BERNICIA

Annual Report and Financial Statements

2014/15

Content

Executive and Advisors

Chairman	Mr Ian Armstrong MBE	
Other Members	Ken Cochrane	
	Jean Manuel	(appointed January 2015)
	David Futers*	
	Frank Foster	
	Claire-Jane Nichol	
	Brian Renforth	(appointed January 2015)
	Keith Riddell	(appointed January 2015)
	Xerxes Setna	(appointed January 2015)
	Ann Tarn	(appointed January 2015)
	Tom Stevenson	
	Val Tyler	(appointed January 2015)
Resignations:	Barry Butterworth	(January 2015)
	Ian Darling	(January 2015)
	Helen O'Neil	(January 2015)

Executive Group

Chief Executive & Company Secretary	Bill Heads
Deputy Chief Executive & Executive Director, Operations	John Johnston
Executive Director, Resources	Mike Smith

* It is with great regret that we report the recent passing of David Futers, a founding board member of Bernicia and Chair of the Social Housing Board.

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Quayside House
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Newcastle upon Tyne
NE1 3DX

Bankers
Barclays Bank Plc
71 Grey Street
Newcastle upon Tyne
NE99 1JP

Solicitors
Bond Dickinson
One Trinity, Broad Chare
Newcastle upon Tyne
NE1 2HF

Foreword
from the Chairman and Chief Executive

Bill Heads
Chief Executive & Company Secretary

Ian Armstrong MBE
Chairman

At the time of writing this foreword Bernicia, like many in our sector are reviewing our plans in the light of recent announcements such as further cuts to welfare spending, plans to extend the Right to Buy to housing association tenants and changes to the 10 year rent settlement whereby our rents will be reduced by 1% per annum in each of the next four years beginning April 2016.

These changes are some of the most significant that we have seen in decades and we will be considering the business, tenant and community impacts of these when reviewing our plans and strategies.

Whilst the challenges are significant, we are a financially strong, successful and resilient business, which is testament to the work and dedication of our staff, involved tenants and board members.

Last year we increased our turnover to over £42 million and made a surplus of £11.8 million. Against a backdrop of an increasingly challenging operating environment we again recorded good performance, increasing the proportion of rent that we collect and for the sixth successive year reduced the level of rent that is owed.

Once more we recorded high levels of customer satisfaction with 9 out of 10 areas showing sustained or improved satisfaction with the services provided

We continued to invest in our existing homes and to provide new homes across a variety of locations, property types and tenure.

We spent £10.4 million on our existing assets through major stock investment works and sustainability plans that aim to ensure our homes continue to meet the changing needs of our residents.

During the year we started work on 142 new homes with 52 affordable units being brought into management. We successfully bid to the Homes and Communities Agency for grant and loan funding to provide a further 160 homes including the North East Region's first Rent to Buy scheme. We continued to maintain positive relationships with our private housebuilding partners and the provision of affordable homes as part of their S106 planning obligations continues to form a valuable part of our plans for 420 new homes between 2014-2019.

Whilst we have always fully understood the financial impacts of providing new and of investing in our existing homes, our decisions to do so have often been driven by the positive social return that our homes provide.

As the environment within which we operate changes the financial return from our existing assets, along with the subsidy levels required to support the ongoing provision of new homes, across the range of different property types and tenures that we are able to provide will increasingly influence our future investment decisions.

Our commercial subsidiaries Kingston Property Services and Livingspaces recorded strong performance results which translated into them being able to donate £534,000 from their profits to support the Group's social objectives. We view that our commercial activities have real growth potential, which will add to our business strength. The plans for our commercial activities have been developed on the back of our excellent reputation in the market place and the ethical way in which we do business.

We have developed our new five year business strategy which places our work as a social landlord at the heart of what Bernicia does.

We plan to continue to invest in neighbourhoods and communities and to provide homes and services that respond to the changing requirements of residents and customers. We believe that across our social and commercial activities we are well placed to broaden our service offer to a range of existing and newly emerging markets as we seek to achieve our ambition of being a leading provider of management and property based solutions.

Our new strategy has three strategic outcomes:

- **Relevant Services**
  Providing the right service to the right people.
- **Great Property & Places**
  Helping to create places where people want to live.
- **A Fantastic Organisation**
  A modern, efficient successful organisation respected by residents, customers, staff and stakeholders for getting the job done.

Maintaining a strong financial position is key to the Group delivering its objectives and growing Bernicia in a planned and responsible fashion. We successfully secured funding of £50.5 million during 2014/15 which will be used to reschedule existing loans and to support the delivery of our plans.

We are proud of all that we have achieved and are resolute in our belief that Bernicia is well placed to meet the variety of challenges that the current social and economic climates present.

The challenge for Bernicia is to continue with our work and to seek to grow our business, whilst ensuring we retain a sound financial platform, that our social assets are protected and that we deliver maximum social benefit from the resources that we have available.

We are aware that many in our sector are considering strategic alliances, partnerships and mergers and we are ourselves open to working with like-minded organisations that share our vision and values, and who are focussed on delivering positive outcomes for tenants and customers.

We have entered into discussions with another local provider and are examining the opportunities that sharing expertise, resources and costs can achieve for both organisations.

These discussions have been positive and we feel that this provides an opportunity for us to come together to manage risks, deliver services with greater efficiency and in doing so produce an organisation that is stronger than the sum of the two individual parts.

Finally it is with great sadness that we recently lost a founding board member of Bernicia and the Chair of our Social Housing Company, David Futers. David was a real community champion who worked tirelessly to support the work of Bernicia. His knowledge, guidance, and friendship will be deeply missed by his fellow board members, staff and tenants alike.

At a glance 2014/15

We have invested **£26.9 million** in existing and new homes

194 households enjoyed the benefits of new **kitchens**

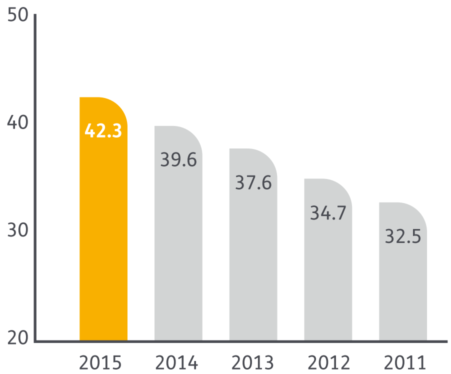
112 households have newly refurbished **bathrooms**

653 households have better **energy efficiency improvements**

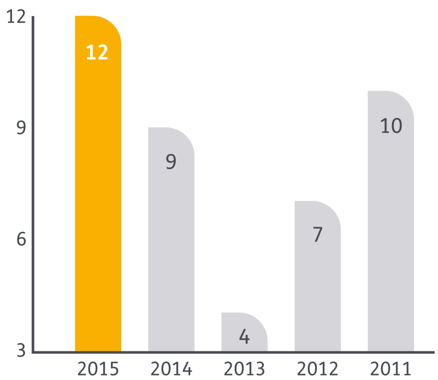
24,000 repairs completed

52 New homes have been completed & **90 started on site**

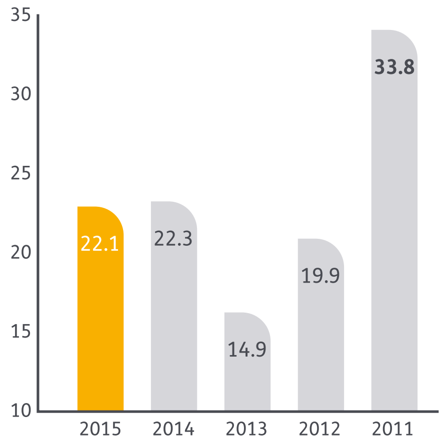
Turnover (£) millions



Group Surplus (£) millions - measuring our overall profitability



Operating margin - measuring profitability on turnover



We build, rent, sell and manage homes for **50,000 customers**

Surplus of **£11.8 million, up 31%**

Rent collection increased to 99.55% and current arrears at 2.78% have reduced

Customer satisfaction improved across 9 out of 10 service areas

Though our **Brighter Futures** initiative

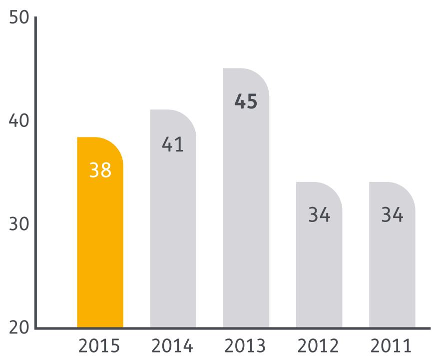
117 tenants accessed skills & employment training

We created and sustained **21 apprenticeships**

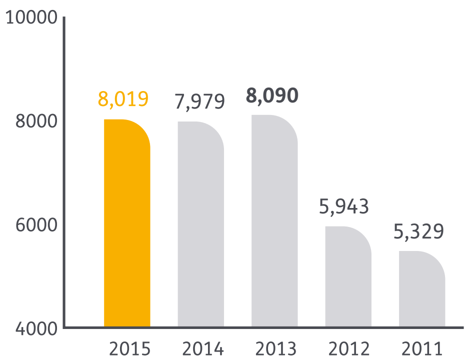
We hosted **27 work experience** placements

Generating £384,000 of social value.

Net gearing (%) - measuring our level of indebtedness



Net debt per unit (£) - measuring our level of borrowings per property



The Group **raised £50.5 million** to fund investment in new homes and services

Report of the Board

About Bernicia

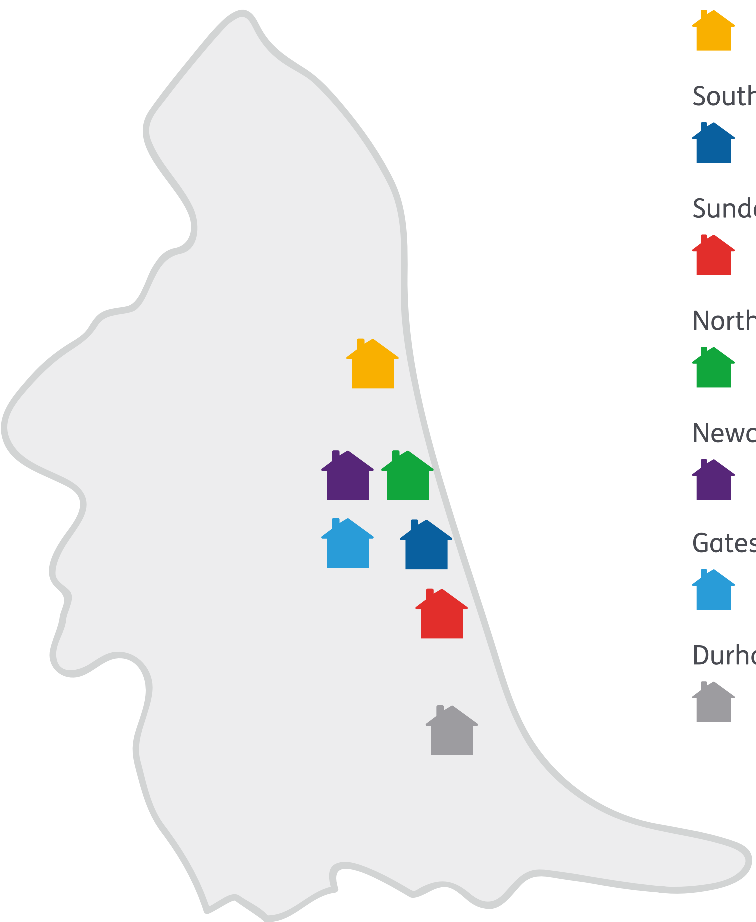
The overriding objective of Bernicia is to help people in need of housing. We are a social landlord, at heart, building, renting, selling and managing houses, providing estate and facilities management and specialist care and support services to over 50,000 customers.

