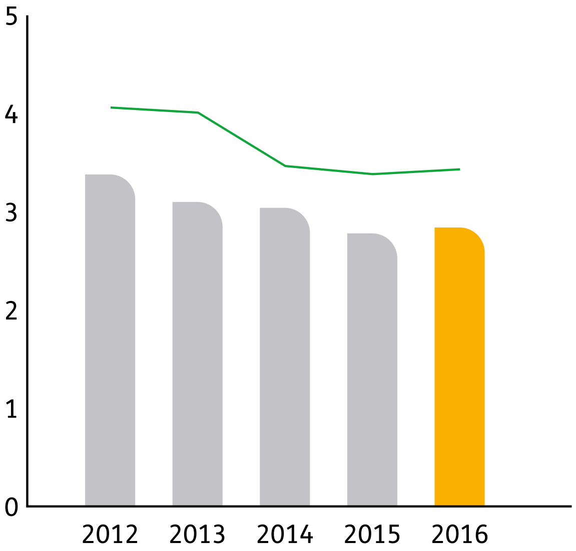
Turnover of void properties, whilst high at 12.75% fell for the second successive year, due to the success of management initiatives and targeted stock investment through active asset management. By the end of the year the number of vacant units had fallen by 15%.

Whilst overall voids showed a marginal increase, this was planned as we held properties empty to facilitate the implementation of active asset management plans. This has also effected re-let times.

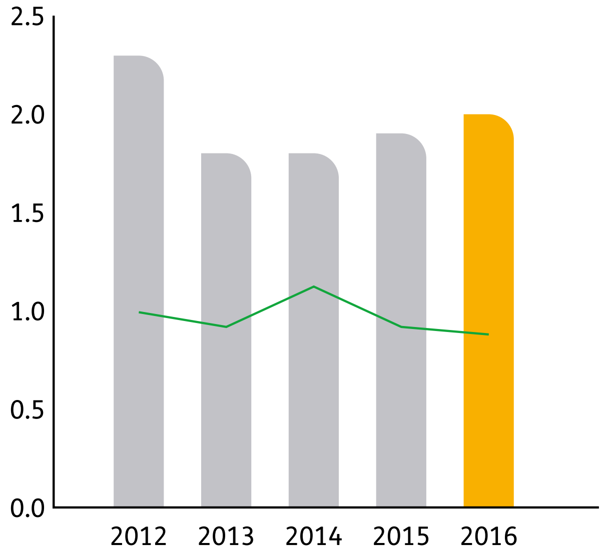
Turnover of void properties, whilst high at 12.75% fell for the second successive year, due to the success of management initiatives and targeted stock investment through active asset management. By the end of the year the number of vacant units had fallen by 15%.

Whilst overall voids showed a marginal increase, this was planned as we held properties empty to facilitate the implementation of active asset management plans. This has also effected re-let times.

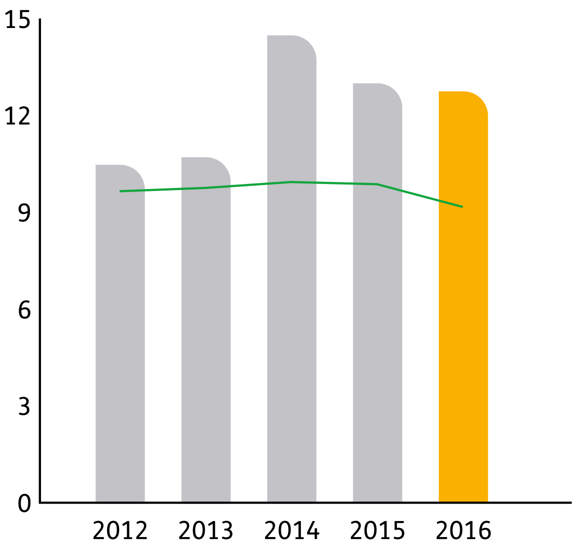
Current Arrears %



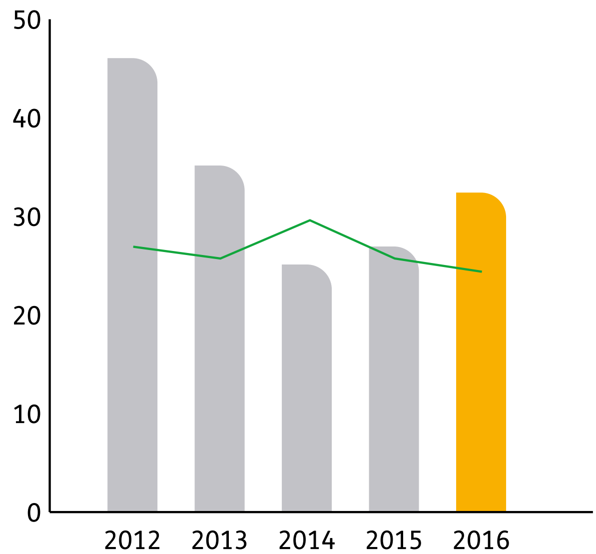
Void Rent Loss (%)



Tenancy Turnover (%)



Average Re-let Time (days)



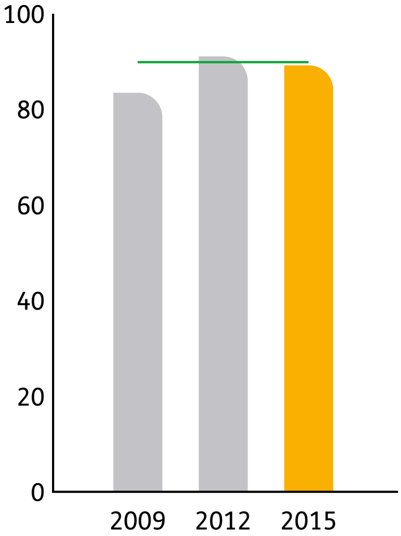
Bernicia — Median

Customer Satisfaction

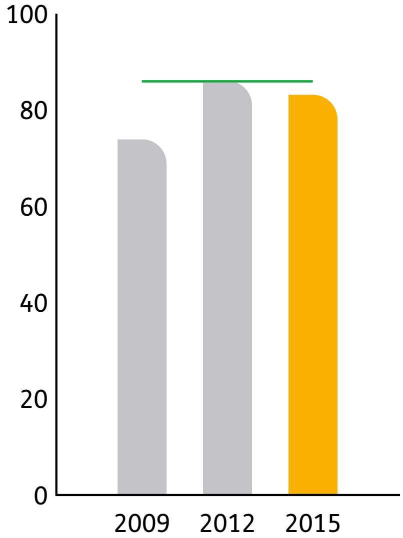
The comparative data is from Housemark

We maintain good resident satisfaction across a range of indicators, a reflection that our homes and services continue to meet the needs of our tenants. Three key indicators are shown below:

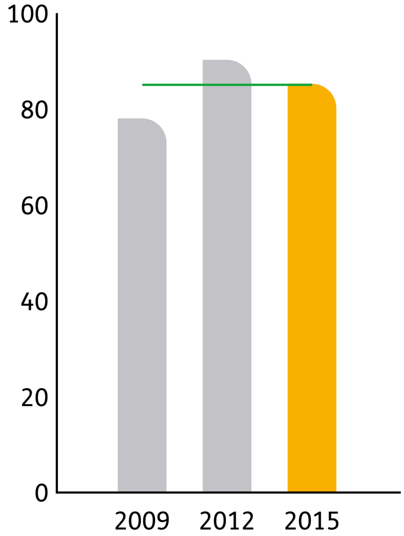
Satisfaction with the overall service



Satisfaction with value for money - rent



Satisfaction with repairs and maintenance



Whilst overall results are good, there is scope to improve perceptions of Bernicia particularly in relation the expectations of our customers as regards repairs and maintenance. Whilst most tenants remain satisfied with this service area we had already identified the need for further work to ensure a clearer understanding of our agreed service standards. We will communicate these to tenants, apply them fairly and consistently and support our staff to deal confidently and efficiently with enquiries and requests for service.

Whilst overall results are good, there is scope to improve perceptions of Bernicia particularly in relation the expectations of our customers as regards repairs and maintenance. Whilst most tenants remain satisfied with this service area we had already identified the need for further work to ensure a clearer understanding of our agreed service standards. We will communicate these to tenants, apply them fairly and consistently and support our staff to deal confidently and efficiently with enquiries and requests for service.

Findings from the research will inform Bernicia's approach to improve access via channel shifting whilst confirming assumptions on the level of knowledge and understanding of Universal Credit.

■ Bernicia — Median

* Data in this section is compiled from a Triennial STAR Survey. We also collect real time data which is reported on page 8.

Key Financial Ratios

We have identified a number of key financial ratios covering growth, profitability and our ability to service debt. They have been calculated on a pre FRS102 basis to aid comparability. The table below sets out the changes in these other the past three years and compares our performance to the latest available data for the sector (2014/15):

KEY FINANCIAL RATIOS	2013/14 Actual	2014/15 Actual	2015/16 Actual	2014/15 Sector Average
Growth				
Growth in Turnover	5.4%	7.1%	**4.3%**	4.1%
Growth in total assets	2.1%	2.9%	**12.5%**	6.0%
Growth in total debt	-0.8%	0.6%	**35.7%**	6.9%
Profitability Ratios				
Operating Margin	22.3%	22.3%	**23.6%**	28.3%
Op Margin - Social Housing	21.1%	21.3%	**28.0%**	31.0%
Effective Interest Rate	6.0%	5.4%	**5.2%**	4.7%
Debt Servicing Ability				
EBITDA MRI Interest Cover	299%	244%	**227%**	156%
Adjusted Net Leverage	25%	22%	**21%**	44%
Debt to Turnover	167%	157%	**205%**	389%

Growth

Strong growth in turnover has continued reflecting the increase in rent levels, the development of new homes and the contribution from the trading subsidiaries. The next four years growth will of course be effected adversely by the annual rent reduction. Assets growth reflects the new units being provided under the development programme and the drawdown of the private placement funding. Growth in debt in the year also reflects the new funding put in place by Cheviot which will provide development finance for the next 5 years of the programme.

