Bernicia Group

Report of the Board of Management and Financial Statements

Registered society number 7711

31 March 2021

Contents

Report of the Board of Management

BOARD OF MANAGEMENT			
Chair:		J Holmes	
Members:		A Tarn	
		A Pegg	
		X Setna	
		T Stevenson	(resigned 15 September 2020)
		D Jennings	
		C Rewcastle	
		A Gibson	
		A Dunn	
		L Shearing	(Board member from 15 September 2020)
SENIOR MANAGEMENT TEAM			
Group Chief Executive:		J Johnston	
Executive Director, Finance		J Longstaff	
Executive Director, Assets and Growth		M Farr	
Executive Director, Customer Service		D Pickard (resigned 6 April 2020)	
Executive Director, People, Homes and Communities		A Malcolm	
Company Secretary:		M Axe	

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

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

Principal solicitors:
Trowers & Hamlin LLP
3 Bunhill Row
London
EC1Y 8YZ

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

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

Registered with the Regulator of Social Housing No. 4868

Report of the Board of Management *(continued)*

About Bernicia

Bernicia Group Limited ('Bernicia') is a registered provider (RP) of social housing regulated by and registered with the Regulator of Social Housing (RSH).

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

The overriding objective of Bernicia is to help people in need of housing. We are a leading social landlord, building, renting, selling and managing homes, and providing estate and facilities management to over 60,000 customers and employing over 550 people.

Within our communities, we devise plans to develop community assets, provide employment and training opportunities, and also have a range of products and services to support financial and social inclusion. Services and activities are provided to promote health and wellbeing, tackle isolation and loneliness and support independence.

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

We continue to strengthen our business, generating surpluses through our operational activities, improving our efficiency and through maximising the profits of our commercial company Kingston Property Services. Surpluses are reinvested into our existing and new homes, services and our people to help us achieve our mission of 'Housing People, Helping People' through the achievement of our strategic objectives.

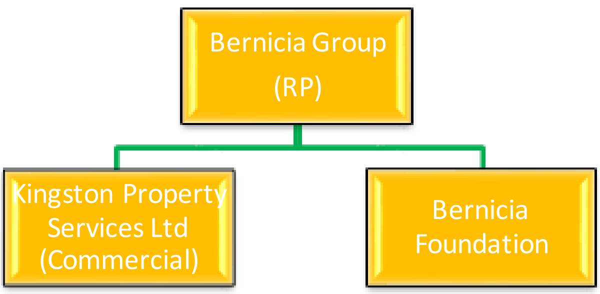
The Bernicia Foundation is the Group's wholly owned subsidiary with charitable objects and charitable status; registered with the Charity Commission under number 1190094. The Foundation enhances and consolidates Bernicia's approach to investment in its communities. The Board has agreed the priorities of the Foundation, which are as follows:

- Social wellbeing / inclusiveness
- Financial wellbeing / inclusiveness
- Supporting young talent and innovation

The Foundation is funded from the increased profits that are realised from the Group's commercial subsidiary. During the first quarter of 2020/21 an allocation of £200k was made, by the Foundation, via local authorities in our operational area, to charities and other similar organisations that were providing support to those impacted most by the coronavirus outbreak. Throughout the rest of the year, grants and awards have continued to be made in respect of the three priority areas.

Bernicia Group structure

Bernicia Group is a single Registered Provider of Social Housing and the ultimate parent company within the Group.



Report of the Board of Management *(continued)*

Bernicia's governance structure

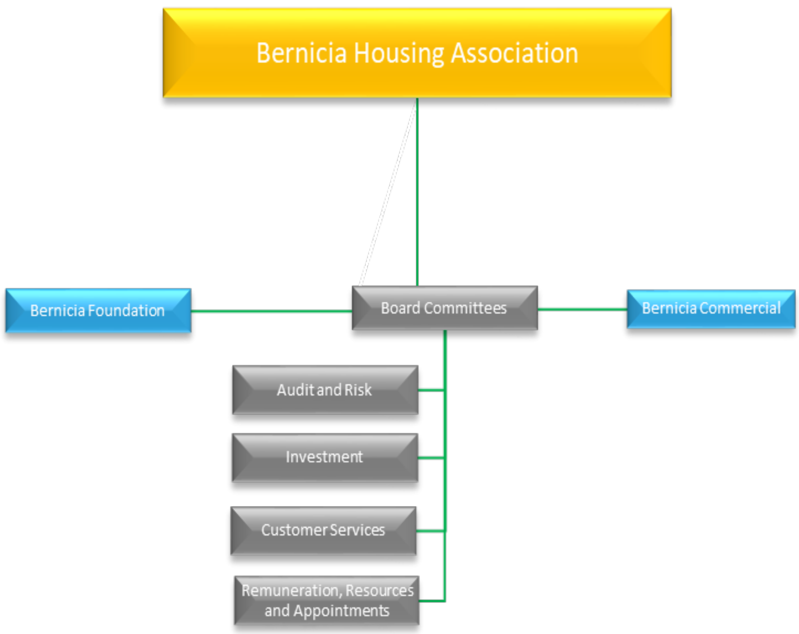
Bernicia is governed by its Group Board. The governance structure below represents Bernicia's overarching governance framework. The Group Board maintains overall control and retains the ability to appoint and remove subsidiary Board and Committee Members. It delegates an appropriate level of decision-making responsibility to its two subsidiaries and four committees. This ensures the Group's Board focuses on key areas of Strategy.