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.

Where we operate

We own and manage 8179 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.



Northumberland
5896

South Tyneside
34

Sunderland
810

North Tyneside
696

Newcastle
459

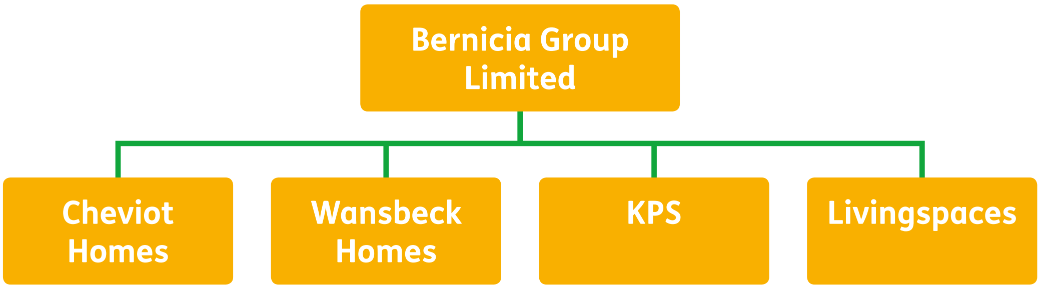
Gateshead
273

Durham
11

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.

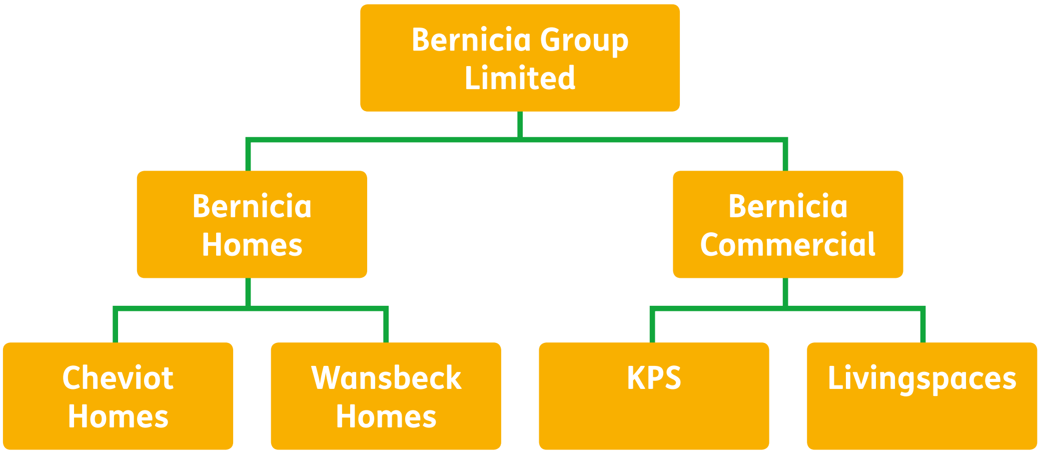
The Bernicia Group Limited is a registered society, registered under the Co-operative and Community Benefit Societies Act 2014 (No. 30268R) and with the Homes and Communities Agency (No L45120).



Bernicia Governance Structure

The Social Housing Boards of Wansbeck and Cheviot Homes have been amalgamated into the Bernicia Homes Board and the operation of the Group's trading subsidiaries into a separate Board, Bernicia Commercial.

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



The External Environment

The scale and rate of change to our operating environment in recent years has been rapid and there is little sign of this abating.

We had recognised that the need for new homes, changing customer preferences and demand for our services together with the impact of further Welfare Reform on our residents would present challenges. However we consider the Group are well positioned to meet those challenges ahead, having the financial strength to invest in our staff, systems and services.

The election of a majority Conservative Government has resulted in plans to extend Right to Buy to all housing association tenants. Further changes to welfare spending were announced in the July 8th budget, together with changes to the previously agreed 10 year rent settlement whereby our rents will now be reduced by 1% per annum in each of the next four years beginning in 2016. This will produce a considerable reduction in Bernicia's income over this period. It will impact on our future plans with a potential reduction in the new homes we can provide, and investment we can make in both properties and services.

The welfare benefit landscape will also change considerably. The roll out of Universal Credit continues, albeit slowly, together with changes to the benefit cap, reduced payment to younger people and a limit on future increases.

Those risks we have previously identified linked to building more homes, changing customer preferences and demand for services and continuing financial pressures remain. New issues, uncertainties, and risks resulting from the new policy environment need to be factored into our future plans. We believe Bernicia is in a sound position and will manage the impact of these policies and we expect to deliver our 2015/18 Development Programme, implement plans to enhance services and invest in existing homes and communities.

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.

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 Board have 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 an already challenging 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).
- Support and validation of financial plans and assumptions by external consultants.
- Robust performance monitoring of key indicators including budgets.
- Resourcing appropriately to support income optimisation.
- Ensuring flexibility into our plans, priorities and objectives.
- Strengthening our partnerships and alliances to help inform decision making.
- Building an Asset & Liabilities register.

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) and others (66) who are in the closed SHPS final salary scheme. We are mitigating this by:

- Reviewing the Group Pensions Scheme.
- Continued specialist advice from Punter Southall to assist with financing future liabilities.
- Factoring scenarios into our financial planning.

Regulation

Due to the challenging economic environment, the protection of social housing assets is at the forefront of 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 effectively 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.
- Building an Asset & Liabilities register.
- Board and Committee oversight including training and briefings.
- Business Planning and decision making against Group's risk appetite.

The Year under Review

Managing our financial resources enables us to be more efficient and generate surpluses which we can re – invest into our homes, services and communities. This year, we made a surplus of £11.8 million (2014 - £9.024 million)

Maintaining a strong financial position is key to the Group being able to deliver on its objectives and maximising funding capacity. During the year we were successful in securing funding of £50.5 million which will be used to reschedule existing loans and support investment in our future development programmes.

Our Homes

Providing New Homes

Bernicia's five year development programme 2014-19 plans for the provision of 420 new homes. During the year work had started on 142 of these units with some 52 units being brought into management.

Having been selected as a preferred development partner by North Tyneside Council we have advanced our plans to build 57 units with our newly established in house construction team. This will enable us to utilise the skills and expertise of our own staff whilst ensuring that our investment generates work for local suppliers and sub- contractors in the area.

Our pipeline programme includes some 43 units for low cost home ownership. Traditionally the Group has been cautious in its approach to "housing for sale" but does aim to provide these homes within most of its developments. This year we have noticed an increase of interest in these products, particularly at The Cheviots development in Ashington and we have recognised the need to provide a variety of development and tenure options to meet future demands.

We made the decision to undertake a pilot programme to provide a number of properties for market rent, with a view to extending that tenure into the future. We have also committed to providing a 38 unit Rent to Buy scheme on Newcastle Great Park with funding support from the HCA.

Over the course of the year we progressed work on the delivery of the future programme and plan to commence work on 140 units during 2015/16. Significant among these developments will be the second phase of The Cheviots (38 units), the Rent to Buy scheme (38 units), and several smaller schemes (total units 38) built by our in house construction team in North Tyneside and Northumberland.

Investing in Existing Homes

We use the results of our Asset Management Strategy to plan future investment in our estates and individual property stock, based on a matrix of financial, social and environmental factors.

We're in the second year of a 5 year £64 million improvement programme, investing £10.4 million this year. This means 194 tenants can enjoy making a meal of it in new kitchens and 112 more clean up nicely in new bathrooms. There'll be warmer winters for 653 tenants who will feel the heat, not the pinch as we've improved the energy efficiency of their homes as part of our 'fabric first' approach to affordable warmth to help tenants save on fuel bills. In addition a range of estate sustainability projects were also delivered.

We commenced the first phase of £3 million improvement scheme at Burnside estate, which had suffered from high tenancy turnover and rising levels of voids, coupled with estate management and anti-social issues. The two year improvement programme involves remodelling properties to suit modern family lifestyles and demands, as well as estate infrastructure improvements to parking, accessibility and play areas. To complement the physical improvements we have opened a Learning Hive in the heart of the estate to improve wellbeing and encourage tenants into education and employment. Customer satisfaction with the improvement programme is up to 96% so our investments are definitely achieving results.

Delivering Services to Existing Customers

Maximising income and making best use of resources means we are able to provide services that are relevant to, and valued by our tenants, stakeholders and communities.

Listening to our tenants enables us to offer the right services and deliver these to the right standards. Beyond this we use business intelligence and consider our operating environment to understand the correlation between cost and performance, need and aspiration.

Feedback from our tenants is really important to us, we want people to be happy in their homes and their neighbourhoods and with the services they receive. With satisfaction levels across 9 key service areas exceeding targets and improving on last year we are confident we are doing a good job.

Our revised service standards for repairs and maintenance are now fully implemented with changes to working hours and practices supporting the new arrangements developed and agreed with our tenants. This meant we offered appointments for 98.9% of the 24,000 repairs we completed and turned up on time for 99.4% of these. As a result tenant satisfaction increased to 91.5%.

We prepared well for welfare reform, staff training and tenant profiling allowed us to target advice and support to the people affected. Learning from this process, led to re shaping our thinking about the benefits of successful tenancies. Many of our experiences are integrated into mainstream activities with extra help at the start of or during a tenancy where needed and expert financial advice provided by our external partner Stepchange.

We push the concept of making a home as part of a community along with all the responsibilities that go with this. When things don't go so well we act quickly to remedy situations and when properties become empty we relet them quickly, this is achieved by staff working together and effective partnerships.

The input of our involved tenants is vital in keeping our services up to scratch with our scrutiny panels confirming that we meet and exceed the HCA consumer standards, our complaints panel ensuring we learn from experiences with 16 changes to working practices being made and our customer inspectors checking we do what we say in our service standards.

Social Added Value

We want to boost the impact of our investments, and focus on adding value to activities with both a social and business advantage, the highlights in the year include:

Financial Wellbeing

- Continued support to tenants in managing Welfare Reform.
- Improved SAP rating to 71.88 from 70.43.
- Commenced programme to install new "A rated" boilers which will save tenants £100 p.a on energy bills.
- Working with utility companies to help tenants tackle fuel poverty.

Social Wellbeing

- Completed Phase 2 of award winning development at Willow Vale, Bedlington, which supports residents with learning difficulties to live independently.
- An increase in the demand for our in-house community alarm and mobile warden service

Building Brighter Futures

- Provided, with our partners The Northern Learning Trust, training and workplace learning for 117 people in our award winning Learning Hives.
- Welcomed a lottery big award of £337,000 to Northern Learning Trust to fund and extend services in the Learning Hives.
- Created 21 apprenticeships and a number of work experience placements directly with ourselves and through our contractors and supply chain.

Environment

- Our Affordable Warmth Strategy has improved energy efficiency in more homes.
- Introduced 'e' procurement initiatives.
- Increased mobile working for more staff, reducing journey and fuel consumption.
- Introduced a range of smaller economical and efficient company vehicles.

Our People

All of what we have achieved reflects the skills and dedication of our staff.