Profitability Ratios

Operating margins have increased compared with previous years and are below the sector averages. This is in large part due to the lower amount of repairs that the Group capitalizes compared to other housing associations. As highlighted in the sections above, our management costs per unit are significantly below the sector average. The decrease in the effective interest rate reflects the competitive interest rate secured on the £40m private placement agreed during the year.

Debt Servicing Ability

This remains strong even after the new funding put in place during the year and all are well below the sector averages. Following the completion of the decent homes work at Wansbeck and the merger, the Group will be reviewing its treasury strategy in the next year to identify how it can create additional capacity for investment to support the Group's overall objectives.

Financial Return on Assets

We use a model to annually assess the financial return from our assets that determines the net present value of each of our estates and property types once current and future expenditure and income assumptions are factored in. The results of this analysis from the last three years are shown below:

Schemes	2013/14	2014/15	2015/16
High	2.0%	1.8%	1.5%
Med/High	8.5%	4.3%	2.9%
Medium	8.3%	9.3%	8.5%
Low	81.2%	84.8%	87.2%

Homes	2013/14	2014/15	2015/16
High	2.0%	1.3%	0.8%
Med/High	7.6%	4.0%	3.1%
Medium	12.9%	11.0%	9.3%
Low	77.5%	83.8%	86.9%

The tables above show how the position continues to improve with a significant increase in both schemes and homes that fall within the low risk category. This is a result of the positive impact of both investment and disinvestment decisions, and a range of management initiatives that have been based on a sound understanding of our stock. We currently assess that 66 of our properties have a negative or marginal rate of return (high risk) over the next 30 years compared to over 7,000 with a significantly positive rate of return (low risk).

Future plans

Our main priority is to deliver the aims of the merger with Four Housing to:

- Ensure the best possible return on assets and investments.
- Effectively manage our operations to maximise performance and quality, minimise cost, whilst retaining a clear focus on the delivery of priorities and organisational objectives.
- Share expertise, resources and costs to deliver efficiencies that will enable us to deliver more in terms of improved services, building new homes, supporting and regenerating communities.

Efficiencies are a significant driver, and indeed an expectation in the majority of merger proposals. A target of an additional £2m per annum cashable savings from Year 4 onwards has been set. This is in addition to the combined £4.8m identified by Bernicia and Four Housing to manage the impact of the rent reduction.

In the business case for merger we stated Bernicia's aim is to build more new homes. The Group's financial capacity to develop will increase as a result of the merger providing the scope to increase the planned numbers of new homes developed as efficiencies resulting from the merger are realised.

Our future strategy will take into account the change 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. The new Board will be carefully reviewing and considering the available options as we develop our future plans and strategy over the next year.

Both Bernicia and Four Housing had established value for money strategies that ran up to the current year. The merger will mean that a single new VFM Strategy will be developed in 2016/17 for the enlarged Bernicia Group. The basis will be the business case produced for the merger and the primary focus will be on achieving the planned efficiency gains whilst maintaining high level operational performance and delivering our strategic objectives.

We believe that the merger with Four Housing is the most significant single action that we can take in terms of its impact on our ability to deliver value for money.

We also recognise that there are areas for improvement in our operational performance and this assessment together with Four Housing's will be used by the new Bernicia Group to inform and update its VFM Strategy and action plan.

The Group Board has reviewed the key requirements of the HCA Value for Money Standard and is able to confirm that Bernicia complies with the requirements of the Standard. Additional information to support our Value for Money self-assessment including the latest Housemark benchmarking reports and tenant survey (STAR) will be available on our website (www.bernicia.com) from September 2016.

Risk

Risk Management

We understand that there are a variety of complex, interplaying factors which affect our business. Risks to our business include economic reasons, government policy or 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.

A separate risk register was developed for the merger process and appropriate mitigation put in place which contributed to its successful outcome.

Our plans for the future are impacted by the external environment, including things 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 and still remain.

The External Environment

As we reported last year, the scale and rate of change to our operating environment in recent years has been rapid and 2015/16 has been no different.

Looking ahead, the challenges and impact of the Brexit vote in June 2016 are still working their way through the economy and the only thing that we can be certain of is further uncertainty and change.

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

During 2015/16 the financial landscape improved with GDP at last above pre-recession levels. Whilst the recovery broadened and strengthened, it is still fragile. The deficit reduction measures continued to be the government's priority. Growth in wages continued to run ahead of inflation, but this was in large part due to international influences depressing headline CPI.

The housing market picked up, stimulated by the government's Help to Buy scheme. Inflation remained significantly below the 2% target. The Bank of England ended Quantitative Easing and indicated that interest rates were expected to rise in the future.

The initial assessment following Brexit was that this could all change. Inflation may increase as the value of the pound decreases and interest rates may fall before they rise to stimulate the economy. The government also announced its intention to delay its aim of removing the current account deficit by 2020. Austerity measures maybe reduced but their timescale lengthened.

Registered Providers (RPs) of Social Housing are facing a number of specific challenges. The government's July 2015 budget announced a 1% real rent reduction for four years from April 2016, despite having previously committed to ten year rent regime of CPI plus 1%. The widening of "Right to Buy" opportunities to registered provider tenants; provides home ownership opportunities to more people, whilst eroding the property base of RP's. Welfare reform implementation is now also being rolled out and further restrictions on housing benefit introduced. The potential capping of housing benefit payments for supported housing schemes to the level of local housing allowance (LHA) would have a significant impact on their future viability and provision.

The Government's deficit reduction plans will continue to shape key elements of RP's operating environment over the coming years. Whilst there is also a general commitment to build more new homes, there does not appear to be a commitment to fund RPs to deliver additional new social homes. The extension of the LHA cap on social rents to supported housing would make any future development of such schemes unviable. What constitutes 'affordable housing' is also being redefined by the government with the inclusion of 'affordable' homes to purchase. The re-classification of the sector as public bodies by the ONS and the government's response has also added to the uncertainty and a stable and coherent housing strategy and planning and operating environment looks a long way off.

Those risks we have 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 need to be factored into our future plans.

Key Risks

The Board has identified the following key risks to achieving our corporate objectives:

Impact of political 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. We are mitigating this 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 rviewing and updating our treasury strategy.
- Support and validation of financial plans and assumptions by external consultants.
- Robust performance monitoring of key indicators including budgets.
- Targetting 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.

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 was announced during the year 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.
- Transferring members from the closed final salary SHPS structure to lower risk structures.
- Continued specialist advice from Punter Southall to assist with financing future liabilities.
- Including provisions for future deficit payments into our 30 year business plan.

Regulation - the protection of social housing assets is a major requirement for the sector, meaning that the regulatory framework is at the heart of ensuring this objective is successfully met by providers. This includes ensuring that we not only protect but also make best use of our assets. We are mitigating this by:

- 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.
- Maintaining an Asset & Liabilities register.
- The merger with Four Housing Group.
- Board and Committee oversight including training and briefings.
- Business Planning and decision making within the parameters of the Group's risk appetite.

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 2015/18 Development Programme, implement plans to enhance services and invest in existing homes and communities. The merger with Four Housing Group will provide the opportunity to deliver further efficiencies and increase the resilience of our financial plans.

Governance

The Group is committed to achieving the highest standards of corporate governance.

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

Bernicia recognizes that good governance is a pre-requisite to excellent performance. We continually review our governance arrangements to ensure they comply with the highest standards of corporate governance and have systems in place to deal effectively with governance issues as they arise.

Bernicia continues to follow best practice with regard to corporate governance. We have adopted the NHF Code of Governance (2015) and the NHF Code of conduct. The Group Board conducts an annual group-wide self-assessment of compliance with the Code of Governance, which has shown that the group is compliant with it.

A statement of the responsibilities of the Board of Management in respect of the financial statements is given on page 23. Below is a brief description of the role of the Board followed by a statement regarding the Group's internal controls framework.

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.

The Group complies with the current HCA 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.

The Group Board

The nine members of the Group Board, operated as a Common Board with the two subsidiaries of the Group, Cheviot Housing Association Limited and Wansbeck Homes Limited. Consequently, the Board met 10 times during the year as a shared Board distinctly discussing the role of all the entities it represents. This approach allowed Bernicia (as a Group) to make significant efficiencies in the servicing and management of its Governance Structures and also allowed members, as individuals the opportunity to understand the organisation to its fullest.

Following the merger with Four Housing on 1st June 2016 the governance and board arrangements have been reviewed and updated to ensure that they continue to meet the requirements of the enlarged organisation.

Board Members

The members of the Board who served during the year are set out on page 1. Each board member holds one fully paid up share of £1 in the Association. None of the senior officers are shareholders.

Our members come from a diverse range of backgrounds and have a wide range of skills and experience. All Board members are briefed on their roles and responsibilities in regard to acting for each of the subsidiaries for which they are accountable. This knowledge and understanding is maintained with regular training and professional updates from appropriately qualified and independent advisors to the Board.

The Board comprises up to 12 members and is responsible for the direction and overall control of the Group's affairs.

The Board maintains a number of matters which are reserved for their direct attention only. However, to support in its wider role, the Board also has a framework of delegations of authority to both Executive Staff of Bernicia, and its own Committees. The Chief Executive and their Executive Team have been authorised with delegated authority to implement the Board's agreed strategy and general management of the Group.

Members of the management team who served during the year are also set out on page 1.

Committees of the Board

The Board during the year formerly delegated specific responsibilities to the following committees which operated under the terms of reference agreed by the Board.