The Group Board has delegated some decision-making responsibilities to the Bernicia Commercial Board. The Commercial Board focuses on all areas of the Group's commercial activities and has responsibility for developing and monitoring the delivery of the Commercial Strategy. The Commercial Board's overarching aim is to maximise profits that can be gift aided, whilst also ensuring the provision of excellent services and business practises that are consistent with the Bernicia Group's values framework.

The Foundation is governed by a Board of Trustees who consider applications and allocate grant to groups and individuals, within parameters set by the Group Board which provides its source of funding.

The Group Board is responsible for setting the strategic direction of the Bernicia Foundation, and has responsibility for appointing the Board of Trustees. The management of the Foundation is delegated to the Trustees.

The Board aims to achieve a high standard of governance and has therefore adopted the National Housing Federation Code of Governance (2015 edition). From 1st April 2021, the new Code of Governance (2020 edition) will be adopted. An assessment of compliance with the Code was carried out during the 2020/21 financial year and subsequently reported to Board. Bernicia is rated G1 for governance by our regulator.



Report of the Board of Management *(continued)*

Committee objectives

Audit and Risk Committee

The Audit and Risk Committee has responsibility for the effectiveness of the Group's internal control framework. The Committee also monitors and reviews the financial performance and considers the annual financial statements, making recommendation for their approval by Group Board. In doing so, the Committee works effectively with both the Group's internal and external auditors.

Investment Committee

The Investment Committee approves and monitors the delivery of Bernicia's new homes programme, within parameters set by the Group Board. The Committee also considers major investment proposals for our existing homes and neighbourhoods and monitors the effectiveness of our responsive repairs, cyclical and compliance programmes, making recommendations to the Group Board where appropriate.

Customer Services Committee

The Customer Services Committee focuses on the Group's tenant facing service delivery. It provides oversight of our approach to tenant involvement and influence and the improvement of customer experience through insight. The Committee also reviews the Group's compliance with consumer standards.

Remuneration, Resources and Appointments Committee

The Remuneration, Resources and Appointments Committee is responsible for advising the Board on governance, remuneration and Board or Committee appointments and succession planning.

The Bernicia companies

Business model

Bernicia Group

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

Bernicia Group manages over 15,800 properties across the North East of England which includes units transferred as part of the large-scale voluntary transfer of housing stock from Wansbeck Council in February 2008 and Berwick-upon-Tweed Council in November 2008.

Bernicia Commercial

During the 2019/20 financial year, the Group and Commercial Board considered the outcome of a comprehensive review of the commercial structure.

The review concluded Kingston Property Services Limited has an enhanced consumer brand awareness and a larger market share than its sister companies within the commercial structure.

Following the review, the Commercial Board and Group Board agreed to transfer trading activities and consolidate the assets and liabilities of Avoca Estate Management Limited and Livingspaces (UK) Limited into Kingston Property Services Limited, creating a single vehicle for the Group's commercial operations. The consolidation took effect on the 1 March 2020. Following the statutory deferral period of three months, the Group filed an application to strike off Avoca and Livingspaces from the Companies House Register. This process was completed on 13 October 2020 for Avoca and 20 October 2020 for Livingspaces.

Report of the Board of Management *(continued)*

Bernicia Commercial (continued)

The principal activity of Kingston Property Services is leasehold block, facilities and estates management, along with additional trading activities relating to residential sales and lettings.

A single commercial board oversees the operations of the commercial company.

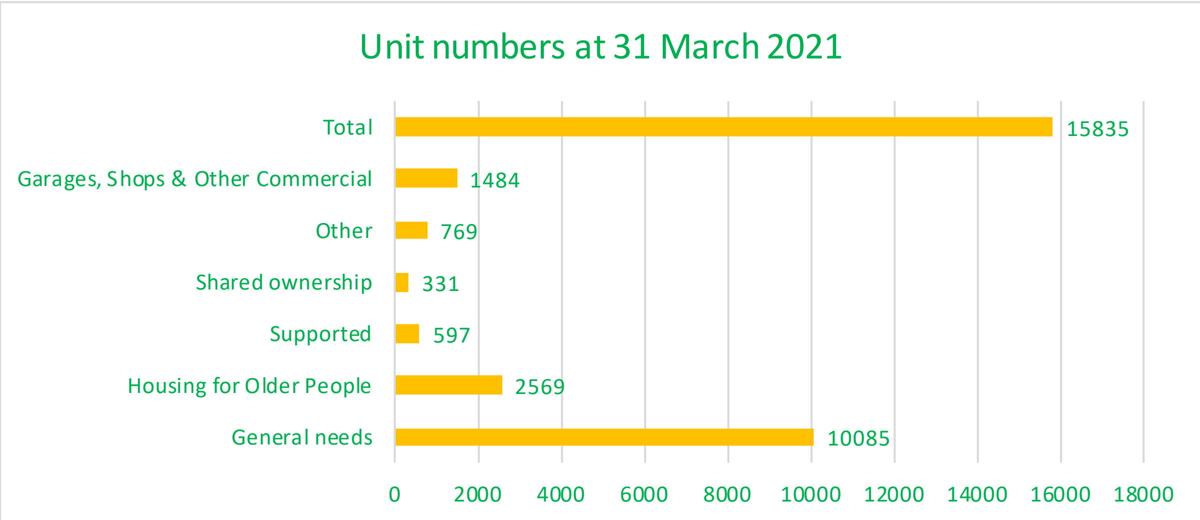
Bernicia Foundation

The Bernicia Foundation is a charity registered with the Charities Commission. It is managed by Trustees, appointed by the Group Board, for the purposes of meeting the aims and objectives of the charity. Bernicia Group funds the Foundation each year. The Foundation aims to improve the quality of life for people living in our communities. It makes non-repayable grants to worthwhile causes that make a difference to people and communities in Bernicia's operational area.