Delivering better customer satisfaction and business performance helps build our financial strength which enables us to build more homes and invest in our services.

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.

We employ 380 staff, across seven operating functions in over 80 different roles. Our commitment to staff is represented by an £11 million annual investment, with our training and development programmes equating to 2% of this. This ensures our staff are safe, competent, confident and empowered to do their jobs now, and into the future.

Our People Strategy makes sure our human resources are aligned to achieving our objectives. The strategy has five key themes; making the most of our skills, knowledge and expertise, identifying and retaining talent, creating a flexible and agile workforce, supporting the future workforce and the health and wellbeing of our staff.

We also appreciate the popularity of the Group's commitment to flexible working, and plan to continue to offer these options going forward as we recognise the benefit such flexibility can bring to the business as a whole.

We're focussed on the future with our Move Ahead Programme engaging a diverse range of staff from across the Group to both deliver and receive coaching and mentoring from each other. This trade of knowledge and skills means we optimise conditions for talent to flourish and support succession plans.

The success of our People Strategy has earned us gold accreditations from Investors in People, Better Health at Work and Equality North East and also secured our place nationally as a top 100 Apprentice Employer. This coupled with low staff turnover and sickness absence, and high staff satisfaction shows we remain an employer of choice and a great company to work for.

Financial Performance

Income and Expenditure Account

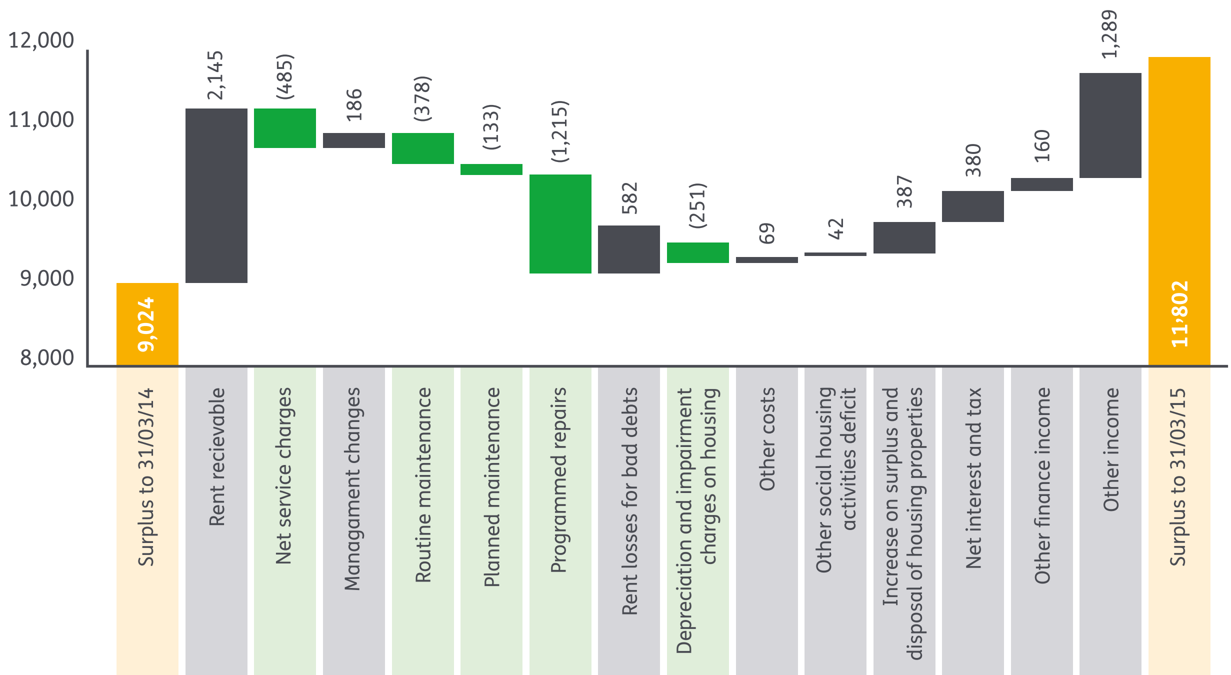
The Bernicia Group has delivered another set of strong and solid financial results, generating an operating surplus of £9.4 million (2014: £8.8 million) and increasing our overall surplus by 31% to £11.8 million, all of which was re-invested into our core social housing activities in the year. Our social housing lettings activities returned an operating surplus of £8.1 million (2014: £7.5 million), with other activities returning an operating surplus of £1.3 million, with £0.6 million of this generated through our commercial subsidiaries. Maintaining our financial health and viability allows us to invest in quality homes, quality services and communities.

The bridge graph below illustrates how this was achieved against the prior year. Group turnover rose by £2.6 million (6.6%) to £42.3 million of which £36 million came from increased rents and service charges reflecting growth and inflation. Continued investment within our stock and further demand for our services increased operating costs by £2 million to £32.8 million. Management costs reduced by £0.2 million in the period, with improved arrears management performance reducing rent loss from bad debts by £0.6 million. This offset £1.7 million of additional investment in our stock; net increases in service costs (£0.6 million) and housing property depreciation (£0.2 million), with expenses on other activities increasing by £0.3 million.

Other income in the year of £5.3 million (2014: £3.8 million) includes the release of the final payment of gap funding received by Wansbeck Homes (£4.1 million) and VAT (£0.53 million) recovered through the VAT shelter.

The Group makes no allowance in its long term financial plans for the disposal of housing accommodation under the right to buy legislation and shared ownership sales. The surplus from disposals generated £0.7 million in the year (2014: £0.4 million).

We continue to benefit from low interest rates, with interest charges for the year reducing to £3.6 million (2014: £4 million). The operating surplus of £9.4 million comfortably exceeds the net cost of interest payable of £3.5 million (2014: £3.9 million), leaving headroom of £5.9 million. Interest cover excluding asset sales has increased to 263% (2014: 224%).



Balance Sheet

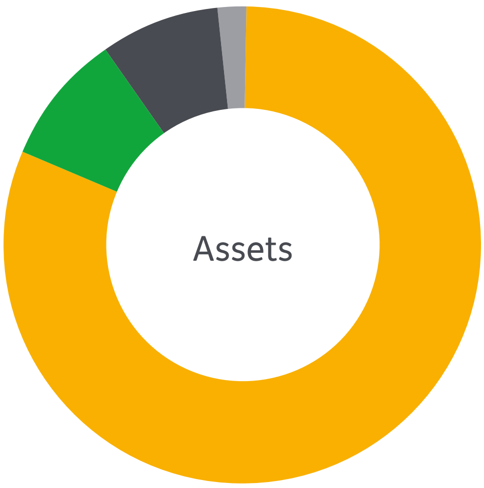
Our strong balance sheet, created through strategic long term investment decisions and a prudent approach to growth and risk highlights our financial strength.

The value of the Group's housing properties at historic cost increased to £239 million (2014:£229 million) through additional investment of £0.7 million in respect of development, £3 million of improvement works, £7 million of stock acquisitions and £0.8 million of sales.

Total assets less current liabilities increased by £5 million to £169 million (2014: £164 million) as a result of investment on both existing and new homes. This was effectively financed by the increase in the Income and Expenditure Account as a result of the surplus for the year. Long term liabilities have decreased by £5 million in the period.

As at 31 March 2015 drawn loans totalled £66.9 million (£66.4 million 2014), debt outstanding and its associated interest charges continue to be prudently managed with both interest cover and EBITDA increasing in the period. The strength and capacity in the Group's balance sheet is further illustrated through a reduction in our gearing ratio to 38.1% (40.7%: 2014), with our operating margin remaining constant and a consistently strong liquidity profile also being maintained in the year, all remaining within our financial parameters.

Capital and reserves stood at £64.5 million, an increase of £10.6 million on 2014 (£53.9 million).

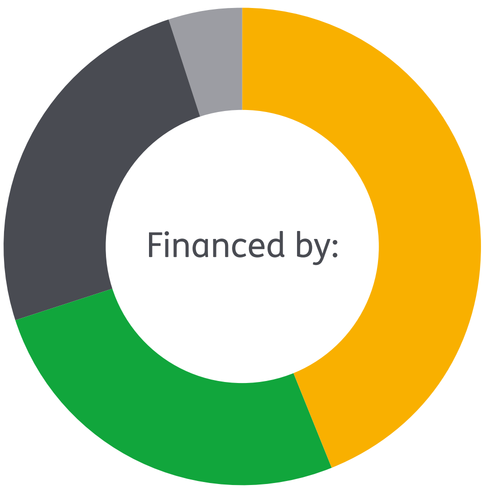


Housing properties
£108 million

Other fixed
assets & investments
£11.5 million

Net current assets
£11.2 million

Capitalised expenditure on
housing properties
£3.2 million



Grant
£111 million

Debt due in more than
1 year
£66 million

Accumulated Surplus
£65 million

Surplus for the Year
£12 million

Cash Flow Statement

The Group generated a net cash inflow from operating activities of £11.2 million (£13 million 2014), a reduction primarily driven by a reduction in creditors in the year.
Capital expenditure and financial investment net cash outflow totalled £2.4 million, with expenditure on housing properties of £11 million and £0.8 million of other fixed assets purchased in the year. Capital grants of £7.2 million were received with this being the final year of receipt of gap funding in respect of Wansbeck Homes (£6 million). VAT recovered through Wansbeck's development agreement totalled £0.7 million, with disposal of housing properties generating £1.3 million in the period.

The Group's cash position continued to be strong throughout the year with cash of £11.2 million generated from operating activities (£13 million 2013/2014). Cash at bank and in hand increased to £18.6 million (2014: £13 million).

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 2015, the Group had drawn loans totalling £66.9 million and available undrawn credit facilities of £55.75 million. Cash equivalents held at the year-end totalled £18.6 million, leaving available liquidity at £74.35 million (2014: £44.8 million).

Sources of Funding

During the course of the year the Group secured a further £50.5 million of funding; £40.5 million by way of a private placement and a further £10 million of revolving credit facilities.

Debt Repayment Profile

The Treasury Strategy ensures that the Group does not have to refinance material amounts of debt in any one year. The historic weighted average cost of drawn debt, inclusive of margins and hedging activities, was 5.5% at 31 March 2015 on an annual effective rate basis (2014: 5.5%). The Group has £9 million of re-financing risk over the next five years (13% of loan facilities), 87% of loans (£58 million) matures after year five.

Counterparty Risk

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

As at 31 March 2015, 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 2015, 55% of the Group's drawn debt (inclusive of hedging activity) was fixed (2014:57%).

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.

FRS102 – The New Accounting Standard

This is the final set of accounts the Group will publish under current accounting standards. In future periods the sector will use FRS 102, 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', as part of which an updated 'Statement of Recommended Practice' (SORP) has been issued by the SORP-making body which includes the National Housing Federation. As a result of this, some figures will be materially different, terminology will in some cases be different and new disclosures added or existing ones amended.

Significant work is required in order to move to this new accounting framework and a substantial amount has already been carried out in preparation over the past few years. The precise overall impact of FRS 102 is yet to be finalised and will only be confirmed in the 2015/2016 financial statements, but it is clear that we will retain our solid financial strength.