The members of committees are both drawn from our Group and Social Housing Board members, as well as some being "independent" committee members who do not sit on any other Boards. The Committees are supported by the Executive and senior management teams as appropriate.

Audit and Risk Committee - the committee has responsibility for the oversight of Internal Audit, External Audit, monitoring the Risk Management Framework, reviewing the consistency of the accountancy policy, assuring themselves as to the effectiveness of internal controls across the Group and of the integrity of the Group's Financial Statements. The external and internal auditors attend key meetings and have direct access to the Chair of the Committee. The Committee monitors and regularly reviews the Group's relationship with its Auditors.

Finance Committee - this Committee is responsible for the detailed financial plans for the Group's operation within the financial objectives set by the Board. Bernicia's financial performance is overseen by the Committee's members who aim to control its assets, and approve the financial aspects for any detailed development plans.

As a committee of the Group Board, the Finance Committee makes recommendation to the Board on various aspects of financial planning, long term financial and treasury management. The Committee also monitors the progress of these functions within the Group, particularly concerning itself with the management of any financial risks across the Group, and recommending strategies for mitigating such risks to the Board when relevant.

Remuneration, Resources and Appointments Committee - the role of the RRA Committee is responsible for the recruitment and appraisal of board and committee members, as well as monitoring reports on Human Resources, and other resource based issues, monitoring general corporate governance issues and the pay and remuneration of the Board and Executive Team.

Governance of Subsidiaries

Each subsidiary company has its own board, although it should be noted that the Boards of the two Social Housing subsidiaries (Wansbeck and Cheviot Homes) sit as one "common" board, which in turn sits with the Group Board as the Group Common Board, albeit with distinct reporting and decision making powers reserved for each and clearly detailed on their governance documentation.

Tenant Engagement and Empowerment

The Group actively encourages the tenants of its social housing subsidiaries to become involved in decision making and promotes mechanisms through which tenants can influence operations and activities of the Group. We have Board members who are tenants and there are clear reporting arrangements between resident groups, our scrutiny panels and the Board. In addition, we welcome tenants and customer onto our other committees and panels which operate across the Group.

Staff

The success of Bernicia is reliant upon the support of our staff, who are our most valuable resource and are at the heart of our ability to create and deliver relevant services, provide great property and places and build a fantastic organisation.

Through our people strategy we ensure we have the right number of people with the right skills, in the right place at the right time, providing rewarding jobs and opportunities within an excellent working environment. Focussing on building a fantastic organisation we have worked to achieve a number of valuable accreditations which support this focus; Investors in People Gold, Better Health at Work Award Gold and Equality Standard Gold, all of which represent the inclusive and considerate approach we adopt as an employer.

We consult actively with our employees through formal and informal mechanisms including briefings, road-shows, staff conferences and surveys to gain full and open feedback.

The Chief Executive and Deputy Chief Executive lead the programme supported by other senior managers.

Internal control assurance

The Board acknowledges its overall responsibility for establishing and maintaining the whole system of internal control and for reviewing its effectiveness for the group as a whole.

The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and to provide reasonable, and not absolute, assurance against material misstatement or loss. In meeting its responsibilities, the Board has approved an effective framework to identify and manage the significant risks to the Group's operations. This risk-based approach to establishing and maintaining internal controls is embedded within day to day management and governance processes. The approach includes the regular evaluation of the nature and extent of risks to which the Group is exposed and is consistent with best practice.

The process for identifying, evaluating and managing the significant risks faced by the Group is ongoing and has been in place throughout the period commencing 1 April 2015 up to the date of approval of the report of the Board and financial statements. The Board receives and considers reports from management on these risk management and control arrangements at its meetings during the year.

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

- **Identifying and Evaluating Key Risks** – The Group's risk management strategy, setting out the Board's attitude to risk in the achievement of its objectives, underpins the risk management, business planning and control arrangements. These arrangements clearly define management responsibility for the identification, evaluation, control and reporting framework for significant risks. The Executive and Management Teams regularly consider reports on these risks and the Chief Executive is responsible for reporting to the Board any significant changes affecting key risks.
- **Control Environment and Internal Controls** – The processes to identify and manage the key risks to which the Group is exposed are an integral part of the internal control environment. Such processes, which are reviewed annually and revised where necessary, include strategic and financial planning, the recruitment of executive directors and senior staff, regular performance monitoring, control over developments and the setting of standards, health and safety, data protection and fraud prevention and detection.
- **Information and Reporting Systems** – Financial reporting procedures include detailed budgets for the forthcoming year and a thirty-year business plan. These are reviewed and approved by the Board and monitored throughout the year. The Board receives reports on key performance indicators to assess progress towards the achievement of key business objectives, targets and outcomes throughout the year.
- **Monitoring Arrangements** – Regular management reporting on control issues provides assurance to successive levels of management and to the Board. It is supplemented by regular reviews by internal audit who provide independent assurance to the Board, via the Audit Committee. The arrangements include a rigorous procedure, monitored by the Audit Committee, for ensuring that corrective action is taken in relation to any significant control issues. The Group has established an assurance hierarchy to provide specific management assurances to the Chief Executive in order that the Chief Executive can provide overall assurance to the Board.
- **Fraud Management** – Appropriate policies and procedures are in place and a fraud register is maintained and is reviewed by the Audit Committee. There were no frauds reported in the year.

Summary

The Board delegated authority for the review of internal controls to the Audit Committee. The Chief Executive's annual report on internal control assurance, combined with internal audit assurance levels have been considered by Audit Committee on behalf of the Group and offer a reasonable to significant level of assurance. The compiling of the Statement On Internal Control did not identify any significant material breaches, either in the controls themselves, or around actual sources of assurance. Audit Committee carefully considered the statement and has recommended it to Group Board, who retain overall responsibility for the effectiveness of internal control. The Board concludes that an effective system of internal control has been in place for the year ended 31 March 2016.

Auditors

KPMG LLP are auditors to the Group. They have indicated their willingness to continue in office and a resolution to reappoint KPMG LLP as auditor will be put to the members at the Annual General Meeting. The auditors' fees for audit and non-audit work are disclosed in note 8 to the financial statements.

Donations

The Group made no charitable donations in the year (2015: nil) and made no political donations.

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, its cash flows, liquidity position and borrowing facilities are described on pages 3 to 24.

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 26c 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.

Post Balance Sheet Events

Four Housing Group merged with Bernicia on 1st June 2016 by means of a transfer of engagement with its subsidiaries, Three Rivers Housing Association Ltd and Berwick Borough Housing Ltd becoming subsidiaries of Bernicia Homes.

Disclosure of Information to Auditor

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

Accounting policies

The Association's principal accounting policies are set out on pages 32 to 36 of the financial statements. The policies which are most critical to the financial results relate to the accounting for housing properties, including cost basis of properties, capitalisation of interest and development administration costs, housing property depreciation and impairment, and treatment of shared ownership properties.

Registered Rules

Copies of the Registered Rules are available on request from the Company Secretary.

Members of the Board

The members of the Board who served during the year are set out on page 1. Each Board Member holds one fully paid up share of £1 in the Association. None of the senior officers are shareholders.

The Board comprises up to 12 members and is responsible for the direction and overall control of the Group's affairs.

Senior Management Team

Members of the Senior Management Team who served during the year are also set out on page 1.

Staff

The strength of the Group lies in the quality and commitment of its staff. The Group is committed to providing a comprehensive training and development programme both internally and through external training events.

Corporate Governance

The Group has adopted the NHF Code 'Excellence in Governance' and complies fully with it, together with the NHF Code of Conduct 2012 document. Copies of the Association'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 26.

Below is a brief description of the role of the Board followed by a statement regarding the Association's internal controls.

The Associations recognises that good governance is a pre-requisite to excellent performance. The Association 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.

The Association has complied with the Governance and Financial Viability Standard.

Tenant Involvement

The Association 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 Association is committed to improving further opportunities for tenant involvement and the scrutiny of performance.

The Board

The Board comprises members with a wide range of skills and experience who are recruited openly by public advert.

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. There are also two committees; the Audit Committee and the Remuneration Committee, to which it has delegated some of its Board function. Representatives from the Association sit on both committees. Day to day management of the Association is delegated to the Bernicia Group Chief Executive and the other executive officers. It meets regularly and members attend meetings of the Boards and committees.

The Report of the Board of Management was approved on .... and signed on its behalf by:

W Worth
Chair

Bernicia Group Limited, Oakwood Way, North Seaton Industrial Estate, Northumberland, NE63 0XF

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

The Board is responsible for preparing the Report of the Board of Management 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
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Association will continue in business.

The Board is responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Group and 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. The Board has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the Group and 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 Limited

We have audited the financial statements of Bernicia Group Limited for the year ended 31 March 2016 set out on page 27 to 64. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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 for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Board and auditor

As more fully explained in the Statement of Board's Responsibilities set out on page 25, the Group's Board is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

- In our opinion the financial statements:
- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the Group and Association as at 31 March 2016 and of the income and expenditure of the Group 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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Co-operative and Community Benefit Societies Act 2014 requires us 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.

Mick Thompson for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants, Quayside House, 110 Quayside, Newcastle upon Tyne, NE1 3DX

Date: ....

Consolidated Statement of Comprehensive Income
for the year ended 31 March 2016

	Note	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Turnover	2	**46,094**	44,117
Cost of sales	2	**(183)**	(180)
Operating expenditure	2	**(33,514)**	(33,871)
Operating surplus		**12,397**	10,066
Gain on disposal of property, plant and equipment	4	**534**	738
Impairment of assets		**-**	(69)
Interest receivable and similar income	11	**198**	76
Interest payable and similar charges	12	**(4,715)**	(3,601)
Other finance expense	13	**(37)**	(60)
Other finance income	14	**20**	50
Other income	15	**355**	4,643
(Decrease) / increase in fair value of financial investments	21	**(8)**	15
Surplus on ordinary activities before taxation		**8,744**	11,858
Tax on surplus on ordinary activities	17	**(2)**	-
Surplus for the year		**8,742**	11,858
Remeasurement of the net defined benefit liability / (asset)	27	**590**	(610)
Total comprehensive income for the financial year		**9,332**	11,248

The notes on pages 32 to 64 form an integral part of these financial statements.