Housing stock owned and managed

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

Housing properties by category



Report of the Board of Management *(continued)*

Operating environment and risks

The external environment

The current operating environment continues to present challenges. Over a year on from the global outbreak of Coronavirus (COVID-19), COVID-19 still has a presence globally, nationally and regionally and with that, continues to impact the lives of our tenants and staff alike. Over the year, operating and ways of working have evolved, we have continued to deliver our services, following safe systems of work and in accordance with Government guidance. Bernicia continues to be well placed to respond and react and to support the North East's recovery. The current circumstances affecting Bernicia's operating environment are broadly categorised into several key issues, namely Brexit, Regulation (known and emerging) and the Coronavirus (COVID-19) pandemic.

In July 2020, the draft Building Safety bill was published, introducing new and enhanced regimes for building safety in England and construction products throughout the UK. It was confirmed in the Queens Speech in May 2021 that it would be brought forward, coming fully into force from 2023.

In September 2020, Homes England published details of the Affordable Homes Programme (AHP) for the period 2021 to 2026. The programme is intended to fund up to 180,000 homes while tying into the government's wider objectives for modern methods of construction and reduced carbon emissions. Of the available £12bn funding, London is receiving £4bn, and the balance being made available to the rest of the country. The programme targets rented housing; social rent, affordable rent and supported housing and affordable homes ownership. Changes are being made to the previous shared ownership model, with lower minimum initial stakes, lower staircasing increments, responsive maintenance costs being met by landlords for the first ten years and also the Right to Shared Ownership on most of the rented homes built through this programme.

In November 2020 the Government published the long-awaited Social Housing White Paper. This was subsequently further updated in January 2021. The paper set out a Charter for Social Housing Residents and also outlined plans for new regulation, a strengthened Housing Ombudsman to speed up complaints, and a set of tenant satisfaction measures that social landlords will have to report against. The Charter focuses on key themes including building and resident safety, landlord accountability, consumer regulations, tenants voice, good quality homes and neighbourhoods and finally a drive to greater home ownership. The Charter also announced a review of the Decent Homes Standard to understand the appropriateness of it for the sector today. These key themes have already driven much preparatory work across Bernicia and will be incorporated into our new Corporate Strategy.

On 31 December 2020 the Brexit transition period ended, and the UK left the EU single market and customs union, with a trade agreement finally being agreed. Despite agreement being reached there still remains a level of economic uncertainty.

In January 2021, the Government published the outcome of its 2019 consultation on the Future Homes Standard which will see an interim uplift in building regulations to improve the energy efficiency of new homes coming into force in 2022. This paves the way for the Government to introduce the new Future Homes Standard in 2025 which will require significant reductions of at least 75% in CO2 emissions produced by new homes.

In April 2021 the Government set out an ambitious climate change target, to reduce emissions by 78% by 2035, compared to 1990 levels. This would take the UK more than three quarters of the way to achieving its net zero target by 2050.

Bernicia remains focussed on the quality of its new and existing homes and will continue to keep the position under review. We will ensure that we are best placed to meet changing needs and requirements, particularly in relation to energy efficiency and decarbonisation.

Along with many, the social housing sector had its 2021 plans disrupted. The lockdown periods have impacted the sector's ability to deliver some services along with new housing supply and capital investment works to be undertaken in 2020/21.

Report of the Board of Management *(continued)*

The external environment (*continued*)

Prior to the outbreak of COVID-19, Bernicia had formulated its five-year budget, with Board subsequently approving detailed significant spending plans aimed at delivering and improving existing service delivery.

Following the outbreak, Bernicia reshaped its plans and formulated its response accordingly. Although the circumstances of late are expected to have an impact on the medium term operating and financial environment, Bernicia remains confident that the Group's outstanding financial strength, resilience and dedicated and flexible work force uniquely positions it to tackle and withstand the challenges ahead and to positively respond to the opportunities to aid the recovery from the pandemic by delivering more social value for the communities of the North East.

Economic growth shrank in the first quarter of (January to March) 2021 with an overall decrease in Gross Domestic Product (GDP) of 1.5%. The level of GDP is now 8.7% below where it was before the COVID-19 pandemic at quarter 4 (October to December) 2019. School closures and a large fall in retail sales earlier in the quarter, due to lockdown measures dragged down GDP growth. Compared with the same quarter of the previous year, when the initial economic impacts of COVID-19 began to show, the UK economy contracted by 6.1%.

With the worst of the crisis now thought to be behind us, and with the COVID-19 vaccination programme well underway in the UK, a rapid acceleration in growth is anticipated during 2021/22 and 2022/23, with GDP returning back above pre-COVID levels.

Inflation (CPI) is set to be higher and more volatile in the medium term. Rising cost pressures from raw materials and energy prices, as well as the increased costs of importing from the EU, together with the withdrawal of temporary VAT provisions all point to a period of higher inflation. While inflation is expected to exceed the Bank of England's 2% target in the short-term, the overshoot is likely to be temporary, and inflation is expected to return to target during 2021/22.