Operational Performance

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

Key Performance Indicators	2014/15 Actual	2014/15 Target	2013/14 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).	99.8%	99.5%	99.7%
Average number of days taken to complete a repair	9.2	8	9.36
Customers "very satisfied" or "satisfied" with repairs	91.5%	90%	90%
Gas servicing (% of properties with a current LGSC)	100%	100%	100%
Properties meeting Decent Homes Standard	100%	100%	100%
Arrears			
Current tenant arrears	2.78%	3.35%	3.04%
Voids			
Operational void loss	1.99%	2.50%	1.78%
Average number of days to re-let	27.02	30	25.15
Total voids (available to let)	0.88%	1.5%	0.85%
Rents			
Rent collected (rent received as % of rent charged to date)	99.55%	99%	99.33%
Overall customer satisfaction with services	**92%**	**N/A**	**92%**
New Homes			
Homes completed in year	52	65	127
Staff			
Absence (% of absenteeism)	2.91%	3.60%	2.50%

Repairs and Gas Servicing

We carry out repairs at the first available appointment, as agreed with the tenant. The average days to complete a repair improved albeit that this exceeded the target set.

New working arrangement brought in during the year have now made additional resources available at core service delivery times and have also reduced the incidents of abortive repairs visits.

Importantly customer satisfaction with the repairs service whilst already high increased to 91.5%.

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 improved to 99.55% and current rent arrears reduced to 2.78% this was due to the hard work of our staff.

We exceeded all targets set for the management of void properties.

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.

Resident Satisfaction

We continue to work closely with our tenants to ensure services are relevant to the needs of the end user.

We collect real time satisfaction returns across our business operations. We continued to record high levels of satisfaction with 9 of the 10 areas showing sustained or improved satisfaction with the services provided. 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, including the overall requirements of our 2011-2015 approved development programme.

We handed over 52 new homes, with the remaining 13 forecast for the year all being S106 properties being provided by our private housebuilding partners.

We were awarded grant and loan funding from the HCA to provide further affordable homes during 2015-18, including the North East Regions first Rent to Buy scheme.

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

Our Future Plans

We have developed our new five year business strategy which 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

We plan to invest in neighbourhoods and communities and provide homes and services that respond to the requirements of our residents and customers. We believe we are well placed to broaden our service offer across different markets and have an ambition to be a leading provider of management and property based solutions.

To sustain the delivery of our social purpose we need to continue to deliver strong financial and operating performance balancing commercial need with social purpose. Practical steps will include setting and achieving challenging targets, financial and operational , market intelligence to support investment decisions, and strong risk management and business planning. We also plan to grow our commercial activities increasing profits to reinvest in our social purpose.

Our business 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.

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, where we plan to spend £24.5 million in the next 3 years, and providing new homes, with plans for 335 properties in the next 3 years which include replacing unsuitable homes where appropriate.

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.

We want people to know about Bernicia, what we do and the contribution we make in helping create places where people want to live. We have re-branded Bernicia and will be working to ensure customers, residents and stakeholders recognise Bernicia as a fantastic organisation.

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.

The Group's financial projections have been tested in a range of different scenarios giving us the confidence that we could withstand a range of adverse changes without impacting on our future plans.

To ensure we could manage the impact of a number of risks occurring at the same time we have identified a range of actions we could take to restore finances.

These include slowing down or even stopping development, cutting back on discretionary spend, making further efficiencies in our operations and stock investment programme.

Our financial planning had anticipated some short term pressures on operating costs due to rising pension costs and Welfare Reform. However the announcement in the July 2015 budget statement that our rents are to decrease by 1% year on year for four years will have a significant impact on our financial capacity.

The group is currently re-modelling financial plans in line with agreed remedial actions to mitigate the impact of the loss in rental income. We do, however, expect to deliver the 2015/18 Development Programme, implement plans to enhance services and invest in existing homes and communities.

Value for Money

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.

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 generate efficiencies and in turn surplus to invest in our business, improve the services we provide and build more homes.

We have therefore driven Value for Money for our own ends but have since 2012 been subject to regulatory requirements to explain what we do to stakeholders. This involves reporting on our return on assets, the absolute and comparative costs of delivering services and how we have generated Value for Money gains and where these have been invested.

Our regulator the Homes and Communities Agency, requires us, as part of its regulatory framework, to prepare an annual self-assessment report to our residents and stakeholder. This sets out how we comply with the Value for Money Standard and our plans and priorities for the future. A full self-assessment report is available on our website www.bernicia.com.

Our Approach

Our approach starts with the Board setting the strategic direction and priorities for the Group. Delivery of Value for Money is driven by our focus on two key corporate objectives, developing our business strength to optimise the Group resources which are then invested to provide quality homes and services and deliver our added value objectives.

Bernicia's Value for Money principles centre around:

- Effective Governance;
- Customer Focus;
- Best use of our Assets;
- Managing Resources and Performance.

Governance structures enable the Board to lead the way on Value for Money through a full and robust **planning process,** involving all our key stakeholders. This is supported and informed by **customer focus** reflecting the needs of our tenants and residents.

We **understand our assets**, by way of both stock condition information and the experience of our people and invest time in understanding their value both now and in the future.

Our dedicated people translate these plans into action plans to achieve objectives and deliver the standard of services required; **managing resources and performance** to ensure we consistently deliver quality, value for money services and compare how we perform against our peers.

This commitment to service delivery and high quality sustainable assets is only made possible by our stable and firm **financial** foundations, which we monitor and publish to provide not only information for future planning, but transparency and accountability to all our stakeholders.

We have worked to embed Value for Money into all we do and believe our approach is evident from the way we run our business and what we achieve.

Throughout the year the Group Board, Social Housing Board, tenants and stakeholders receive regular reports on our work and performance, highlights of our achievements in the year include:

Performance

- Exceeding key financial and operational targets continuing the trend of the last 5 years with consistent gains in our performance.
- Providing more new homes and increased investment in our existing homes and communities with improving customer satisfaction across 9 out of 10 service areas.

Investing in our business

- Re-organised our repairs service to deliver new service level with efficiency gains from a more effective reporting system and effective utilisation of staff.
- Helped tenants cope with Welfare Reform with access to information and making it easier to pay rent.
- Re-directed resources to provide pre-tenancy advice and more support to prevent tenancy failure, resulting in strong rent collection and arrears performance. Whilst void periods are higher than peers our actions minimised the potential loss.
- Maintained or created 21 apprenticeships throughout the organisation helping with future succession planning.

Efficiencies

- Internalised services, including procurement, health and safety and communications with savings of £206,000.
- Achieved significant savings from virtualisation of server network, investment in new systems, better data management and improving communication.
- Reduced the cost of new homes by 10.9% to £82,000.
- £1.96 million savings from investment programme resulting from enhanced stock condition information and procurement methodology.

We had plans to target new borrowings and efficiency savings to the provision of additional new homes and the continuation of added value services that we feel provide much needed help and support to our tenants and the wider communities where we work.

Like many in our sector we are now assessing our plans in the light of some recent announcements, in particular the impact of the four year rent reduction from April 2016.

Whilst we are keen to continue to deliver as many of our plans as we can, we recognise that the first call on our existing resources and any efficiencies that we make must be our primary business responsibilities; our existing homes and core services that we provide to our tenants.

How we compare

We believe that comparing our performance with that of our peers can provide an important benchmark across a range of outputs. It provides key business comparisons, helps us understand areas of strength and weakness and identify areas for improvement. For a number of years we have therefore compared both our financial and operating performance with our peer group. We use Housemark and compare ourselves against Northern and Midlands Housing Association Club which includes 31 organisations.

The following table shows Bernicia's performance for 2014/15 and 2013/14 and provides a comparison with the peer group and, where the information is available, the HCA global accounts for 2013/14.

	Bernicia	Peer Group Median	Bernicia	Peer Group Quartile Comparison		HCA Global accounts
	2014/15	2014/15	2013/14	2014/15	2013/14	2013/14
Financial VfM Analysis						
Management Cost per home	£331	£544	£344	1	1	£990
Responsive repairs	£832	£802	£798	3	3	£1,015
Major repairs and cyclical maintenance	£1,604	£1,230	£1,649	4	4	£913
Overheads as % of income	9.9%	12.9%	9.3%	1	1	n/a
Housing Management VfM analysis						
Current Arrears	2.78%	3.33%	3.04%	2	1	4.8%
Re-Let Times	27 days	26.16 days	25.16 days	3	2	n/a
% Rent loss due to voids	1.99%	0.92%	1.78%	4	4	1.8%
Resident Satisfaction overall	92%	89.5%	92%	1	1	n/a
Resident Satisfaction repairs	91.5%	85.4%	90%	1	1	n/a

Comments

We continue to control our management costs which compare favourably with national indicators and with the costs of our peers.

Our responsive and voids costs increased by 4.3%. We targeted additional staff resources to increase the capacity of the service at core times. The turnover of our void properties at 13.09% remains high, albeit that the rate of turnover began to slow down later in the year as a consequence of a number of successful management initiatives being implemented.

The costs of major and cyclical maintenance remained high when compared to our peer group and national benchmarks. Our costs reflect the requirements of our stock transfer subsidiary, Wansbeck homes. This trend will continue in 2015/16 as we complete a number of agreed sustainability projects and thereafter our costs are forecast to reduce to levels consistent with our peer group medians.

Group overhead costs remained competitive, the marginal increase reflecting some planned investments, including in our in-house communications and business support team.

Performance in arrears has improved for the sixth successive year, reflecting our focus on maximising our main sources of income, our social housing rent.

Re-let times remained consistent with our peer group. Whilst welfare reform and at times increased competition have impacted on demand for some properties, we continue to successfully implement initiatives to mitigate the impact of this, including highlighting the quality of our homes and services to prospective tenants.

Although rent loss due to voids increased, this was anticipated and planned for as we held empty a number of homes to allow the implementation of estate sustainability plans. These will deliver positive outcomes in the future.

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.

Best Use of Assets

Asset Management

The Bernicia Group's property and assets are crucial to our long term business plans. We have implemented an Asset Management Strategy which governs the decisions we make on future stock investment. This is based on full financial appraisal of current stock collectively and individually, together with the assessment of other factors such as social and environmental issues of each estate enabling us to take a view on the future potential of each asset we own.

To inform our investment decisions we consider:

	We have
Stock Condition Information	Surveyed 100% of our existing stock enabling better planning of work and expenditure. This has helped us save £1.96 million.
Results from the Asset Management Matrix	We have developed the matrix to enable the analysis of a range of indicators to assess the future sustainability of our homes including; property condition, demand and socio-economic factors. From this we categorise our estates as high, medium high, medium and low risk.
Financial Return on Assets	To help us determine the financial return on our assets and inform investment decisions we have implemented a model to assess the net present value (NPV) of each estate and individual property, taking account of income and expenditure.

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

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

During 2014/15 we have:

- Successfully delivered year 2 of our stock investment programme investing £10.4 million with the benefit of £1.96 million efficiencies resulting from our procurement methodology key component procurement and having 100% stock condition information.
- Met our target of completing 100% stock condition survey to help improve programme planning and target resources.
- Progressed the development of a new retirement housing scheme in Ashington, Northumberland to replace two of our existing sheltered schemes which no longer meet our needs. Completion is on target and scheduled for Spring 2016.
- Taken the decision to disinvest and demolish 16 properties at East Sleekburn as there is no long term demand for these homes due to the geographical isolation of the estate from local facilities and amenities.

In terms of assessing the overall returns from our assets we have developed our own asset management matrix. This uses a range of indicators including demand and socio-economic factors to assess future sustainability of our estates, and provides us with an indication of the social value that our estates provide to our communities.