All results are derived from continuing operations.

W Worth	**H Parker**	**M Axe**
Chair	Member	Secretary

Consolidated Statement of Financial Position
at 31 March 2016

	Note	31 March 2016 £000	31 March 2015 £000
Fixed assets			
Intangible fixed assets	20	**2,105**	1,158
Tangible fixed assets	18	**209,479**	201,725
HomeBuy loans receivable		**11**	11
Investments properties	22	**3,997**	3,166
Long term financial investments	21	**769**	753
		216,361	206,813
Current assets			
Stock	23	**500**	457
Debtors (due within one year)	24	**3,290**	4,664
Debtors (due after one year)	28	**33,660**	38,452
Cash at bank and in hand		**42,030**	18,638
		79,480	62,211
Creditors: amounts falling due within one year	25	**(17,123)**	(13,189)
Net current assets - due within one year		**28,697**	10,570
Net current assets - due after one year		**33,660**	38,452
Pension asset	27	**720**	210
Total assets less current liabilities		**279,438**	256,045
Creditors: amounts falling due after more than one year	26	**(171,609)**	(152,756)
Provisions for liabilities and charges	28	**(33,660)**	(38,452)
Total net assets		74,169	64,837
Reserves			
Designated reserves		**9,382**	8,182
Pension reserve		**(4,290)**	(4,880)
Income and expenditure reserve		**69,077**	61,535
Total reserves		**74,169**	64,837

The notes on pages 32 to 64 form an integral part of these financial statements.

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

W Worth
Chair

H Parker
Member

M Axe
Secretary

Registered society number:30268R

Association Statement of Financial Position
at 31 March 2016

	Note	31 March 2016 Association £	31 March 2015 Association £
Current assets			
Debtors	24b	**9**	9
Total assets		**9**	9
Reserves			
Share capital	29	**9**	9
Total reserves		**9**	9

The notes on pages 32 to 64 form an integral part of these financial statements.

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

W Worth
Chair

H Parker
Member

M Axe
Secretary

Registered society number: 30268R

Consolidated Statement of Changes in Reserves

	Designated reserve £000	Pension reserve £000	Income and expenditure reserve £000	Total reserves £000
Balance at 1 April 2014	7,594	(4,270)	50,265	53,589
Total comprehensive income for the financial year				
Surplus for the year	-	-	11,858	11,858
Actuarial loss		(610)	-	(610)
Transfer from income and expenditure reserve to designated reserve	588	-	(588)	-
Balance at 31 March 2015	**8,182**	**(4,880)**	**61,535**	**64,837**

	Designated reserve £000	Pension reserve £000	Income and expenditure reserve £000	Total reserves £000
Balance at 1 April 2015	8,182	(4,880)	61,535	64,837
Total comprehensive income for the financial year				
Surplus for the year	-	-	8,742	8,742
Actuarial gain	-	590	-	590
Transfer from income and expenditure reserve to designated reserve	1,200	-	(1,200)	-
Balance at 31 March 2016	**9,382**	**(4,290)**	**69,077**	**74,169**

Consolidated Statement of Cash Flows
for year ended 31 March 2016

	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Cash flows from operating activities		
Surplus for the year	**8,742**	11,858
Adjustment for non-cash items:		
Depreciation of tangible fixed assets	**5,349**	4,379
Amortisation of goodwill	**116**	63
Government grants utilised in the year	**(1,803)**	(1,640)
Carrying amount of tangible fixed asset disposals	**162**	285
Pension costs less contributions payable	**100**	61
	3,924	3,148
Adjustments for investing or financing activities:		
Interest receivable and similar income	**(198)**	(76)
Interest payable and similar charges	**4,752**	3,661
Other finance income	**(375)**	(4,693)
Gain on sale of fixed assets	**(534)**	(738)
Loss on disposal of investments	**8**	(15)
	3,653	(1,861)
Adjustments for working capital movement:		
Decrease/(increase) in trade and other debtors	**2,801**	(514)
Increase in stock	**(43)**	(154)
Decrease in trade and other creditors	**(3,406)**	(1,213)
Increase/(decrease) in provisions and employee benefits	**705**	(59)
	57	(1,940)
Net cash generated from operating activities	**16,376**	11,205
Cash flows from investing activities		
Purchases of tangible fixed assets	**(889)**	(762)
Proceeds from sale of tangible fixed assets	**1,255**	1,307
Social Housing Grants received	**1,594**	1,201
Other Grants received	**497**	6,796
Interest received	**153**	52
Acquisition of a subsidiary undertaking	**(1,073)**	-
Cash acquired with acquisition	**76**	-
Financial instruments	**-**	(1)
Capitalised development expenditure	**(13,691)**	(10,957)
Net cash from investing activities	**(12,078)**	(2,364)
Cash flows from financing activities		
Interest paid	**(4,726)**	(4,073)
New secured loans	**36,000**	1,000
Repayments of borrowings	**(12,180)**	(85)
Net cash from financing activities	**19,094**	(3,158)
Net increase in cash and cash equivalents	**23,392**	5,683
Cash and cash equivalents at beginning of year	**18,638**	12,955
Cash and cash equivalents at end of year	**42,030**	18,638

Notes

(forming part of the financial statements)

Legal status

Bernicia Group Limited ("The Group") is incorporated under the Co-operative and Community Benefit Societies Act 2014 and is a Private Registered Provider.

1. Accounting policies

The financial statements of the Group are 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.

This is the first year in which the financial statements have been prepared under FRS 102. An explanation of how transition to FRS 102 has affected the reported financial position and financial performance is given in note 36.

In transitioning to FRS 102 from UK GAAP, the Group has fully complied with the Accounting Direction for Private Registered Providers of Social Housing 2015 and the Housing SORP 2014: Statement of Recommended Practice for registered Social Housing Providers. An explanation of how the transition to FRS 102 has affected the financial position and financial performance of the Association is provided in note 36.

Measurement convention

The financial statements are prepared on the historical cost basis.

The Group has taken advantage of transitional relief set out in FRS102 for deemed costs and has treated all Investment Properties as being valued as deemed cost at 1 April 2014.

Basis of consolidation

Bernicia Group Limited incorporates the results of Cheviot Housing Association Limited, Wansbeck Homes Limited, Kingston Property Services Limited, Avoca Estate Management Limited and Livingspaces (UK) Limited have been consolidated in these financial statements in accordance with FRS 102.9.

Turnover

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

Intangible Fixed Assets

Within Intangible fixed assets is an amount relating to Goodwill acquired on acquisition of subsidiary companies and Software.

Goodwill acquired is deemed to have a useful life of a maximum of 20 years. At each reporting date the carrying value of Goodwill is assessed for amortisation. Where there is an indication of impairment the Goodwill would be required to be written down to the recoverable amount.

Software is deemed to have a useful life of three years. Amortisation of software is applied on a systematic basis, writing down the value of the asset to nil.

Tangible fixed assets – housing properties

Initial recognition

Housing properties are initially recorded at cost.

Amounts capitalised include the cost of acquiring land and buildings, development costs and interest charges incurred to the extent loans are specifically drawn for the purpose of development. Interest is capitalised for the development period only.

Shared ownership properties

Shared ownership properties, where 100% of the property is still held by the Group, are recorded at the lower of cost and net realisable value. These assets are held as fixed assets, for the share retained or to be retained, and current assets, for the share to be sold under first tranche.

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 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:

Housing properties held for letting
over 70 - 110 years

Supported housing properties
over 70 - 110 years

Shared ownership properties
over 70 - 110 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:

- Structure - 100 years
- Roof - 70 years
- Electrical systems - 40 years
- Bathroom - 30 years
- Doors - 30 years
- Heating (Mechanical & Electrical) - 30 years
- Windows - 30 years
- Kitchen - 20 years
- Lifts - 20 years
- Boilers - 15 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.

Leasehold properties are depreciated so as to write down the cost on a straight line basis over the remaining term of the lease, subject to a maximum of 99 years.

For those properties with an estimated useful economic life of 50 years or more, impairment reviews are carried out on an annual basis.

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.

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.

Supported housing

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

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

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

Tangible fixed assets – other

Initial recognition

Other tangible fixed assets are initially recorded at cost.

Depreciation

Depreciation of other tangible fixed assets is charged by 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 as follows:

- **Freehold land**
  Nil
- **Freehold office buildings**
  60 years
- **Leasehold office buildings**
  over the lease term
- **Computer hardware**
  3 years
- **Other computer equipment**
  5 years
- **Furniture and equipment**
  5 - 10 years
- **Fixtures and fittings**
  5 years
- **Motor vehicles**
  4 years

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.

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 the Homes and Communities Agency, however, the grant may have to be repaid if certain conditions are not met.

Goodwill

The difference between the fair value or book value of assets and liabilities and the purchase consideration paid represents goodwill. This is shown in the Balance Sheet and is amortised over a maximum of 20 years as permitted by FRS 102.

Right to buy sales

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

Taxation

Cheviot Housing Association Limited and Wansbeck Homes Limited are 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 Limited, 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. Deferred tax is recognised without discounting in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date.

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.

Restricted reserves

Restricted reserves have been established to reflect the fact that the amounts included in these reserves are not available for general use.

Restricted reserves have been established in respect of retained surpluses generated through Home Improvement Agencies.