Following the Bank of England Monetary Policy Committee's decision to cut the bank rate to 0.1%, at the start of the pandemic period, interest rates have been held at this rate throughout the 2021 financial year. Whilst inflation is expected to overshoot the Bank of England's target, it appears unlikely that interest rates will be raised due to the higher inflation. Interest rates are expected to be held at current levels for approximately two years, in order to allow the economy to recover, and mitigate the downside risks to the outlook.

The Group's asset base has not been significantly affected by the loss of properties through Right to Buy, and while the Group is not anticipating a large increase in disposals throughout 2021/22, potential national policy changes could further impact the sector. Performance will therefore continue to be monitored.

Risks and challenges relating to building more homes and adapting to changing customer and marketplace requirements all remain. The risks and challenges resulting from the financial and political environment will continue to be factored into our future plans.

Bernicia is a key stakeholder within its operating geography and recognises the significant disruption to the regional economy and its operating environment. As a key partner to many agencies and regional organisations, Bernicia has prepared and implemented its recovery and resurgence plans and remains confident it has the financial resources and expertise to support the recovery effort in the North East of England.

COVID-19

During the first quarter of 2020, the UK, along with the majority of other global nations, was impacted by the Global outbreak of a Coronavirus (COVID-19). The outbreak has had an unprecedented effect on the Global economy, and has impacted almost every industry, causing economic disruption throughout the world.

Report of the Board of Management *(continued)*

COVID-19 (*continued*)

On the 19 March 2020, the Bank of England Monetary Policy Committee took action to cut the bank rate to an all-time low of 0.1%.

The reduction in the bank rate was aimed at slowing economic deterioration from COVID-19 but failed to have much influence on consumer sentiment. On 20 March 2020, Government announced further measures including the Job Retention Scheme, VAT and business rates payment breaks, mortgage repayment holidays, business interruption loans, increases in working tax credits and an increase in universal credit standard allowances as they battled to slow down economic deterioration.

On 23 March 2020, Government placed the UK into a temporary state of lockdown. The partial re-opening of the country took place on 1 June 2020. A further easement of restrictions was introduced with the intention to kick start the economy on 15 June 2020, the additional relaxation of the measures allowed Registered Providers to resume the full repairs, maintenance and housing services, albeit that Bernicia had continued to deliver emergency repairs and health and safety compliance inspection and servicing regime throughout lockdown.

In the weeks leading up to the first lockdown, the risk presented by COVID-19 was escalated from the Executive to the Strategic risk map, furthermore a bespoke COVID-19 risk map was developed and a ‘Command and Control’ structure was implemented by the ‘Gold Team’ led by the Chief Executive and made up of the Executive Team, the Commercial Director and the Company Secretary. The purpose of the Group was to ensure that there was clear and decisive leadership, direction and oversight being cascaded via the ‘Silver’ and ‘Bronze’ teams to ensure effective operational delivery.

In the early days of the pandemic our previous investments in technology and staff, alongside comprehensive business continuity planning allowed us to quickly and seamlessly transition from traditional to home and remote working arrangements.

On 24 March 2020, a virtual meeting of the Board took place. At the meeting Members discussed the ‘Command and Control’ structure and proposed interim governance arrangements. Members were advised that every major decision made by the Chief Executive in consultation with the Chair and Control and Command group was being logged accordingly in a weekly key decisions and actions log. Members endorsed the structures, decision-making and reporting arrangements put in place to provide the Executive with the space and time to respond quickly and effectively to the rapidly changing situation, whilst also ensuring good Board oversight remained.

The decisions log was shared weekly with members and the frequency of Board meetings changed to monthly, with meetings taking place at the end of April, May and June, before reverting to the normal meeting cycle.

Throughout the early days of the first lockdown, Bernicia continued to undertake critical services such as emergency repairs and urgent repairs with the potential to escalate to emergency status, compliance checks and servicing and welfare allocations. All services were carried out in accordance with associated safe systems of work, supported by a suite of live COVID-19 risk assessments. Services such as call centres and community alarm also continued to be fully operational and Bernicia worked directly and in partnership to provide wider community support.

During May, a framework and plan was developed for the re-establishment of services. Developed in accordance with Government guidelines and in partnership with our involved tenants and staff representative structures, this was approved by the Customer Services Committee and Board.

Consultation with the tenants check and challenge group, staff liaison and the Health and Safety Committee was undertaken on 20 May, whereby it was agreed that services that were unable to be delivered from home, in full or part, would be reintroduced where compliance with Government guidance could be demonstrated around social distancing and safe systems of work measures, and in accordance with our COVID-19 risk assessments.

On 21 May, the full process for allocating properties commenced. On 25 May external property repairs commenced, and on 15 June the full repairs service recommenced.

Report of the Board of Management *(continued)*

COVID-19 (*continued*)

At the end of May, full assessments of all of Bernicia's offices and depots were undertaken. Several actions and control measures were identified to support the return of staff to office environments. These actions and measures were subsequently carried out and Bernicia's office environments opened to limited numbers of staff members on 6 July. All assessments have remained under review throughout the remainder of the financial year.

Between March and July, Bernicia's commercial company accessed the Job Retention (furlough) Scheme with funds of £98.7k being obtained. The social housing business did not access the furlough scheme.