During 2014/15 we further enhanced this matrix to include the impact of welfare reform, this resulted in a number of estates with high concentrations of 3 bedroom houses moving into the medium high risk category.

Risk	Low	Medium	Medium High	High
2012/13	31%	37%	20%	12%
2013/14	59%	25%	13%	3%
2014/15	64%	13%	22%	1%

Financial Return on Assets

We use a model to assess the financial return from our assets that determine 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 are highlighted below:

	No. of Schemes		% of Schemes		No. of Homes		% Of Homes	
	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15
High	8	7	2.01%	1.75%	155	106	1.96%	1.32%
Medium High	34	17	8.54%	4.25%	605	317	7.62%	3.95%
Medium	33	37	8.29%	9.25%	1025	880	12.91%	10.98%
Low	323	339	81.16%	84.75%	6153	6715	77.51%	83.75%
Grand Total	398	400	100%	100%	7938	8018	100%	100%

We assess that 106 of our properties have a negative or marginal rate of return over the next 30 years. This improving picture is a representation of the positive impact of both investment and disinvestment decisions that have been based on a sound understanding of our stock.

Strategic

When assessing the overall financial return being achieved from our assets we consider our operating surplus as a % of our operating assets. We also assess the financial yield produced by our homes through comparing the rents generated against the value of the assets.

Operating surplus as % of operating assets

	2011/12	2012/13	2013/14	2014/15
Bernicia	3.5%	2.5%	3.7%	3.8%
Sector	2.6%	2.9%	3.0%	N/A

Yield of rents compared to value of assets.

	General Needs	Elderly	Total
Cheviot Homes	4.1%	4.4%	4.2%
Wansbeck Homes	5.1%	5.8%	5.3%
Bernicia	4.7%	5.1%	4.8%

Due to the positive impact that good quality housing can have on the deprived communities where we work, whilst we have always fully understood the financial impacts of providing new and of investing in our existing homes, our decision to do so has previously been driven by the positive social return that our homes provide.

Changes in our operating environment will increasingly lead us to make decisions on building new homes on the basis of the financial returns we can expect from each category of our assets. We are currently reviewing our financial models, development appraisal and valuation methodology to determine the appropriate basis to determine the required return from new and existing assets.

Added Social Value

Delivering Value for Money enables the Group to optimise resources which are invested in providing quality homes and services and deliver our added value initiatives.

During 2013/14 the Board defined the added social value priorities that we will focus on; financial wellbeing, social wellbeing and building brighter futures. Some of our work on added value initiatives in 2014/15 included:

Financial Wellbeing

Supporting our tenants to deal with changes in welfare benefits, including debt and money advice and implementing initiatives to help tackle fuel poverty.

- Supporting our tenants - we created an intensive housing management team from existing resources that provides targeted support to residents at risk of tenancy failure.
- Debt and money advice – we developed a referral protocol for residents to a national debt and money management charitable agency, Step Change.
- Fuel poverty – we continued with our work to compare the energy characteristics of our homes, increasing their SAP rating from 70.43 to 71.88 by the end of the year.

Building Brighter Futures

Supporting job opportunities through the provision of apprenticeships, training and work experience initiatives.

- Extended our award winning Learning Hive project through the opening of our second estate based facility in Bedlington. Working with partners the Northern Learning Trust we provide structured programmes to build confidence, support additional learning and entry into the workplace.
- Welcomed a Big Lottery award of £370,000 to our training partners the Northern Learning Trust. This will help secure the delivery of the vital services provided at our Hives for the next 3 years and extend the times which the services can be accessed.
- Created and sustained 21 apprenticeships and created 27 work experience placements directly ourselves and through our supply chain.

Social Wellbeing

To promote independent living and help tackle isolation and loneliness:

- We saw an increase in the demand for our in-house community alarm and mobile warden service.
- The range of activities that are provided within our vibrant schemes continued to grow and now include inter scheme tournaments and creative arts projects.
- Completed phase 2 of our award winning development at Willow Vale Bedlington, which included accommodation for residents with learning disabilities that helped them make the transition from residential care to independent supported living.

Future Efficiencies

Having successfully achieved our efficiency targets for 2014/15, we have set ourselves the challenge of achieving even more in 2015/16.

Business Area	Target
Asset Management	£400,000
New Developments	£253,000
Finance	£634,000
Operational	£672,000
Total	£1,959,000

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

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.

Having agreed in the previous year that there would be significant benefits to be derived, both in efficiency and performance, but unifying our Social Housing Board (the common board of our two registered provider entities – Cheviot Housing Association Limited, and Wansbeck Homes Limited) and our Group Board, these changes have now been affected.

Bernicia continues to follow best practice with regard to corporate governance and will, where appropriate, use all reasonable endeavours to comply with the National Housing Federations' Excellence in Governance – Code for Members 2010. The Group Board conducts an annual group-wide self-assessment of compliance with the code, which has shown that the group is compliant with the code.

As one unified board, the Group Board, now sits with shared members serving all three entities, and with agendas in two distinct parts, Group and Social Housing. These changes were affected towards the end of the financial year (from January 2015), and with the addition of two new co-optees to the Board to support our succession planning aims, we have seen success in reducing duplication of information sent to boards as well as, we believe, and improved and more rounded knowledge of our members. We are continuing to support our member's development with training throughout the year, and are maintaining our commitment to actively seek members in support of our succession plans as appropriate.

The forthcoming year will see an external review of our governance structure's effectiveness, resulting in a plan to improve as necessary, as was set out in our agreed plans for board effectiveness reviews and appraisals.

The Group Board

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

Our members come from a diverse range of backgrounds and have a wide range of skills including Tenants, those with financial backgrounds and Housing Management professionals. In addition, during 2014/15 we have strengthened our Board (in accordance with our Succession Planning Policy) by bringing 2 co-optees onto the Board from January 2015. These individuals have acumen in both business and PR and Marketing which the Group had identified as being core projects in the coming years and as such the Board chose to appoint experienced individuals in those areas to strengthen the Board's understanding.

Together, the Board sets the strategic direction of the Group, and reviews its financial and operating performance on an on-going basis. 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 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.

There are regular site visits, presentations, and meetings with senior management and advisors take place to ensure Members fully understand the breadth of the Group's work.

Committees of the Board

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

The members of our 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.

Board and Committee Member Payment

Eight of the nine non-executive board members positions are remunerated and one position is unpaid. In addition, we also have a paid position on our Audit Committee, which was approved by the RRA in order to attract an independent member with requisite skills. The payment received by members in the financial year 2014/15 was as follows:

Position	Fee (£)
Group Chair	9000
Social Housing Chair	5400
Board Members	3600
Independent Committee Members	3600

Internal Control

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

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

Roles and Responsibilities

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

Key Elements of Internal Control

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

Internal Audit & Non-Negotiable Controls

The Group had a contract with internal auditors Deloitte to provide internal audit services during 2014-15 and they had direct access to the Audit Committee. They worked in line with the Institute of Internal Auditing standards and the associated code of practice. They followed an approved plan, based on assessment of risk across the Group. During this accounting year, the following activities were examined by internal audit: Rent Setting and Accounting, Staff Performance Management, Contract Management, Performance Management (KPI's), Cash & Treasury Management, Insurances, Property Health & Safety, Internal Stores Material Management, Information Handling, Balance Sheet Reconciliations, Follow-up of previous audit actions. The annual audit opinion confirmed that the Group "has a basically sound system of internal controls which should provide substantial assurance regarding the effective achievement of the Group's objectives." A programme of non-negotiable control testing was also carried out by a dedicated Business Assurance Team, with results reported to Audit Committee on a quarterly basis.

Business Continuity

A detailed Business Continuity Plan (BCP) is in place and is both reviewed and tested. During the year, Committee received a report on the progress of changes being made to the way we approach Business Continuity.

Audit Committee

The Audit Committee plays a key role in ensuring that strong internal controls have been established and are regularly reviewed. The Committee also ensures, through monitoring the work of internal and external audit services, they provide adequate assurance on their review of internal controls. Audit Committee produced a report on their effectiveness during 2014-15 in preparation of being considered by the Board.

Policy on Fraud

The Group has fraud policy and procedures in place which were reviewed during the year. The procedures for reporting and investigating any alleged fraud are defined in the policy. There were no known instances of attempted or actual fraud resulting in material financial loss to the Group during 2014-15.

Anti-money Laundering Policy

The Group has an approved anti-money laundering policy, highlighting responsibilities regarding the prevention and detection of money laundering and procedures to be followed where money laundering is detected or suspected. The Governance Manager has been designated as the Money Laundering Reporting Officer. Nine large cash transaction entries were made into the register during the year, but no reports were considered as being necessary for submission to the authorities.

Risk Management

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

Policies on Internal Control

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

Reports to the Board

Regular reports to the Board provide information on financial and operational progress against objectives. Performance is measured against agreed KPI's and externally benchmarked. Budgets are set before the beginning of each financial year. Reports on income and expenditure against these budgets are presented to the Board on a quarterly basis. Variance analysis and any corrective action is proposed and discussed at the Board meetings. All reports to the Board contain consideration of risk, particularly around the financial impact of any proposed actions. The Business Plan and key assumptions are reviewed regularly. Board is provided with minutes of all committee meetings.

Recruitment and development of staff

The quality and integrity of staff are essential for maintaining sound internal control. The Group has policies in place to ensure that all staff recruited have the necessary competences and qualifications for their role. During 2014/15 a programme of development, training and appraisal was in place, along with a number of HR related policies that continued to enforce our approach to internal control, including a Code of Conduct for Employees, Disciplinary Policy, Grievance Policy and Whistleblowing Policy.

Probity Policy

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

Code of Governance

In accordance with the Regulatory Standard on 'Governance and Financial Viability' the Group continued to adopt the National Housing Federation's Code 'Excellence in Governance' and complies with the main principles. It also agreed during the year to adopt and comply with the revised 2015 Code 'Promoting board excellence for housing associations'.

Compliance with the Regulatory Framework

There was no regulatory intervention during the year and we continued to map our ongoing compliance against the standards. Members also received an update on regulatory changes.

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 2015.

Legal Proceedings

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

Equality and Diversity

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

Staff and board members receive mandatory training on equality and diversity issues. We have committed to the Chartered Institute of Housing Equality & Diversity Charter and achieved the Equality Standard Gold accreditation with Equality North East.

Health and Safety

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

Investment for the Future

Bernicia is committed to investing in our properties and the communities which we serve. During the year we invested £19.2 million on planned improvements and major repairs to our properties.

The Bernicia Group Board recognises in order to remain a socially responsible, competitive and sustainable Housing Provider of choice we need to continue to invest in all areas of the business for the long term. Our investment decisions to date have yielded excellent results. With downward pressure on short-term future rental income it is, as always, imperative that sound investment for the future is maintained in our homes and communities, services, infrastructure and commercial portfolio.

In the financial year 2014-15 we have invested £19.2 million in our existing homes to ensure they remain sustainable.

We remain committed to investing in new homes and services for a wide range of customers. Our affordable homes programme will see us invest in 500 new homes over the next 2 years.

We have invested in the support of our customers who wish to achieve their learning ambitions and realise their future potential through the delivery of our Award Winning Learning Hive Programme.

In the 2014-15 financial year, we upgraded part our fleet of vehicles. The vehicles are designed and equipped to assist in the economical delivery of an efficient responsive repairs service to our customers.

Effective Technology will contribute to our success. In the coming year, we will be upgrading our existing systems and IT infrastructure across all areas of the business. We will commence implementation of a housing system for the future, a specialist system for our commercial portfolio and implement a smarter way for our staff to access core applications.