Long term Investments

Investments on the balance sheet are deposits held by lenders and are therefore related to loan balances due. These are regarded as other financial assets and are to be recognised and measured at fair value with gains and losses recognised immediately in the statement of comprehensive income.

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.

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

Impairment

Annually housing properties are assessed for impairment indicators. Where indicators are identified an assessment for impairment is undertaken comparing the asset's carrying amount to its recoverable amount. Where the carrying amount of an asset is deemed to exceed its recoverable amount, the asset is written down to its recoverable amount, this is likely to be the value in use of the asset based on its service potential. The resulting impairment loss is recognised as expenditure in income and expenditure. Where an asset is currently deemed not to be providing service potential to the association, its recoverable amount is its fair value less costs to sell.

Other assets are reviewed for impairment if there is an indication that impairment may have occurred.

Pension costs

The Group participates in an industry wide, defined benefit final salary pension scheme (the Social Housing Pension Scheme ("SHPS"). The assets of the scheme are invested and managed independently of the finances of the Association. Pension costs are assessed in accordance with the advice of an independent qualified actuary. The pension cost reflected in the accounts represents amounts payable by the Group for the year under review which are based on pension costs applicable across the various participating Associations taken as a whole.

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.

Lease assets

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

Local Government Pension Scheme

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

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

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

Social Housing Pension Scheme

The Group participates in an industry wide pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Group. The Group is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, accounts for the scheme as if it were a defined contribution scheme.

Right to buy sales

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

Improvement provision

Provisions represent the Group's liabilities to undertake the refurbishment works under the Development Agreement entered into with Wansbeck District Council, as detailed in Note 28.

Stock

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

Investment properties

The Group holds a small investment property portfolio mix. 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. The Group uses an employed resource to carry out valuations. Increases or decreases in the value of assets are recognised immediately in the Statement of Comprehensive Income.

2. Particulars of turnover, cost of sales, operating expenditure and operating surplus

	Turnover £000	Cost of sales £000	Operating expenditure £000	2016 Operating surplus/ deficit £000	2015 Operating surplus £000
Social housing lettings					
General needs housing accommodation	**24,210**	**-**	**18,253**	**5,957**	4,539
Elderly housing accommodation	**15,869**	**-**	**10,904**	**4,965**	3,762
Supported housing accommodation	**471**	**-**	**218**	**253**	187
Shared ownership accommodation	**372**	**-**	**61**	**311**	317
	40,922	**-**	**29,436**	**11,486**	8,805
Other social housing activities					
First tranche low cost home ownership sales	**183**	**183**	**-**	**-**	-
Activities other than social housing activities:					
Leasehold	**3,876**	**-**	**2,981**	**895**	683
Serviced right to buy units	**29**	**-**	**-**	**29**	31
Commercial and other units	**323**	**-**	**11**	**312**	230
Private rented accommodation	**87**	**-**	**35**	**52**	23
Other operating income (note 16)	**674**	**-**	**21**	**653**	458
Past service deficit contribution	**-**	**-**	**914**	**(914)**	(101)
	4,989	**-**	**3,962**	**1,027**	1,324
Amortisation of goodwill	**-**	**-**	**116**	**(116)**	(63)
Total	**46,094**	**183**	**33,514**	**12,397**	10,066

Shared ownership transactions

	First tranche £000	Staircasing £000	2016 Total £000	2015 Total £000
Proceeds	**183**	**376**	**559**	544
Cost of sales (including fees)	**(183)**	**(141)**	**(324)**	(248)
	-	**235**	**235**	296

The amount of costs related to the sale of shared ownership properties released to the Statement of Comprehensive Income from current assets was £183,000 (2015:180,000) and arose from first tranche sales. The amount released from tangible fixed assets during the period was £nil (2015: £nil) and arose from staircasing.

3. Particulars of turnover and operating expenditure from social housing lettings

	General needs housing £000	Elderly housing £000	Supported housing £000	Shared ownership £000	2016 Total £000	2015 Total £000
Income from lettings						
Rent receivable net of identifiable service charges	**21,405**	**12,008**	**262**	**343**	**34,018**	32,982
Service charge receivable	**408**	**2,455**	**142**	**7**	**3,012**	2,927
Supporting people income	**-**	**471**	**-**	**-**	**471**	422
Water rates receivable	**1,648**	**808**	**-**	**-**	**2,456**	2,421
Amortised government grants	**1,123**	**574**	**77**	**22**	**1,796**	1,640
Gross rents receivable						
Less: rent losses from voids	(374)	(447)	(10)	-	**(831)**	(766)
Total income from social housing lettings	24,210	15,869	471	372	**40,922**	39,626
Operating expenditure on lettings						
Management	**3,519**	**357**	**48**	**20**	**3,944**	3,894
Services	**1,227**	**3,427**	**85**	**4**	**4,743**	4,487
Routine maintenance	**4,107**	**2,326**	**29**	**-**	**6,462**	5,892
Planned maintenance	**497**	**344**	**9**	**-**	**850**	1,235
Programmed repairs expenditure	**4,475**	**1,814**	**-**	**-**	**6,289**	8,677
Rent loss from bad debts	**177**	**96**	**-**	**-**	**273**	158
Depreciation of housing properties	**2,570**	**1,678**	**47**	**35**	**4,330**	3,920
Water rates payable	**1,649**	**777**	**-**	**-**	**2,426**	2,389
Other costs	**32**	**85**	**-**	**2**	**119**	169
Operating expenditure on social housing lettings	18,253	10,904	218	61	**29,436**	30,821
Operating surplus on social housing lettings	**5,957**	**4,965**	**253**	**311**	**11,486**	8,805

4. Gain on disposal of property, plant and equipment

(a) Gain on disposal of housing accommodation

	2016 £000	2015 £000
Proceeds from sales	**1,092**	1,307
Less: Cost of sales	**(438)**	(404)
Share of net proceeds payable under transfer agreement	**(130)**	(165)
	524	738

(b) Gain on disposal of other fixed assets

	2016 £000	2015 £000
Proceeds from sales	**10**	-
	10	-

5. Service charges

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

	2016 £000	2015 £000
Eligible for housing benefit	**2,875**	2,802
Not eligible for housing benefit	**137**	125

6. Accommodation owned

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

	2016 Number	2015 Number
General needs housing		
Social rent	**5,054**	5,071
Affordable rent	**269**	254
Housing for the elderly	**2,699**	2,719
Supported housing accommodation:		
Bedspaces	**18**	20
Self-contained units	**38**	50
Shared ownership accommodation	**121**	121
Serviced right to buy	**282**	280
Commercial and other units:		
Shops	**54**	54
Garages	**1,144**	1,144
Private rented accommodation	**12**	10
	9,691	9,723

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

	2016 Number	2015 Number
Private Rented	**12**	10
Supported housing accommodation	**9**	6
	21	**16**

7. 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:

	2016 £000	2015 £000
Recognised in the Statement of Comprehensive Income	**1,803**	1,640
Held as deferred income (note 26)	**83,094**	84,275
	84,897	85,915

8. Expenses and auditor’s remuneration

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:

	2016 £000	2015 £000
Depreciation of tangible fixed assets – housing properties	**4,649**	3,920
Depreciation of tangible fixed assets – other	**700**	390
Loss on disposal of housing components	**162**	285
Impairment of tangible fixed assets - other	**-**	69

Auditor’s remuneration:

	2016 £000	2015 £000
Audit of these financial statements	**5**	5
Audit of subsidiaries:		
Cheviot Housing Association Limited	**10**	10
Wansbeck Homes Limited	**12**	12
Kingston Property Services Limited	**2**	2
Livingspaces (UK) Limited	**2**	2
Avoca Estate Management Limited	**2**	2
	33	33
Non Audit related services:		
Other certificates	**9**	9
Merger and Due Diligence	**7**	-
	16	**9**

9. Staff numbers and costs

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

	2016 £000	2015 £000
Operational teams	**269**	281
Finance and admin	**86**	67
	355	348

The aggregate payroll costs of these persons were as follows:

	2016 £000	2015 £000
Wages and salaries	**9,122**	8,994
Social security costs	**703**	677
Contributions to retirement benefit plans:		
Social Housing Pension Scheme	**478**	458
Local Government Pension Scheme	**720**	714
UK Workplace Pension Scheme	**25**	-
	11,048	10,843

The number of staff whose remuneration payable, including compensation for loss of office, expressed in full time equivalents in relation to the period of account were as follows:

	2016 Number	2015 Number
£60,000 - £70,000	**3**	2
£70,001 - £80,000	**5**	6
£80,001 - £90,000	**1**	1
£90,001 - £100,000	**1**	1
£100,001 - £110,000	**-**	-
£110,001 - £120,000	**2**	2
£120,001 - £130,000	**-**	-
£130,001 - £140,000	**1**	1
	13	13

10. Directors and Key Management Personnel

Remuneration paid to Directors and Key Management Personnel in relation to the period of account were as follows:

	2016 £000	2015 £000
Wages and salaries	**679**	663
Company contributions payable in respect of pensions	**92**	91
	771	754

The Group Chief Executive is Bill Heads. The aggregate of his emoluments and excluding company pension contributions, as the highest paid director, was £128,000 (2015: £125,000).

The aggregate of his emoluments and including company pension contributions, as the highest paid director, was £139,000 (2015: £135,000).

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 Group contributes.

	2016 Number	2015 Number
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	**8**	8

The remuneration of the non-executive Board members for the year was paid by Cheviot Housing Association Limited. The remuneration reflects services performed on behalf of the whole Group. No pension contributions were made in the year.