On 14 October the Government announced a new three tier system, which became four tiers, of COVID-19 restrictions, with the North East being placed in Tier 2. On 31 October the Prime Minister announced a second national lockdown effective from 5 November. In accordance with Government guidance Bernicia continued to deliver the full complement of services. The second lockdown ended on 3 December and the North East returned to Tier 3 restrictions. On 30 December the North East was placed under the highest Tier 4 restrictions (stay at home).

On 6 January, England entered into a third national lockdown with a work from home order being issued by the Government. Following discussion with the Chair and the Chair of the Customer Service Committee and the full Customer Services Committee, Bernicia reverted to only delivering, internal or external to the property, emergency repairs and urgent repairs that had the potential to escalate to emergency status, all compliance and health and safety works, external routine repairs and void property works. On site staffing were maintained at some schemes, where it was safe to do so. Construction and major (investment) works continued. Following consultation with the Chair of Customer Services Committee, the Customer Services Committee and tenant members, on 8 March all services re-opened in accordance with the Governments relaxation of measures. Offices remained open throughout this time, for those staff members who were unable to work from home.

We remained focussed on delivering clear and effective communications, to our staff, tenants and customers and stakeholders. We also delivered a range of wellbeing initiatives to both our tenants and customers and staff and have received significant positive feedback with regards to these.

Throughout the pandemic period, Bernicia closely monitored performance against a range of COVID-19 specific key performance indicators, focussing particularly on loss of income through voids, arrears and cash collection, compliance matters such gas and electrical servicing, enforcements and eviction action postponed and impacts on staffing, with reports being provided to Board.

We are pleased to advise, that despite such challenging circumstances, income levels have been sustained and the only compliance works that remain outstanding are limited numbers due to no access issues. A control process is in place to ensure that these works are completed as soon as practicably possible. Measures continue to be in place to monitor performance of these areas.

Bernicia continues to be well placed to meet the challenges presented at this difficult time. We have a strong financial position, together with strong and focussed leadership, an amazing and compassionate workforce and excellent governance arrangements.

Although Bernicia was confident and proud of the decisions it made to safeguard tenants, contractors, staff and the business during the outbreak of a Coronavirus (COVID-19), the Group commissioned an independent review to be undertaken by internal audit of its response and the lessons learned from the handling of the pandemic. Internal audit complimented Bernicia's commendable, comprehensive and proactive approach.

Key risks

The Board has devised a Risk and Assurance Framework, setting the Risk Appetite for the Group. Board monitors risk against the framework regularly and ensures the framework and risk appetite remains relevant and appropriate. The key risks to achieving our corporate objectives are:

Report of the Board of Management *(continued)*

Key risks *(continued)*

Impact of the operating environment - Changes and anticipated changes in government policy continue to place 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 and our own golden rules. In addition, the Group, like other organisations, continues to view cyber security as a risk.

Bernicia mitigates both risks by:

- Regularly reviewing financial and contingency planning (re-modelling and stress testing).
- Setting minimum acceptable levels of headroom in the 30-year business plan.
- Regularly reviewing and updating our treasury strategy.
- Support and validation of financial plans and assumptions by external consultants.
- Robust performance monitoring of key indicators including budgets.
- Targeting resources to support income optimisation.
- Ensuring flexibility in our plans, priorities and objectives, with regular reviews.
- Strengthening our partnerships and alliances to help inform decision making and reduce costs.
- Remaining tuned into national, regional and local strategies and plans.
- Setting realistic but challenging efficiency savings targets.
- Independent cyber security, ethical hacking and phishing.
- Increased cyber security measures.

Pensions - As pension costs increase, the Group continually revises the financial impact on the business and the decisions we make. We have a number of employees (72) who are members of the now closed Local Government Pension Scheme (LGPS) administered by Tyne and Wear Pension Fund, others (4) who have accrued benefits in the closed Social Housing Pension Scheme (SHPS) final salary scheme and others in active SHPS defined benefit structures. The Group continues to fund deficit reduction plans associated with SHPS triennial valuations. With continued uncertainty created by Brexit and the global economic crisis, caused by COVID-19, having a severe impact on the value of investments held within pension funds, pensions remain a risk to the Group. We are mitigating this risk by:

- Annually reviewing the Group Pensions Scheme.
- Continued specialist advice.
- Including provisions for future deficit payments into our 30-year business plan.
- Implementing our Pension Strategy which was approved by Board during 2019/20. The strategy creates increased options and flexibility for our employees, whilst still allowing Bernicia to manage and mitigate exposure.

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

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

Report of the Board of Management *(continued)*

Key risks *(continued)*

- Ensuring that our Governance arrangements are strong and effective, and aspiring to achieve "Excellence in Governance".
- Utilising specialist staff within dedicated areas of Business Assurance and Governance.
- Dedicated responsibilities and controls in relation to regulatory returns.
- Conducting self-assessments against the Regulatory Framework and subsequent action planning.
- Maintaining an Assets & Liabilities register.
- Board assurance framework detailing how members gain assurance of compliance and performance.
- Board and Committee oversight including training and briefings.
- Business Planning and decision making within the parameters of the Group's risk appetite.
- Commission triennial external reviews of governance arrangements to ensure that they are fit for purpose and are in keeping with best practice. The last review was carried out in 2020/21.