Our Investors in People Gold Award indicates the excellent investment we continue to offer our workforce for the present and the future. We recognise our employees have a vital role in the successful delivery of our future strategy and objectives; therefore we want to ensure we have invested in the people who will help us achieve this.

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.

Environmental Matters

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

Employee Involvement and Consultation

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.

The Group invests a significant sum in the training and development of staff and during 2014/2015 invested £144,000 in providing 389 training courses. There were a total of 2,958 staff attendances at training events, which included e-learning modules used as a cost effective and efficient training solution. We currently have nine members of staff studying professional qualifications and two that successfully completed foundation degrees during the year.

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.

Auditors

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

Donations

The Group made no charitable donations in the year (2014: 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 8 to 23.

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

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

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

Post Balance Sheet Events

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

Statement of Governing Board Members' Responsibilities

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

Co-operative and Community Benefit Society Law requires the Governing Board to prepare financial statements for each financial year. Under those regulations the Governing Board have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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

In preparing these financial statements, the Governing 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 Governing Board is responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the association and enable them to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2012. The Board has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the association and to prevent and detect fraud and other irregularities. The Board is responsible for the maintenance and integrity of the corporate and financial information included on the Association's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of Compliance

In presenting the operating and financial review on pages 8 to 40 the Board has endeavoured to follow the principles regarding purpose, audience, timeframe, reliability, comparability and financial and non-financial measures as set out in the Statement of Recommended Practice for accounting by Registered Social Landlords 2010 Updated.

Disclosure of Information to Auditor

The 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.

The report of the Governing Board of Management was approved on 22nd September 2015 and signed on its behalf by:

Mr I A Armstrong M.B.E. Chairman

22nd September 2015

Independent auditor's report to Bernicia Group Limited

We have audited the financial statements of Bernicia Group Limited for the year ended 31 March 2015 set out on pages 43 to 81. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the 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 40, the Association'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 the Association as at 31 March 2015 and of the income and expenditure of the Group and the Association for the year then ended;
- comply with the requirements of the Co-operative and Community Benefit Societies Act 2014; and
- have been properly prepared in accordance with the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2012.

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

22nd September 2015

Bernicia Group Limited

Financial Statements
Year ended 31 March 2015

Group income and expenditure account
for the year ended 31 March 2015

	Notes	2015 £000	2014 £000
Turnover	2a	42,477	39,669
Less: Cost of sales		(180)	-
Operating expenses	2a	(32,832)	(30,835)
Operating surplus	***3***	***9,465***	***8,834***
Surplus on disposal of housing accommodation	2c	738	351
Impairment		(69)	-
		10,134	9,185
Interest receivable and similar income	7	76	80
Interest payable and similar charges	8	(3,601)	(3,984)
Other finance income	9	550	390
Other income	10	4,643	3,354
Surplus on ordinary activities before taxation		***11,802***	***9,025***
Tax on surplus on ordinary activities	11	-	(1)
Surplus for the year	***21***	***11,802***	***9,024***
Transfers to designated reserves	21	(588)	(257)
Transfer to income and expenditure account		11,214	8,767

All activities are continuing.

Group statement of total recognised surpluses

for the year ended 31 March 2015

	Notes	2015 £000	2014 £000
Surplus for the year	21	11,802	9,024
Actuarial (loss) / gain for the year	19b	(1,150)	2,350
Unrealised (loss) / gain on investment revaluation	13	15	(22)
Total recognised surplus for the year		***10,667***	***11,352***

Group balance sheet
at 31 March 2015

		Notes	2015 £000	2014 £000
Fixed assets				
Housing properties – gross cost		12a	239,120	229,439
Less:	Social housing grant	12a	(72,575)	(72,818)
	Other public grants	12a	(38,322)	(36,574)
	Depreciation	12a	(20,343)	(17,874)
			107,880	102,173
Other tangible assets		12b	9,676	9,470
Intangible fixed assets		12c	1,073	1,136
Long term investment		13	753	713
			119,382	113,492
Current assets				
Stock		14	457	303
Debtors	- due within one year	15a	4,675	3,921
	- due after more than one year	16	38,452	44,176
Cash at bank and in hand			18,638	12,955
			62,222	61,355
Creditors: amounts falling due within one year		17	12,535	11,652
Net current assets / (liabilities) - due within one year			11,235	5,527
Net current assets - debtors due after more than one year			38,452	44,176
Pension asset		19b	210	770
Total assets less current liabilities			***169,279***	***163,965***

	Notes	2015 £000	2014 £000
Creditors: amounts falling due after more than one year			
Housing loans	18a	66,207	65,829
Obligations under finance leases and hire purchase agreements	18b	72	79
		66,279	65,908
Pension liability	19b	-	-
Provision for liabilities and charges			
Improvement provision	20	38,452	44,176
		38,452	44,176
Capital and reserves			
Pension reserve	21	(5,420)	(4,270)
Designated reserves	21	8,182	7,594
Revenue reserve	21	61,725	50,511
Investment revaluation reserve	21	61	46
		64,548	***53,881***
		169,279	***163,965***

These financial statements were approved by the Governing Board on 22nd September 2015 and were signed on its behalf by:

I A Armstrong MBE (Chairman)

K Cochrane (Board Member)

W T Heads (Company Secretary)

22nd September 2015

Association balance sheet
at 31 March 2015

	Notes	2015 £000	2014 £000
Current assets			
Debtors	15b	9	9
Total assets		***9***	***9***
Capital and reserves			
Share capital	22	9	9
		9	***9***

These financial statements were approved by the Governing Board on 22nd September 2015 and were signed on its behalf by:

I A Armstrong MBE (Chairman)

K Cochrane (Board Member)

W T Heads (Company Secretary)

22nd September 2015

Group statement of cash flows

for the year ended 31 March 2015

	Notes	2015 £000	2014 £000
Net cash inflow from operating activities	***24***	***11,205***	***13,041***
Returns on investments and servicing of finance			
Interest received		52	60
Interest paid		(4,073)	(4,306)
Net cash outflow from investments and loan servicing		***(4,021)***	***(4,246)***
Taxation			
UK Corporation Tax		(1)	(8)
Net cash outflow from taxation		***(1)***	***(8)***
Capital expenditure and financial investment			
Expenditure on housing properties		(10,957)	(16,239)
Capital grants received		1,201	998
VAT shelter income		742	1,644
Gap funding grant		6,054	5,895
Purchase of other fixed assets		(761)	(410)
Purchase of investment		(1)	(2)
Disposal of housing properties		1,307	858
Purchase of subsidiary undertaking		-	-
Net cash outflow from capital expenditure		***(2,415)***	***(7,256)***
Net cash inflow before financing		***4,768***	***1,531***
Financing			
Loan advances		1,000	-
Sinking fund and loan repayments		(85)	(213)
Net cash inflow / (outflow) from financing		***915***	***(213)***
Increase in cash	***26***	***5,683***	***1,318***

Notes to the financial statements

for the year ended 31 March 2015

1. Accounting policies

Basis of accounting

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

The Group is registered under the Co-operative and Community Benefit Societies Act 2014 and commenced trading on 25 February 2008, therefore, 25 February 2008 is referred to throughout.

Basis of consolidation

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

The Group income and expenditure account and balance sheet consolidate the results and financial position of the association and its subsidiary undertakings outlined on pages 44 to 47. Intra-group turnover, surpluses and balances are eliminated fully on consolidation.

Turnover

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

Housing properties and depreciation

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

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

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

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

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

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

Notes to the financial statements
for the year ended 31 March 2015

Social housing and similar grants
When housing developments have been financed wholly or partly by social housing or similar grants the cost of these developments has been reduced by the amount of grant received. Total grants received in excess of total costs on schemes in the course of development are transferred to creditors. Grants in respect of revenue expenditure are credited to the Income and Expenditure Account in the same period as the expenditure to which they relate.

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

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

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

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

Other tangible fixed assets and depreciation
Other fixed assets are stated at cost.

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

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

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

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

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

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

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

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

Notes to the financial statements

for the year ended 31 March 2015

Right to buy sales

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

Set up costs

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

VAT

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

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

Pension costs

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

Local Government Pension Scheme

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

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

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

Social Housing Pension Scheme

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

Improvement provision

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

Notes to the financial statements

for the year ended 31 March 2015

Designated reserves

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

Goodwill

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

Taxation

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

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

Long term Investments

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

Notes to the financial statements

for the year ended 31 March 2015

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

	Notes	2015				2014			
		Turnover	Cost of Sales	Operating expenses	Operating surplus/ (deficit)	Turnover	Cost of Sales	Operating Expenses	Operating surplus/ (deficit)
Income and expenditure from social housing lettings:									
General needs housing 5,317 units (2014: 5,313)	2b	22,412	-	18,300	4,112	20,969	-	17,643	3,326
Housing for the elderly 2,716 units (2014: 2,708)	2b	14,859	-	11,266	3,593	14,019	-	10,134	3,885
Supported Housing 124 bed spaces and 60 self-contained units (2014: 124 bed spaces and 58 self-contained units)	2b	367	-	238	129	334	-	327	7
Shared ownership accommodation 121 units (2014: 124)	2b	348	-	60	288	343	-	28	315
		37,986	***-***	***29,864***	***8,122***	***35,665***	***-***	***28,132***	***7,533***
Other activities:									
Leasehold property management 12,329 units (2014: 11,653)		3,412	-	2,729	683	3,204	-	2,597	607
Serviced right to buy units 280 units (2014: 280)		31	-	-	31	35	-	-	35
Commercial and other units 54 shop units and 1,144 garages (2014: 54 and 1,254)		319	-	89	230	325	-	18	307
Private rented 10 units (2014: 5)		62	-	58	4	5	-	25	(20)
Other operating income	6	487	-	29	458	435	-	-	435
Shared ownership first tranche disposals		180	(180)	-	-	-	-	-	-
Amortisation of goodwill		-	-	63	(63)	-	-	63	(63)
		42,477	***(180)***	***32,832***	***9,465***	***39,669***	***-***	***30,835***	***8,834***

Notes to the financial statements

for the year ended 31 March 2015

2b. Income and expenditure from lettings (Group)

	General Housing £000	Housing for the elderly £000	Supported Housing £000	Shared Ownership £000	Total 2015 £000	Total 2014 £000
Income from lettings						
Rent receivable net of identifiable service charges	20,779	11,619	243	341	32,982	30,774
Service charges receivable	384	2,412	124	7	2,927	2,764
Supporting people income	-	422	-	-	422	424
Water rates receivable	1,629	792	-	-	2,421	2,406
Gross rents receivable	22,792	15,245	367	348	38,752	36,368
Less: rent losses from voids	(380)	(386)	-	-	(766)	(703)
Net rents receivable	22,412	14,859	367	348	37,986	35,665
Other grant income	-	-	-	-	-	-
Total income from lettings	***22,412***	***14,859***	***367***	***348***	***37,986***	***35,665***
Expenditure on letting activities						
Management	3,581	280	57	21	3,939	4,125
Services	1,114	3,320	96	9	4,539	3,938
Routine maintenance	3,823	2,093	43	-	5,959	5,581
Planned maintenance	830	419	-	-	1,249	1,116
Programmed repairs expenditure	5,548	3,216	11	-	8,775	7,560
Rent losses from bad debts	115	43	-	-	158	740
Depreciation	1,598	1,039	26	24	2,687	2,505
Water rates payable	1,621	768	-	-	2,389	2,329
Other costs	70	88	5	6	169	238
Total expenditure on lettings	***18,300***	***11,266***	***238***	***60***	***29,864***	***28,132***
Operating surplus on letting activities	***4,112***	***3,593***	***129***	***288***	***8,122***	***7,533***