	2016 £000	2015 £000
Mr I Armstrong	**9**	9
Mr F Foster	**4**	4
Mr W Gilbert	**4**	4
Mr E Ritz	**4**	4
Mr B Butterworth	**4**	7
Mr I Darling	**4**	5
Mr D Futers	**-**	5
Miss H O'Neil	**-**	3
Mr T Stevenson	**4**	4
Ms CJ Nichol	**2**	4
Mr JP Heron	**4**	2
Ms A Tarn	**4**	1
Mr X Setna	**4**	1
Mr K Riddell	**4**	1
Mr B Renforth	**2**	-
Non-executive Board members' emoluments	**53**	54

11. Interest receivable and similar income

	2016 £000	2015 £000
Interest receivable from bank deposits	174	52
Interest receivable from financial investments	24	24
Total interest receivable and similar income	198	76

12. Interest payable and similar charges

	2016 £000	2015 £000
On bank loans and other loans payable wholly or partly after more than five years	4,712	3
On obligations under finance leases and hire purchase agreements	3,597	4
Total interest payable and similar charges	4,715	3,601

13. Other finance costs

	2016 £000	2015 £000
Unwinding of discount on contractual agreements to fund past service pension deficits	37	60
Total other finance costs	37	60

14. Other finance income (net)

	2016 £000	2015 £000
Interest cost	910	(930)
Interest income	1,000	(1,050)
Total other finance income (net)	(20)	(50)

15. Other income

	2016 £000	2015 £000
Revenue grant	-	355
VAT recoverable through VAT shelter	4,098	545
Total other income	355	4,643

16. Other operating income

	2016 £000	2015 £000
Rate collection allowance	229	230
Office rental	95	95
Sundry income	249	116
Sale of management services	101	46
Total other operating income	674	487

17. Taxation

Total tax expense recognised in the profit and loss account, other comprehensive income and equity

	2016 £000	2015 £000
Current tax		
Current tax on income for the period	2	-
Total tax	2	-

The current tax charge for the period is lower (2015: lower) than the rate of corporation tax in the UK of 20% (2015: 21%). The differences are explained below:

Reconciliation of effective tax rate

	2016 £000	2015 £000
Surplus for the year	8,742	11,858
Total tax expense	2	-
Surplus excluding taxation	8,744	11,858
Tax using the UK corporation tax rate of 20% (2015: 21%)	1,749	2,490
Tax exempt revenues	(1,747)	(2,490)
Total tax expense included in profit or loss	2	-

A reduction in the UK corporation tax rate from 21% to 20% was enacted on 2 July 2013. The Budget of March 2016, announced additional reductions to 17% by 2020. This will reduce the Group's future current tax charge accordingly.

18. Group Tangible fixed assets

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

	Note	2016 £000	2015 £000
Tangible fixed assets – housing properties	19a	201,463	193,876
Tangible fixed assets – other	19c	8,016	7,849
		209,479	201,725

19a. Group Tangible fixed asset – housing properties

	Housing properties held for letting		Supported housing		Shared ownership		
	Under construction £000	Completed £000	Under construction £000	Completed £000	Under construction £000	Completed £000	Total £000
Cost							
At 1 April 2015	143,297	671	85,346	4,814	3,773	-	237,901
Additions – acquisition	-	1,664	-	7,278	-	-	8,942
Additions - existing	2,576	7	901	632	12	-	4,128
Disposals	(716)	-	(467)	-	(190)	-	(1,373)
Completed schemes	1,589	(961)	707	(1,335)	-	-	-
Transfers	(471)	-	791	-	(320)	-	-
At 31 March 2016	146,275	1,381	87,278	11,389	3,275	-	249,598
Depreciation and impairment							
At 1 April 2015	25,888	-	17,050	-	1,087	-	44,025
Charged in the year –acquisition	-	-	-	-	-	-	-
Charged in the year - existing	2,908	-	1,706	-	35	-	4,649
Disposals	(285)	-	(238)	-	(16)	-	(539)
Transfers	10	-	1	-	(11)	-	-
At 31 March 2016	28,521	-	18,519	-	1,095	-	48,135
Net book value at 31 March 2016	**117,754**	**1,381**	**68,759**	**11,389**	**2,180**	**-**	**201,463**
At 31 March 2015	117,409	671	68,296	4,814	2,686	-	193,876

19b. Tangible fixed assets – housing properties

Security

Tangible fixed assets with a net book value of £11,107,063 (2015: £11,363,551) are securitised.

Development costs

The amount of development costs capitalised to tangible fixed assets – housing properties during the period was £154,033 (2015: £146,225).

The number of units under construction at the year end numbered 147 (2015:86 units)

Land and Buildings

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

	2016 £000	2015 £000
Freehold	**194,568**	186,848
Long leasehold	**3,807**	3,889
Short leasehold	**3,088**	3,139
	201,463	193,876

19c. Group Tangible fixed assets - other

	Freehold Land and buildings £000	Leasehold Property £000	Office equipment £000	Scheme Fixtures & fittings £000	Motor Vehicles £000	Total £000
Cost						
At 1 April 2015	6,965	21	1,828	505	1,941	11,260
Additions	116	-	141	-	596	853
Disposals	-	-	(11)	-	(721)	(732)
At 31 March 2016	7,081	21	1,958	505	1,816	11,381
Depreciation						
At 1 April 2015	389	2	1,146	341	1,533	3,411
Depreciation charge for the year	124	2	246	20	278	670
Disposals	-		(10)	-	(706)	(716)
At 31 March 2016	513	4	1,382	361	1,105	3,365
Net book value At 31 March 2016	**6,568**	**17**	**576**	**144**	**711**	**8,016**
At 31 March 2015	6,576	19	682	164	408	7,849

20. Group Intangible fixed assets

	Goodwill £000	Software £000	Total £000
Cost			
At beginning of year	1,262	85	1,347
Additions (see note 20a)	1,057	36	1,093
At end of year	2,319	121	2,440
Amortisation			
At beginning of year	189	-	189
Charge for the year to operating expenditure	116	30	146
At end of year	305	30	335
Net book value			
At 31 March 2016	**2,014**	**91**	**2,105**
At 31 March 2015	1,073	85	1,158

20a. Group Intangible fixed assets

The acquisition of Avoca Estate Management Limited was completed on 14 August 2015. The Group acquired the entire share capital of Avoca for a total consideration of £1.1m. The acquisition contributed Revenue of £303k, Operating expenditure of £262k and Net profit of £42k in the period 14 August 2015 to 31 March 2016. In accounting terms, the Board considers this transaction an acquisition, hence acquisition accounting has been followed in line with FRS102 such that the identifiable assets and liabilities are included in the balance sheet at fair value at the date of acquisition. No fair value adjustments are recognised at the acquisition date. The results and cash flows have been brought into the accounts from the date of transfer.

Net Assets acquired	Book and fair value £000
Fixed assets	-
Debtors	65
Cash balances	76
Creditors	(125)
Net assets acquired	16
Goodwill	1,057
Purchase consideration and cost of acquisition	1,073
Satisfied by:	
Satisfied by cash payments made before period end	1,073
Total consideration	1,073

The goodwill has been included in fixed assets and will be written off over the maximum permitted period of 20 years

21. Group Long Term financial investments

	2016 £000	2015 £000
Cost or valuation		
At beginning of year	**753**	711
Additions	**24**	27
Disposals	**-**	-
Revaluation	**(8)**	15
At 31 March	**769**	753

Long term investments are represented as follows:

Cost or Valuation

	2016 £000	2015 £000
Long term investment in:		
UK Rents (No 1) plc	**146**	146
Haven Funding plc	**620**	604
Agents Mutual Limited	**3**	3
	769	753

The long term investment in UK Rents (No 1) plc and Haven Funding plc represent amounts which are withheld by lenders as a cash reserve under the terms of a loan agreement. During the prior year one of the underlying investments held within the Haven Funding plc investment was sold which gave rise to a loss. 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:

	2016 £000	2015 £000
Cost or valuation		
Listed investments	**430**	438
Unlisted investments	**339**	315
At 31 March	**769**	753

	2016 £000	2015 £000
Cost or valuation		
Listed investments – market value	**430**	438

22. Group Investment properties

	2016 £000	2015 £000
Cost or valuation		
At beginning of year	**3,166**	2,628
Additions	**831**	538
Disposals	**-**	-
Revaluation	**-**	-
At 31 March	**3,997**	3,166

Fair Value of investment property is based on the professional opinion of the Group's internal Chartered Surveyor, having an appropriately recognised professional qualification and relevant experience in the location and class of property being valued. Gains or losses recognised in the period of £nil (2015:nil) as a result of the change in Fair Value is recognised in the Statement of Comprehensive Income. Rental income from investment property is accounted for as described in the investment accounting policy.

23. Group Stock

	2016 £000	2015 £000
Stores materials held for property maintenance	**151**	159
Shared ownership properties held for resale	**349**	298
	500	457

Shared ownership properties, where 100% of the property is still held by the Group, are recorded at the lower of cost and net realisable value. These assets are held as fixed assets, for the share retained or to be retained, and current assets for the first tranche held for sale.