COVID–19 and similar Coronaviruses - The spread of the virus occurred at a significant pace, creating an unprecedented deployment of financial resources and social measures to contain the global outbreak. The virus has created many layers of risk and uncertainty to the daily lives of both tenants and staff. By maintaining our risk-based approach to the measures we take, as mentioned in previous sections and to repeat again in summary, the Group has mitigated the risks caused by COVID-19 by:

- Creating a bespoke Risk Map, monitoring key risks.
- Developing a robust suite of COVID-19 risk assessments.
- Creating an Operational Command Team structure, led by the Chief Executive.
- Improving timeliness of information and decision making through bespoke governance arrangements.
- Implemented and maintaining an action and decision log, demonstrating robust governance.
- Regular review, monitoring and adherence to government and regulatory guidance.
- Audit and Risk Committee providing oversight and additional scrutiny of decisions taken.
- Ensuring liquidity and accessibility to the Group's undrawn revolving credit facility and Private Placement mandated during the year.
- Implementing effective staff and tenant and customer communications and support arrangements.
- Developing and implementing safe systems of work for all service areas.
- Classifying all services into critical, essential and desirable and being clear on the circumstances and triggers for suspension and recommencement.
- Reducing the repairs and maintenance service at the peak(s) of the pandemic, moving to the delivery of emergency and health and safety related works.
- Making capacity within our workforce and services available to local authority and health service partners.

The Group's approach to risk management

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

Report of the Board of Management *(continued)*

The Group's approach to risk management *(continued)*

All staff share in the responsibility of identifying and managing 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 Group continues to monitor and develop its Business Assurance Model (BAM). The model considers each risk and adopts a three lines of defence approach to managing and mitigating the risk and is a key document considered by the Audit and Risk Committee.

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 map and BAM where appropriate.

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

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

In conclusion, the current financial environment remains challenging and it is likely to stay that way in the short to medium term. However, Bernicia has in place an excellent governance and financial framework underpinning its financial strength. The Groups financial position continues to remain strong, as reflected in our V1 rating. This position of strength will assist Bernicia in managing the impact of the challenges it faces. Bernicia continues to deliver its corporate strategy covering the period 2018 to 2023, implementing plans to enhance services and invest in existing homes and communities. Our financial plans remain resilient and the Group's continued drive to seek out efficiencies will increase resilience further going forward.

Report of the Board of Management *(continued)*

The year under review

Financial review

Against the backdrop of a volatile financial and uncertain political landscape, the Group remains positive in its future outlook and has once again delivered an outstanding set of financial results, outperforming a budget and reforecast, designed to challenge the Group to deliver further efficiencies. This has been achieved despite the challenging economic landscape and operating environment faced by the Group and the sector.

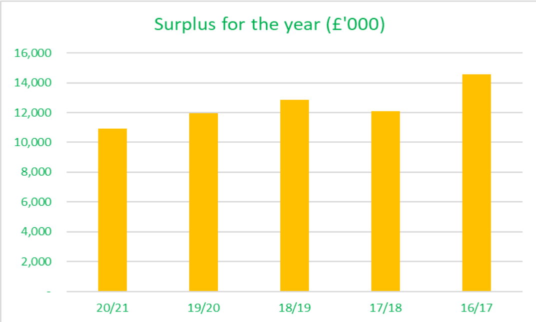
Financial results: five-year summary

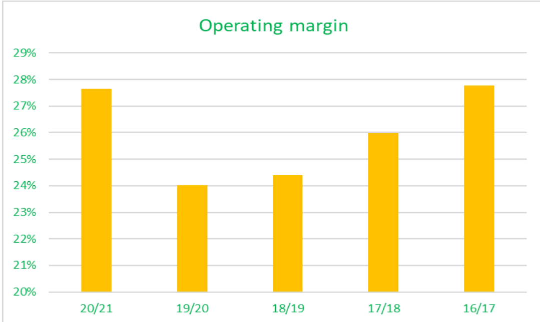
Statement of Comprehensive Income	2021 £'000	2020 £'000	2019 £'000	2018 £'000	2017 £'000
Turnover	75,994	75,424	73,899	74,991	74,934
Operating costs and cost of sales	(54,984)	(57,298)	(55,862)	(55,501)	(54,126)
Operating surplus	**21,010**	**18,126**	**18,037**	**19,490**	**20,808**
Net interest charge	(11,315)	(6,679)	(6,665)	(8,764)	(8,002)
Gain/(loss) on disposal of assets	1,286	728	1,739	1,350	546
Share in surplus in associate	-	-	-	-	374
Other finance (costs)/income	(97)	(203)	(228)	(7)	18
Movement in fair value of investment properties	42	(8)	(12)	31	92
Gift Aid	-	-	-	-	734
Taxation	-	-	(2)	(5)	(17)
Surplus for the year (before pensions)	**10,926**	**11,964**	**12,869**	**12,095**	**14,553**

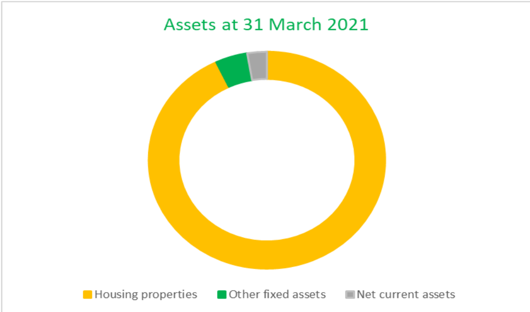
Statement of Financial Position	2021 £'000	2020 £'000	2019 £'000	2018 £'000	2017 £'000
Housing properties	447,549	442,159	434,700	430,399	425,791
Other fixed assets	15,410	15,750	15,721	15,893	16,649
Total fixed assets	**462,959**	**457,909**	**450,421**	**446,292**	**442,440**
Net current assets	12,714	30,334	36,318	56,087	80,136
LGPS Pension asset	415	340	3,340	1,404	2,247
Total assets less current liabilities	**476,088**	**488,583**	**490,079**	**503,783**	**524,823**
Creditors: amounts falling due more than one year	(264,807)	(282,647)	(289,584)	(317,691)	(343,185)
Provisions for liabilities and charges	(30,468)	(35,174)	(38,406)	(43,920)	(50,634)
SHPS Pension liability	(13,248)	(5,618)	(12,912)	-	-
Total net assets	**167,565**	**165,144**	**149,177**	**142,172**	**131,004**
Revenue reserve	167,565	165,144	149,177	142,172	131,004
Capital and reserves	**167,565**	**165,144**	**149,177**	**142,172**	**131,004**