Notes to the financial statements
for the year ended 31 March 2015

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

		2015 £000	2014 £000
Proceeds from sales		1,307	858
Less:	Cost of sales	(404)	(318)
	Share of net proceeds payable under transfer agreement	(165)	(189)
		738	***351***

2d. Surplus on disposal of other fixed assets

		2015 £000	2014 £000
Proceeds from sales		-	-
Less:	Cost of sales	-	-
		-	**-**

2e. Service charges (Group)

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

	2015 £000	2014 £000
Eligible for housing benefit	2,802	2,644
Not eligible for housing benefit	125	120
	2,927	***2,764***

Notes to the financial statements

for the year ended 31 March 2015

2f. Accommodation managed by others (Group)

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

	2015 No.	2014 No.
Sunderland City Council	94	90
St. Anne's	37	34
Lifeways	13	13
Stonham	9	9
Northumberland Care Trust	9	9
Community Integrated Care	9	9
Real Life Options	8	8
Norecare NTW	4	4
Mencap	4	4
New Prospects	2	2
	189	***182***

3. Operating surplus (Group)

This is stated after charging / (crediting):

	2015 £000	2014 £000
Auditors' remuneration- audit services	35	34
Depreciation of housing properties	2,687	2,505
Depreciation of other fixed assets	577	454
Loss on disposal of housing components	285	126
Loss / (Profit) on disposal of fixed assets	29	(2)
Amortisation of goodwill	63	63

Notes to the financial statements

for the year ended 31 March 2015

4 . Directors' emoluments (Group)

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

	2015 £000	2014 £000
Emoluments (including pension contributions)	754	734
Emoluments (excluding pension contributions)	***663***	***648***

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

Emoluments (including pension contributions)	135	129
Emoluments (excluding pension contributions)	***125***	***118***

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

5. Staff costs (Group)

	2015 £000	2014 £000
Wages and salaries	8,994	8,527
Social security costs	677	648
Other pension costs	1,172	1,295
	10,843	***10,470***

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

	2015 No.	2014 No.
Operational team	299	284
Finance and administration	67	59
	366	***343***

Notes to the financial statements

for the year ended 31 March 2015

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

	2015 No.	2014 No.
£60,000 - £70,000	2	2
£70,001 - £80,000	6	5
£80,001 - £90,000	1	2
£90,001 - £100,000	1	-
£100,001 - £110,000	-	1
£110,001 - £120,000	2	1
£120,001 - £130,000	1	1
	13	***12***

6. Other operating income (Group)

	2015 £000	2014 £000
Rate collection allowance	230	223
Office rental	95	107
Sundry income	116	105
Sale of management services	46	-
	487	***435***

7. Interest receivable (Group)

	2015 £000	2014 £000
Interest receivable from bank deposits	52	56
Interest receivable from financial investment	24	24
	76	***80***

Notes to the financial statements

for the year ended 31 March 2015

8. Interest payable and similar charges (Group)

	2015 £000	2014 £000
On bank loans and other loans payable wholly or partly after more than five years	3,597	3,975
On obligations under finance leases and hire purchase agreements	4	9
	3,601	***3,984***

No interest was capitalised during the period (2014: £nil).

9. Other finance income (Group)

	2015 £000	2014 £000
Expected return on pension scheme assets	1,570	1,570
Interest on pension scheme liabilities	(1,020)	(1,180)
	550	***390***

10. Other income (Group)

	2015 £000	2014 £000
Revenue grant	4,098	2,654
VAT recoverable under VAT shelter scheme	545	700
	4,643	***3,354***

Notes to the financial statements

for the year ended 31 March 2015

11. Taxation (Group)

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

Kingston Property Services is taxable under UK corporation tax and has incurred a taxation charge of £nil in the year (2014: £1,138).

Livingspaces (UK) Limited is taxable under UK corporation tax and has incurred a taxation charge of £466 in the year (2014: £nil).

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

	2015 £000	2014 £000
UK Corporation tax		
Current tax on income for the period	-	1
Deferred tax	-	-
Tax on profit on ordinary activities	**-**	***1***

Factors affecting the tax charge for the current period

The current tax charge for the period is lower (2014: lower) than the small profits rate of corporation tax in the UK (2015 and 2014: 20 %). The differences are explained below.

Current tax reconciliation

	2015 £000	2014 £000
Profit on ordinary activities before tax	-	1
Current tax @ 20% (2014: 20%)	-	1
Effects of:		
Expenses not deductible for tax purposes	-	-
Over provision in prior year	-	-
Total current tax charge (see above)	**-**	***1***

Factors that may affect future tax charges

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

Notes to the financial statements
for the year ended 31 March 2015

12. Tangible fixed assets (Group)

(a) Housing land and buildings

	Housing Properties held for letting		Supported Housing		Shared Ownership Housing		
	Completed £000	Under Construction £000	Completed £000	Under Construction £000	Completed £000	under Construction £000	Total £000
Cost:							
At 1 April 2014	138,942	2,862	82,851	994	3,790	-	229,439
Additions – acquisition	-	1,213	-	6,247	-	119	7,579
Additions to existing stock	2,161	-	1,290	-	18	-	3,469
Disposals	(620)	-	(637)	-	(110)	-	(1,367)
Schemes completed	3,995	(3,434)	1,836	(2,397)	119	(119)	-
Reclassification	28	30	16	(30)	(44)	-	-
At 31 March 2015	***144,506***	***671***	***85,356***	***4,814***	***3,773***	***-***	***239,120***
Social Housing Grant and other development grant:							
At 1 April 2014	62,543	266	44,378	46	2,159	-	109,392
Received – acquisition	-	971	-	278	-	-	1,249
Received for existing stock	1,615	-	341	-	-	-	1,956
Disposals	(275)	-	(338)	-	(7)	-	(620)
Disposal proceeds / Recycled							
Capital Grant Fund	-	66	-	-	(90)	-	(24)
Schemes Completed	277	(247)	274	(304)	-	-	-
Reclassification	19	-	11	-	(30)	-	-
Grant in advance	-	(1,056)	-	-	-	-	(1,056)
At 31 March 2015	***64,179***	***-***	***44,666***	***20***	***2,032***	***-***	***110,897***
Depreciation:							
At 1 2014	11,304	-	6,166	-	404	-	17,874
Charge for year	1,665	-	1,000	-	22	-	2,687
Disposals	(83)	-	(183)	-	(21)	-	(287)
Impairment	-	-	69	-	-	-	-
At 31 March 2015	***12,886***	***-***	***7,052***	***-***	***405***	***-***	***20,343***
Net book value: At 31 March 2015	***67,441***	***671***	***33,638***	***4,794***	***1,336***	***-***	***107,880***
Net book value: At 31 March 2014	***65,095***	***2,596***	***32,307***	***948***	***1,227***	***-***	***102,173***

Notes to the financial statements
for the year ended 31 March 2015

12.Tangible fixed assets (Group) (continued)

(a) Housing land and buildings

Development costs capitalised in the period amounted to £146,225 (2014: £120,657).

Assets with net book value of £4,460,037 (2014: £4,590,617) are securitised.

Units under construction at the year-end numbered 86 (2014: 55 units).

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

	2015 £000	2014 £000
Freehold	103,262	97,937
Long leasehold	3,061	3,078
Short leasehold	1,557	1,158
	107,880	***102,173***

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

	2015 £000	2014 £000
Capital grants	30,879	28,923
Revenue grants	14,015	9,917
	44,894	***38,840***

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

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

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

The gap funding agreed for the period ending 31 March 2015 was £6,053,864.

Notes to the financial statements
for the year ended 31 March 2015

12.Tangible fixed assets (Group) (continued)

(b) Other

	Freehold offices £000	Office equipment £000	Scheme fixtures & fittings £000	Motor vehicles £000	Freehold Leases £000	Total £000
Cost:						
At 1 April 2014	9,604	1,523	505	1,598	81	13,311
Additions during the year	-	390		422	-	812
Disposals	-	-	-	- (79)	-	(79)
At 31 March 2015	***9,604***	***1,913***	***505***	***1,941***	***81***	***14,044***
Depreciation:						
At 1 April 2014	1,162	901	321	1,449	8	3,841
Charge for the year	180	239	24	131	3	577
Disposals	-	-	-	(50)	-	(50)
At 31 March 2015	1,342	1,140	345	1,530	11	4,368
Net book value:						
At 31 March 2015	***8,262***	***773***	***160***	***411***	***70***	***9,676***
At 1 April 2014	***8,442***	***622***	***184***	***149***	***73***	***9,470***

12c. Intangible fixed assets

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

Cost	£000
At 1 April 2014 and 31 March 2015	1,262
Amortisation	
At 1 April 2014	126
Charge for the year	63
At 31 March 2015	189
Net book value	
At 31 March 2015	1,073
At 1 April 2014	1,136

Notes to the financial statements

for the year ended 31 March 2015

13. Long term investments (Group)

	2015 £000	2014 £000
Cost or Valuation		
At 1 April	711	733
Additions	27	2
Disposal	-	-
Revaluation	15	(22)
At 31 March	***753***	***713***

Long term investments are represented as follows:

		2015 £000	2014 £000
Cost or Valuation			
Long term investment in	- UK Rents (No 1) plc	146	146
	- Haven Funding plc	604	565
	- Agents Mutual Limited	3	2
		753	***713***

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

Long term investments are analysed as follows:

	2015 £000	2014 £000
Cost or valuation		
Listed investments	438	422
Unlisted investments	315	291
	753	***713***
Valuation: Listed investments – market value	***438***	***422***

Notes to the financial statements
for the year ended 31 March 2015

14. Stock (Group)

	2015 £000	2014 £000
Stores materials held for property maintenance	159	154
Shared ownership properties held for sale	298	149
	457	***303***

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

	2015 £000	2014 £000
Arrears of rent and service charges	3,580	3,669
Less: provision for bad and doubtful debts	(2,428)	(2,474)
	1,152	***1,195***
Managed property debtors	1,042	1,022
VAT recoverable	347	461
Other debtors	1,294	749
Prepayments and deferred income	840	494
	4,675	***3,921***

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

	2015 £	2014 £
Unpaid share capital	9	9

Notes to the financial statements

for the year ended 31 March 2015

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

The debtor for improvement costs is as follows:

	2015 £000	2014 £000
At 1 April	44,176	52,012
Capitalised expenditure during the period	(2,085)	(4,311)
Revenue expenditure during the period	(3,639)	(3,525)
At 31 March	***38,452***	***44,176***

At 31 March 2015 an equivalent amount of £38,451,711 is shown in provisions for liabilities and charges. The provision represents the best estimate of the cost of works that Wansbeck Homes Limited has contracted to undertake under the Development Agreement for the repair and upgrading of the housing properties that were subsequently acquired by Wansbeck Homes Limited from Wansbeck District Council on 25 February 2008.