24. Debtors amounts falling due within one year

(a) Group Debtors	2016 £000	2015 £000
Rents and service charges arrears	3,704	3,580
Less: Provision for bad and doubtful debts	(2,633)	(2,428)
	1,071	1,152
Other debtors	919	1,283
Management fees due	203	1,042
Amounts due from HMRC	214	347
Prepayments and accrued income	883	840
	3,290	4,664

(b) Association Debtors	2016 £	2015 £
Unpaid share capital	9	9

25. Group Creditors: amounts falling due within one year

	2016 £000	2015 £000
Lending authority for instalments of interest due and payable	**101**	108
Housing loans repayable within one year	**5,232**	655
Contractors for certified work and retentions unpaid	**309**	103
Amounts due under finance leases and hire purchase agreements	**55**	47
Recycled capital grant fund (see note 26a)	**46**	58
Operating creditors	**1,333**	1,504
Taxation and social security	**95**	239
Other creditors	**4,409**	3,767
Accruals and deferred income	**3,811**	4,354
Deferred capital grants	**351**	1,056
Share of net sales proceeds payable under transfer agreement	**369**	369
Balances held on behalf of clients	**112**	96
Grant release due within the year	**900**	833
	17,123	13,189

26. Group Creditors: amounts falling due after more than one year

	2016 £000	2015 £000
Housing loans (see note 26c)	**85,474**	66,207
Deferred capital grants	**83,094**	84,275
Contractual agreements to fund past service pension deficits (see note 27)	**2,806**	2,064
Recycled capital grant fund (see note 26a)	**205**	137
Amounts due under finance leases and hire purchase agreements (see note 26b)	**30**	73
	171,609	152,756

26a. Group Creditors: amounts falling due after more than one year

Recycled capital grant fund

All funds are pertaining to activities within areas covered by the Homes and Communities Agency (HCA). The movements in the Recycled capital grant fund (RCGF) and Disposal proceeds fund (DPF) are as follows:

	RCGF £000	DPF £000	2016 £000	2015 £000
At beginning of year	**195**	-	**195**	171
Grants recycled	**114**	-	**114**	90
Interest accrued	**-**	-	**-**	-
New build	**(58)**	-	**(58)**	(66)
At end of year	**251**	-	**251**	195
Due within one year	**46**	-	**46**	58
Due after more than one year	**205**	-	**205**	137
	251	-	**251**	195

26b. Group Creditors: amounts falling due after more than one year

Amounts due under finance leases and hire purchase agreements

	2016 £000	2015 £000
Amounts due under finance leases and hire purchase agreements	**30**	62
The finance leases are repayable as follows:		
Within one year	**55**	47
Between one and two years	**30**	43
Between two and five years	**-**	30
	85	120

26c. Group Creditors: amounts falling due after more than one year

Borrowings are repayable as follows:

	2016 £000	2015 £000
Housing loans repayable after more than one year:		
Advanced to Group by:		
Local Authorities	**33**	33
The Housing Finance Corporation	**11,159**	11,400
Building Societies and Banks	**43,874**	55,563
Private placement	**36,000**	-
Less: Issue costs on the above	**(360)**	(134)
	90,706	66,862
Less: included in creditors:		
amounts falling due within one year	**(5,232)**	(655)
	85,474	66,207

The loans are repayable as follows:

Housing loans	2016 £000	2015 £000
Within one year	**5,232**	655
Between one and two years	**693**	5,665
Between two and five years	**2,837**	2,589
In five years or more	**81,944**	57,953
	90,706	66,862

Interest-bearing loans and borrowings

All interest-bearing loans and borrowings are secured bank loans. There is no convertible debt.

Loans from Building Societies and Banks include an amount of £5,210,010 (2015: £5,536,551) provided by means of a debenture whereby the right to future rental streams from specific schemes is assigned.

Included within Building Societies and Bank loans is a Barclays Loan of £10,000,000. (2015: £21,250,000).

Within amounts due to The Housing Finance Corporation is a balance of £2,658,826 (2015: £2,590,708) which is represented by capital outstanding of £3,085,035 (2015: £2,888,741) and an accumulated sinking fund balance of £426,209 (2015: £298,033). Net interest payable on the loan was £266,118 (2015: £263,641) representing interest payable on the capital balance of £281,222 (2015: £274,829) and interest receivable on the sinking fund of £15,104 (2015: £10,788).

During the financial year the Group arranged new borrowing facilities of £40,500,000 through a Private Placement with PIC Investment. The total drawn down in the year was £36,000,000. A further £4,500,000 will be drawn down in the 2016-2017 financial year.

Included in the below is loan issue costs that have been set against loan balances and are being released to the statement of comprehensive income over the term of the loan.

Housing loans are secured by specific charges on the Group's housing properties. Fixed Rates of interest vary from 3.95% to 14.75%.

27. Group Employee benefits

The Group is a member of a larger industry wide pension scheme, the Social Housing Pension Scheme (SHPS), which provides benefits based on final pensionable pay.

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

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

Final salary with a 1/60th accrual rate.

Final salary with a 1/70th accrual rate.

Career average revalued earnings with a 1/60th accrual rate.

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

Final salary with a 1/80th accrual rate

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

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

A Career average revalued earnings (CARE) structure with a 1/120th accrual rate was made available from 1 April 2013. This structure is contracted-in to the State Second Pension scheme.

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

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

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

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

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

As at the balance sheet date there were 91 active members of the Scheme employed by the Group. The annual pensionable payroll in respect of these members was £2,726,480. The Group continues to offer membership of the Scheme to its employees.

A full actuarial valuation for the scheme was finalised during 2014. As at 30 September 2014, the market value of the Scheme’s assets was £3,123 million. There was a shortfall of assets compared with the value of liabilities of £1,323 million, equivalent to a past service funding level of 70%.

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 the funding shortfall, payments consisted of the Tier 1, 2 & 3 deficit contributions. To eliminate the increased 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 2016 to 30 September 2020:	£40.6m per annum (payable monthly and increasing by 4.7% each year on 1st April)
Tier 2 From 1 April 2016 to 30 September 2023:	£28.6m per annum (payable monthly and increasing by 4.7% each year on 1st April)
Tier 3 From 1 April 2016 to 30 September 2026:	£32.7m per annum (payable monthly and increasing by 3.0% each year on 1st April)
Tier 4 From 1 April 2016 to 30 September 2026:	£31.7m per annum (payable monthly and increasing by 3.0% each year on 1st April)

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

Where the scheme is in deficit and where the company has agreed to a deficit funding arrangement, the company 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.

Reconciliation of opening and closing provisions

	Year Ending 31 March 2016 (£000s)	Year Ending 31 March 2015 (£000s)
Provision at start of period	2,064	2,124
Unwinding of the discount factor (interest expense)	37	60
Deficit contribution paid	(229)	(220)
Remeasurements - impact of any change in assumptions	(17)	100
Remeasurements - amendments to the contribution schedule	951	-
Provision at end of period	2,806	2,064

Income and expenditure impact

	Year Ending 31 March 2016 (£000s)	Year Ending 31 March 2015 (£000s)
Interest expense	37	60
Remeasurements – impact of any change in assumptions	(17)	100
Remeasurements – amendments to the contribution schedule	951	-

Assumptions

The discount rates shown in the assumptions are the equivalent single discount rates which, when used to discount the future recovery plan contributions due, would give the same results as using a full AA corporate bond yield curve to discount the same recovery plan contributions.

	31 March 2016 % per annum	31 March 2015 % per annum	31 March 2014 % per annum
Rate of discount	2.06	1.92	3.02

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

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

The leaving employer's share of the buy-out debt is the proportion of the Scheme's liability attributable to employment with the leaving employer compared to the total amount of the Scheme's liabilities (relating to employment with all the currently participating employers). The leaving employer's debt therefore

includes a share of any 'orphan' liabilities in respect of previously participating employers. The amount of the debt therefore depends on many factors including total Scheme liabilities, Scheme investment performance, the liabilities in respect of current and former employees of the employer, financial conditions at the time of the cessation event and the insurance buy-out market. The amounts of debt can therefore be volatile over time.

The Group has been notified by the Pensions Trust of the estimated employer debt on withdrawal from the Social Housing Pension Scheme, based on the financial position of the Scheme as at 30 September 2014. As of this date the estimated employer debt for the Association was £19,836,161.

The total pension cost to the Group for the year was £477,894 (2015: £459,315). The Group's unpaid contributions at 31 March 2016 were £nil (2015: £nil).

27. Group Pensions – Local Government Pension Scheme

The disclosures below relate to the funded liabilities within the Northumberland County Council Pension Fund (the "Fund") which is part of the Local Government Pension Scheme (LGPS). The funded nature of the LGPS requires the Association and its employees to pay contributions into the Fund, calculated at a level intended to balance the pension liabilities with investment assets.

	2016 £000	2015 £000
Present value of funded defined benefit obligations	**(27,540)**	(27,610)
Fair value of plan assets	**28,260**	27,820
Net asset	**720**	210

Movements in present value of defined benefit obligation	2016 £000	2015 £000
Present value of liabilities	**(27,610)**	(23,330)
Current service cost	**(820)**	(750)
Past service income	**-**	-
Interest expense	**(910)**	(1,000)
Actuarial gain / (loss) on liabilities	**1,770**	(2,550)
Contributions by members	**(200)**	(210)
Benefits paid	**230**	230
At 31 March	**(27,540)**	(27,610)

Movements in fair value of plan assets	2016 £000	2015 £000
Present value of assets	**27,820**	24,100
Interest Income on assets	**930**	1,050
Actuarial (loss) / gain	**(1,180)**	1,940
Contributions by employer	**720**	750
Contributions by members	**200**	210
Benefits paid	**(230)**	(230)
At 31 March	**28,260**	27,820

27. Group Pensions – Local Government Pension Scheme

Amounts recognised in other comprehensive income

	2016 £000	2015 £000
Asset (losses) / gains during the period	**(1,180)**	1,940
Liability gains / (losses) arising during the period	**1,770**	(2,550)
Total	**590**	(610)

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

	31 March 2016 %	31 March 2015 %
Discount Rate	3.5	3.3
Pension increases	1.8	1.9
Final salary increases	3.3	3.0
Inflation	2.9	3.0

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

- Current pensioner aged 65: 23.1 years (male), 25.6 years (female)
- Future retiree upon reaching 65: 25.3 years (male), 28.0 years (female)

History of plans

The history of the plans is as follows:

Balance Sheet

	2016 £000	2015 £000	2014 £000	2013 £000
Present value of scheme liabilities	**(27,540)**	(27,610)	(23,330)	(25,870)
Fair value of scheme assets	**28,260**	27,820	24,100	23,850
Surplus / (deficit)	**720**	210	770	(2,020)

The Group's regular contributions to the Fund for the accounting period ending 31 March 2017 are estimated to be £720,000. In addition, Strain on Fund contributions may be required.