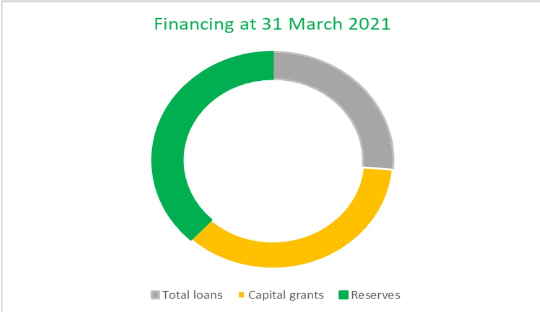
Asset data	2021	2020	2019	2018	2017
Social housing stock owned at year end (no.)	13,582	13,583	13,580	13,611	13,460
Non-social housing and other property types (no.)	2,253	2,321	2,500	2,615	2,506
Average existing use value (EUV-SH) per unit (£)	31,503	28,416	28,874	30,060	26,742

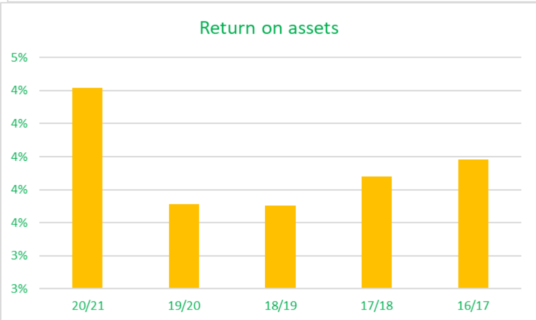
Report of the Board of Management *(continued)*

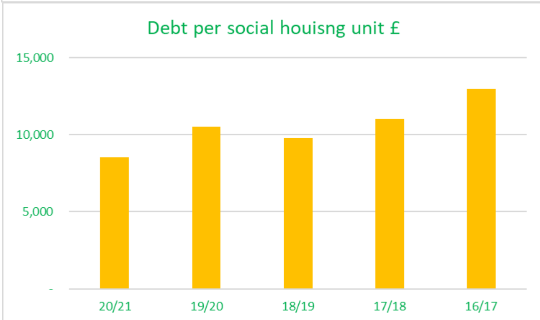












Financial position

The Group's consolidated statement of comprehensive income for the year ended 31 March 2021 is shown on page 51 of the financial statements, and its consolidated statement of financial position as at 31 March 2021 is shown on page 53.

The Group was able to deliver a strong result, generating a surplus after tax, before actuarial losses or gains on pension schemes of £10.93million (2020: £11.96million) whilst operating in an increasingly challenging environment from both an economic and regulatory perspective, with the further added complexities presented by the COVID-19 pandemic.

Bernicia continues to meet the requirements set out in the Governance and Financial Viability Standard with a G1 grade for governance and a V1 grade for financial viability. Bernicia therefore meets the Governance and Financial Viability Standard requirements of The Regulator of Social Housing and can demonstrate financial capacity to deal with a wide range of adverse scenarios.

Report of the Board of Management *(continued)*

Accounting policies

The Group's principal accounting policies are set out in the notes to the financial statements on pages 58 to 64. Accounting policies have been reviewed and are in accordance with the requirements of FRS 102 and the Housing SORP 2018: Statement of Recommended Practice for registered social housing providers. The policies that are most critical to the understanding of the financial results relate to the accounting treatment of housing properties, government grants, the capitalisation of costs, housing property depreciation and the treatment of shared ownership properties.

Significant judgements and estimation uncertainties

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

Housing properties

At 31 March 2021, the Group owned 13,582 and managed a further 109 social housing properties (2020: owned 13,583 and managed 130).

The Group holds its housing properties at cost. As at 31 March 2021, the carrying value of housing properties is £447.6million (2020: £442.2million). Housing properties are valued for loan security purposes (excluding properties under construction), and the estimated value of secured and unsecured properties is £423.0million (2020: £386.0million).

Property impairment of £290k was recognised in the year in respect of a scheme that is to be decommissioned (2020: £nil).

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

Other freehold land and buildings

Other freehold land and buildings includes garages, commercial properties and office buildings owned by the Group. An impairment adjustment of £0.3million has been made during the financial year (2020: £nil). This was in respect of two leasehold investment properties whose values have been impaired due to cladding / insulation works being required to be undertaken by the freeholder. Once the works have been undertaken the valuations for these properties will be reinstated.

Cash flow statement

Cash inflows and outflows during the financial year are shown in the consolidated statement of cash flows on page 57 of the financial statements.