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

	2015 £000	2014 £000
Bank overdraft	-	-
Lending authority for instalments of interest due and payable	108	113
Housing loans repayable within one year	655	590
Contractors for certified work and retentions unpaid	103	108
Amounts due under finance leases and hire purchase agreements	47	57
Recycled Capital Grant Fund (see over)	195	171
Disposal Proceeds Fund (see over)	-	-
Share of net sales proceeds payable under transfer agreement	369	189
Operating creditors	1,504	2,803
Accruals and deferred income	4,354	4,114
Other creditors	3,809	3,221
Other taxation and social security	239	104
SHG in advance	1,056	63
Balances held on behalf of clients	96	119
	12,535	***11,652***

Notes to the financial statements

for the year ended 31 March 2015

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

(a) Recycled capital grant fund

	2015 £000	2014 £000
At 1 April	171	145
Grants recycled	90	46
Major repairs and works to existing stock	(66)	(20)
At 31 March	***195***	***171***

(b) Disposal proceeds fund

	2015 £000	2014 £000
At 1 April	-	-
Purchase of housing properties	-	-
	-	**-**

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

(a) Housing loans

	2015 £000	2014 £000
Housing loans repayable after more than one year: Advanced to Group by:		
Local authorities	33	31
The Housing Finance Corporation	11,400	11,585
Building Societies and Banks	55,563	54,948
Less: Issue costs on the above	(134)	(145)
	66,862	***66,419***
Less: included in creditors:		
amounts falling due within one year	(655)	(590)
	66,207	***65,829***

Notes to the financial statements

for the year ended 31 March 2015

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

Loans from Building Societies and Banks include an amount of £5,536,551 (2014: £5,827,663) 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 £42,250,000. (2014: £41,250,000).

Within amounts due to The Housing Finance Corporation is a balance of £2,590,708 (2014: £2,529,383) which is represented by capital outstanding of £2,888,741 (2014: £2,742,488) and an accumulated sinking fund balance of £298,033 (2014: £213,105). Net interest payable on the loan was £263,641 (2014: £268,314) representing interest payable on the capital balance of £274,829 (2014: £268,586) and interest receivable on the sinking fund of £10,788 (2014: £272).

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

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

The loans are repayable as follows:

	2015 £000	2014 £000
Within one year	655	590
Between one and two years	5,665	655
Between two and five years	2,589	7,042
After five years	57,953	58,132
	66,862	***66,419***

Notes to the financial statements
for the year ended 31 March 2015

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

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

	2015 £000	2014 £000
Amounts due under finance leases and hire purchase agreements	***72***	***79***

The finance leases are repayable as follows:

	2015 £000	2014 £000
Within one year	47	57
Between one and two years	33	25
Between two and five years	39	54
	119	***136***

(c) Amounts due under operating leases

At 31 March 2015 the group had annual commitments for Land and Buildings under non-cancellable operating leases as set out below.

	2015 £000	2014 £000
Operating leases which expire:		
Within one year	13	13
Within two and five years	-	-
After more than five years	30	30
	43	***43***

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for the year ended 31 March 2015

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

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

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

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

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

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

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

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

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

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

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

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

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

During the accounting period the Association 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.

Notes to the financial statements
for the year ended 31 March 2015

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

As at the balance sheet date there were 87 active members of the Scheme employed by the Group. The annual pensionable payroll in respect of these members was £2,579,744. The Group continues to offer membership of the Scheme to its employees.

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

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

The Scheme Actuary is currently finalising the 2014 valuation but key provisional results have been confirmed. 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 financial assumptions underlying the valuation as at 30 September 2011 were as follows:

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

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

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for the year ended 31 March 2015

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

Valuation Results

The valuation was carried out using the following demographic assumptions:

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the financial statements

for the year ended 31 March 2015

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

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

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

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 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 Group was £17,606,686.

The Group's contributions are affected by a surplus or deficit in the scheme, but the Group is unable to identify its share of the underlying assets and liabilities on a consistent and a reasonable basis. The total pension cost to the Group for the year was £459,315 (2014: £435,492). The Group's unpaid contributions at 31 March 2015 were £nil (2014: £nil).

Notes to the financial statements
for the year ended 31 March 2015

19b. Pensions – Local Government Pension Scheme

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

	2015 £000	2014 £000
Present value of funded defined benefit obligations	(27,610)	(23,330)
Fair value of plan assets	27,820	24,100
Net asset	***210***	***770***
Movements in present value of defined benefit obligation		
Present value of liabilities	(23,330)	(25,870)
Current service expense	(710)	(800)
Past service income	-	-
Interest expense	(1,020)	(1,180)
Actuarial (loss) / gain	(2,550)	4,520
Contributions by members	(210)	(200)
Benefits paid	210	200
At 31 March	***(27,610)***	***(23,330)***
Movements in fair value of plan assets		
Present value of assets	24,100	23,850
Expected return on plan assets	1,570	1,570
Actuarial gain / (loss)	1,400	(2,170)
Contributions by employer	750	850
Contributions by members	210	200
Benefits paid	(210)	(200)
At 31 March	***27,820***	***24,100***

Notes to the financial statements
for the year ended 31 March 2015

19b. Pensions – Local Government Pension Scheme (continued)

Expense recognised in the income and expenditure account

	2015 £000	2014 £000
Current service expense	710	800
Past service income	-	-
Interest on defined benefit pension plan obligation	1,020	1,180
Expected return on defined benefit pension plan assets	(1,570)	(1,570)
Total	***160***	***410***

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

	2015 £000	2014 £000
Operating expense	710	800
Other finance income	(550)	(390)
	160	***410***

The total amount recognised in the statement of total recognised gains and losses in respect of actuarial gains is a loss of £1,150,000 (2014: gain of £2,350,000)

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

	31 March 2015 %	31 March 2014 %
Discount Rate	3.3	4.3
Pension increases	1.9	2.4
Final salary increases	3.4	3.9
Inflation	3.0	3.4

Notes to the financial statements

for the year ended 31 March 2015

19b. Pensions – Local Government Pension Scheme (continued)

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: 23.0 years (male), 25.5 years (female)
- Future retiree upon reaching 65: 25.2 years (male), 27.8 years (female)

History of plans

The history of the plans is as follows:

Balance Sheet

	2015 £000	2014 £000	2013 £000	2012 £000	2011 £000
Present value of scheme liabilities	(27,610)	(23,330)	(25,870)	(22,340)	(18,840)
Fair value of scheme assets	27,820	24,100	23,850	19,990	18,040
Surplus / (deficit)	***210***	***770***	***(2,020)***	***(2,350)***	***(800)***
Experience adjustments					
Experience adjustments on scheme liabilities	-	-	-	-	-
Experience adjustments on scheme assets	1,400	(2,170)	1,480	(420)	(2,370)
Surplus / (deficit)	***1,400***	***(2,170)***	***1,480***	***(420)***	***(2,370)***

The Group's regular contributions to the Fund for the accounting period ending 31 March 2015 are estimated to be £750,000. In addition, Strain on Fund contributions may be required.

Notes to the financial statements
for the year ended 31 March 2015

20. Provision for liabilities and charges (Group)

Improvement provision

The refurbishment provision is as follows:

	2015 £000	2014 £000
At 1 April	44,176	52,012
Capitalised expenditure during the period	(2,085)	(4,311)
Revenue expenditure during the period	(3,639)	(3,525)
At 31 March	***38,452***	***44,176***

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

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

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

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

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

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

Notes to the financial statements

for the year ended 31 March 2015

21. Revenue reserves (Group)

Improvement provision

	Reserve for major works to housing properties (designated) £000	Development (designated) £000	Pension reserve £000	Investment revaluation reserve £000	Income & expenditure account £000	Total £000
At 1 April	6,039	1,555	(4,270)	46	50,511	53,881
Transfer	588	-	-	-	(588)	-
Surplus for the year	-	-	-	-	11,802	11,802
Actuarial loss						
for the year	-	-	(1,150)	-	-	(1,150)
Revaluation	-	-	-	15	-	15
At 31 March	***6,627***	***1,555***	***(5,420)***	***61***	***61,725***	***64,548***

22. Share capital (Group)

	2015		2014	
	No.	£	No.	£
Shareholding members at 1 April	9	9	9	9
Resignation	(3)	(3)	-	-
Appointments	3	3	-	-
Shareholding members at 31 March	***9***	***9***	***9***	***9***

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

23. Capital Commitments (Group)

	Group and Association	
	2015 £000	2014 £000
Expenditure contracted less certified costs	5,804	13,020
Expenditure authorised by the Governing Board but not contracted for	6,006	2,761
	11,810	***15,781***

Notes to the financial statements
for the year ended 31 March 2015

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

	2015 £000	2014 £000
Operating surplus	9,465	8,834
Loss on disposal of housing property components	285	126
(Profit) / Loss on disposal of other fixed assets	29	(2)
Depreciation	3,264	2,959
Amortisation of goodwill	63	63
Pension contributions less service expense	(40)	(50)
Deferred indemnity income	-	-
Decrease / (increase) in stock	(154)	201
(Increase) / decrease in debtors	(514)	(1,330)
Increase /(decrease) in creditors	(1,193)	2,240
Net cash inflow from operating activities	***11,205***	***13,041***

25. Analysis of net debt (Group)

	At April 1 2014 £000	Cash Flow £000	Non cash changes £000	At 31 March 2015 £000
Cash at bank and in hand	12,955	5,683	-	18,638
Debt due within one year	(590)	590	(655)	(655)
Debt due after one year	(65,829)	(1,505)	1,127	(66,207)
	(53,464)	***4,768***	***472***	***(48,224)***

Notes to the financial statements

for the year ended 31 March 2015

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

	2015 £000	2014 £000
Increase in cash in year	5,683	1,318
Cash to repay loans	85	213
Loan advances	(1,000)	-
Change in debt resulting from cash flow	4,768	1,531
Cash balances acquired	-	-
Other non cash movements	472	321
Movement in net debt in the year	5,240	1,852
Net debt at 1 April	***(53,464)***	***(55,316)***
Net debt at 31 March	***(48,224)***	***(53,464)***

27. Related party disclosure

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

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

Cheviot Housing Association Limited is also related to Kingston Property Services through the directors of the company, who are also members of the Governing Board of the Association. At 31 March 2015, an amount of £818,303 (2014: £820,531) was due from Kingston Property Services Limited to Cheviot Housing Association Limited.

On 25 April 2012 Cheviot Housing Association Limited acquired the share capital of Livingspaces (UK) Limited. The directors of Livingspaces (UK) Limited are also members of the Governing Board of the Association. At 31 March 2015 a balance of £251,642 was due from Livingspaces (UK) Limited to Cheviot Housing Association Limited (2014:£135,852).

Cheviot Housing Association Limited is also related to Wansbeck Homes Limited through a Group structure under Bernicia Group Limited. At 31 March 2015, an amount of £1,421,722 is due to Wansbeck Homes Limited (2014: £1,759,765) by Cheviot Housing Association Limited.

Wansbeck Homes Limited is also related to Kingston Property Services Limited through a Group structure under Bernicia Group Limited. At 31 March 2015, an amount of £9,304 is due to Wansbeck Homes Limited (2014: £15,486) by Kingston Property Services Limited.

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

BERNICIA
HOMES

Registered office: Oakwood Way, Ashwood Business Park,
Ashington, Northumberland, NE63 0XF. T 0344 800 3 800

Information provided by the Bernicia Group: Bernicia Group Limited is a Registered Society (No. 30268R) and is the parent company of Cheviot Housing Association Limited (No. 19086R) and Wansbeck Homes Limited (No. 30079R) which are both Registered Societies operating under charitable rules