28. Provision for liabilities and charges

	2016 £	2015 £
At 1 April	**38,452**	44,176
Capitalised expenditure during the year	**(2,933)**	(2,085)
Revenue expenditure during the year	**(1,859)**	(3,639)
At 31 March	**33,660**	38,452

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

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

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

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

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

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

At 31March 2016 £33,659,771 (2015: £38,451,711) is shown in debtors: amounts falling due after more than one year and £33,659,771 (2015: £38,451,711) in provisions for liabilities and charges.

28. Provision for liabilities and charges

Share capital	2016 £	2015 £
Ordinary shares of £1 each at 1 April	**9**	9
Issued during the year	**-**	-
Surrendered during year	**-**	-
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.

No provision has been made for the redemption of shares. No shares are classified as liabilities.

30. Group Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2016 £000	2015 £000
Less than one year	**35**	30
Between one and five years	**131**	120
More than five years	**128**	158
	294	308

During the year, £33,967 was recognised as an expense in the profit and loss account in respect of operating leases (2015: £Nil).

31. Group Capital commitments

The aggregated amount of contracts for capital expenditure not provided for at year-end was £11,636,410 (2015: £5,804,164).

The aggregated amount of capital expenditure approved which has not been contracted for at year-end was £7,103,695 (2015: £6,005,647).

The proposed financing of such expenditure is as follows:

	£000
Grant	**1,899**
Agreed loans	**14,409**
Loans under negotiation	**-**
Property sales	**2,433**
Other sources of funding	**-**
	18,741

32. Contingencies

The Group recognised a contingent liability of £1,762,711 (2015: £1,402,770) 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

Identity of related parties with which the Company has transacted
Cheviot Housing Association Limited is a wholly owned subsidiary of Bernicia Group Limited. No trading took place during the year with Bernicia Group Limited.

Cheviot Housing Association Limited is related to Kingston Property Services Limited through the directors of the company, who are also members of the Governing Board of the Association. At 31 March 2016, an amount of £653,182 (2015: £818,303) was due from Kingston Property Services.

On 25 April 2012 Cheviot Housing Association Limited acquired the share capital of Livingspaces (UK) Limited. The directors of Livingspaces (UK) Limited are also members of the Governing Board of the Association. At 31 March 2016 a balance of £291,090 (2015: £251,642) was due from Livingspaces (UK) Limited.

On 15 August 2015 Cheviot Housing Association Limited acquired the share capital of Avoca Estate Management Limited. The directors of Avoca Estate Management Limited are also members of the Governing Board of the Association. At 31 March 2016 a balance of £233,866 (2015: nil) was due from Avoca Estate Management Limited.

Cheviot Housing Association Limited is also related to Wansbeck Homes Limited through a Group structure under Bernicia Group Limited. At 31 March 2016, an amount of £95,569 is due to Wansbeck Homes Limited (2015: £1,421,722).

The Group and subsidiary accounts are available from the registered office or from the Financial Conduct Authority Mutuals Public Register.

Other related party transactions

The Group has related party transactions with several of its Key Management Personnel. The balance owed to the Group from those personnel at the end of the financial year is £28,852 (2015: £37,944).

34. Ultimate parent company

Bernicia Group Limited is the ultimate parent company within the Bernicia Group of companies. Therefore, the ultimate controlling party is Bernicia Group Limited and the largest group in which the results are consolidated is that headed by Bernicia Group Limited.

35. Subsequent event

On the 1st June 2016 Bernicia Group Limited formally announced that a Merger with Four Housing Limited had been approved by the Homes and Communities Agency. The Subsidiaries of Four Housing Limited, Three Rivers Housing Association Limited and Berwick Borough Housing Limited will now operate under the Bernicia Group Limited Group of companies. The financial results of the revised Group, incorporating those results of Three Rivers and Berwick, will be reported in the financial statements to the 31 March 2017.

36. Explanation of transition to FRS 102 from old UK GAAP

In preparing its FRS 102 balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting UK GAAP. An explanation of how the transition from UK GAAP to FRS 102 has affected the Group's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

Reconciliation of equity.

		1 April 2014			31 March 2015		
	Note	UK GAAP as previously reported £000	Effect of transition to FRS 102 £000	FRS 102 £000	UK GAAP as previously reported £000	Effect of transition to FRS 102 £000	FRS 102 £000
Fixed assets							
Tangible fixed assets	a	229,439	(608)	228,831	**239,035**	**(1,219)**	**237,816**
Grant	b	(109,392)	109,303	(89)	**(110,897)**	**110,897**	**-**
Depreciation	c	(17,874)	(19,781)	(37,655)	**(20,343)**	**(23,682)**	**(44,025)**
Investments in subsidiaries		1,136	-	1,136	**1,158**	**-**	**1,158**
Other tangible assets	d	9,470	(1,796)	7,674	**9,676**	**(1,742)**	**7,934**
Investment properties	a & d	-	2,628	2,628	**-**	**3,166**	**3,166**
HomeBuy loans receivable	e	-	11	11	**-**	**11**	**11**
Long term investments		713	-	713	**753**	**-**	**753**
		113,492	89,757	203,249	**119,382**	**87,431**	**206,813**
Current assets							
Stocks		303	-	303	**457**	**-**	**457**
Debtors		3,921	(11)	3,910	**4,675**	**(11)**	**4,664**
Debtors due after one year		44,176	-	44,176	**38,452**	**-**	**38,452**
Cash		12,955	-	12,955	18,638	-	18,638
Creditors: amounts due within one year	a & b	(11,652)	(237)	(11,889)	**(12,535)**	**(654)**	**(13,189)**
Net current assets / (liabilities) due within one year		**5,527**	**(248)**	**5,279**	11,235	(665)	10,570
Net current assets / liabilities due after one year		**44,176**	**-**	**44,176**	38,452	-	38,452
Pension asset		770	-	770	**210**	**-**	**210**
Total assets less current liabilities		163,965	89,509	253,474	**169,279**	**86,766**	**256,045**
Creditors: amounts falling due after more than one year	a & b	(65,908)	(88,016)	(153,924)	**(66,279)**	**(86,477)**	**(152,756)**
Provisions for liabilities and charges		(44,176)	-	(44,176)	**(38,452)**	**-**	**(38,452)**
Net assets		53,881	1,493	55,374	**64,548**	**289**	**64,837**
Capital and reserves							
Designated reserve		7,594	-	7,594	**8,182**	**-**	**8,182**
Income and expenditure reserve		50,511	1,539	52,050	**61,725**	**(190)**	**61,535**
Revaluation reserve		46	(46)	-	**61**	**(61)**	**-**
Pension reserve		(4,270)	-	(4,270)	**(5,420)**	**540**	**(4,880)**
Total reserves		53,881	1,493	55,374	**64,548**	**289**	**64,837**

36. Explanation of transition to FRS 102 from old UK GAAP

Notes to the reconciliation of equity

1 Within Tangible fixed assets is a transition adjustment totalling £1,212,000 for the purchase cost of Investment properties. This adjustment is reflected within the Investment properties heading.

2 This transition to FRS102 requires Grant to be included within Creditors. The adjustment includes Grant being recorded in Creditors due over one year and an adjustment to opening reserves.

3 Grant has been restated and includes the Gross charge to the Statement of Comprehensive Income for Housing properties.

4 Other tangible assets is inclusive of a transition adjustment to reflect office accommodation held as investment properties. This adjustment is reflected within the Investment properties heading. A further adjustment has been recognised in prior year reserves' to reinstate a value for assets that had previously been fully depreciated.

5 The transition adjustment recognises Homebuy loans within fixed assets. This had previously been recorded as a current asset.

Reconciliation of surplus for year ending 31 March 2015

	Note	UK GAAP £000	2015 Effect of transition to FRS 102 £000	FRS 102 £000
Turnover	a	**42,477**	**1,640**	**44,117**
Cost of sales		**(180)**	**-**	**(180)**
Operating expenditure	b	**(32,832)**	**(1,039)**	**(33,871)**
Operating surplus		**9,465**	**601**	**10,066**
Gain/(loss) on disposal of property, plant and equipment		**738**	**-**	**738**
Impairment		**(69)**	**-**	**(69)**
Interest receivable and similar income		**76**	**-**	**76**
Interest payable and similar charges	c	**(3,601)**	**-**	**(3,601)**
Other finance expense		**-**	**(60)**	**(60)**
Other finance income	d	**550**	**(500)**	**50**
Other income		**4,643**	**-**	**4,643**
Gain on fair value of financial instruments	e	**-**	**15**	**15**
Surplus before tax		**11,802**	**56**	**11,858**
Taxation		**-**	**-**	**-**
Surplus for the year		**11,802**	**56**	**11,858**

Notes to the reconciliation of surplus

a. A transition adjustment is recognised within Turnover of £1,640,000 recognising grant amortisation in the year.

b. Operating expenditure includes transition adjustments relating to depreciation on investment properties, enhanced depreciation charges for existing Social Housing Assets and amounts relating to employee retirement benefits.

c. Interest payable and similar charges are inclusive of a transition adjustment of £60,000 for the recognition of unwinding of the discount factor relating to the SHPS past service pension deficit.

d. A transition adjustment is recognised to reflect adjustments to the Local Government pension Scheme as a result of transition to FRS102

e. £15,000 Gain on fair value of financial instruments relates to the Associations investments in Corporate Bonds, linked to existing loans borrowings. The assets are recognised at fair value through Income and Expenditure, previously this would have been recognised within revaluation reserves.

BERNICIA
HOMES

T: **0344 800 3800**
F: **01670 819844**
E: **enquiries@bernicia.com**
W: **www.bernicia.com**

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