The Group generated a cash inflow from operating activities of £28.0million (2020: inflow £29.1million). The overall cash inflow in the financial year was funded mainly by operating activities and new loan financing, social housing grant of £1.9million (2020: £3.7million) and property sales of £3.0million (2020: £2.5million). Cash outflows in respect of financing was £38.5million (2020: inflow £2.8million), capitalised expenditure £19million (2020: £21.6million), resulting in a net decrease in cash of £24.6million (2020: increase of £16.6million).

Cash at bank and in hand reduced to £6.8million (2020: £31.4million). It should be noted that £15million was drawn from the Groups revolving credit facility in March 2020 at the start of the pandemic, to ensure immediate access to liquidity. This was subsequently repaid in May 2020.

Report of the Board of Management *(continued)*

Reserves

After the transfer of the surplus (including other comprehensive income) for the financial year of £2.5million (2020: £15.97million) at the financial year end, the Group's reserves amounted to £167.6million (2020: £165.1 million).

Treasury Management

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

Capital Structure

Liquidity is secured from free cash flow from operations, government grant and external lending facilities. At 31 March 2021, the Group had drawn loans totalling £116.1million (2020: £142.8million) and available undrawn credit facilities of £127million (2020: £113.8million). Cash equivalents held at the year-end totalled £6.8million (2020: £31.4million).

Funding

On the 26 March 2020 the Group entered into a new £70million Revolving Credit Facility (RCF) with Barclays. At the same time the historic agreement was restated to remove reference to what was the original £39million RCF. An exercise to reallocate security with EUV-SH of £56.6million to the new facility completed on 12 May 2020. Further property charging is underway to meet the shortfall and is expected to complete during the 2022 financial year.

In response to the Government's social distancing and "lock down" measures announced on the 23 March 2020 the Group increased its borrowing by £15.0million utilising the existing RCF arranged with Barclays. This provided the Group with the comfort of readily available working capital to deal with the initial uncertainty of the COVID-19 pandemic. Following successful remote working practices of the Group and its counterparties, the drawdown was subsequently repaid on 7 May 2020.

On 18 September, a new private placement (PP) of £75million was mandated with Legal and General Investment Management. The PP consists of three notes series. Note A of £20million drawn at spot in November 2020, Note B of £30million to be drawn in August 2021 and Note C of £25million to be drawn in August 2022. A private credit rating, with Fitch Ratings was obtained in support of the PP process. Securitisation is well progressed to facilitate the Note B and C drawings.

Debt Repayment Profile

The Treasury Strategy ensures that the Group spreads the repayment and refinancing of loans. During the year facilities totalling £21.5million with Santander and Barclays were redeemed and repaid. Redemption costs of £5million were incurred and these costs are contained within interest payable on the statement of comprehensive income.

The Group has repayments of £14.2million (2020: £46.5 million) due over the next five years and has facilities in place to undertake this. A further £101.9million matures after year 5, representing 87.8% of total debt (2020: £96.3 million, 67.4%).

Counterparty Risk

The Group operates a conservative counterparty risk management strategy that aims to minimize the risk of a financial loss, reputational loss or liquidity exposure as the result of a counterparty to any Treasury transaction becoming insolvent. As at 31 March 2021, all cash investments are held with counterparties who meet the criteria of our Treasury Management Policy.

Report of the Board of Management *(continued)*

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 2021, and in accordance with the Board approved strategy, 96% (2020: 80%) of the Group's drawn debt (inclusive of hedging activity) was fixed at rates between 1% and 11.6%.

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.

Report of the Board of Management *(continued)*

Value for Money

Introduction

Our Value for Money (VFM) strategy was approved by Board in April 2018, runs for a five-year period from 1 April 2018 to 31 March 2023, and reflects the requirements of the Regulator's 2018 VFM Standard and Code of Practice. Our Value for Money Strategy can be accessed via the following link https://www.bernicia.com/wp-content/uploads/2015/03/Value-for-Money-Statement-2017%5E18.pdf

Bernicia's corporate strategy and VFM

VFM is embedded throughout Bernicia's business and is a constant theme that runs throughout our corporate and associated operational strategies. Our business strategy continues to place our work as a social landlord at the heart of what we do. Our vision is "Housing people, helping people". We believe that a good home makes lots of other things possible, so we aim to continue to provide great homes and services that do just that.

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

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

The Group has four strategic outcomes:

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

Our full corporate strategy can be accessed via the following link https://www.bernicia.com/wp-content/uploads/2020/01/Housing_People_Helping_People_Jan_2020.pdf.

Report of the Board of Management *(continued)*

Priority one – Delivering an exceptional housing service

Key action and targets	Bernicia Target 2022	Bernicia Target 2021	Bernicia 2021	Bernicia 2020	Bernicia 2019
Transforming delivery – aim to have 80% of transactions conducted on-line by 2023	N/A	Progression to 80% by 2023.	N/A	N/A	N/A
Customer satisfaction with:					
• VFM of rent (STAR)	83%	83%	89%	89%	89%
• Responsive repairs	90%	92%	93%	93%	92%
• Major works	93%	93%	N/A	91%	92%
• Overall service (STAR)	89.6%	89.6%	90%	90%	90%
• Views taken into account (STAR)	71%	71%	73%	73%	73%
• Lettings	93%	93%	93%	96%	97%
Performance:					
• Repairs completed at first visit	80%	80%	89%	87%	84%
• Appointments made and kept	92%	92%	93%	93%	94%
• Emergency repairs within 24 hours	99.5%	99.5%	99.7%	99.1%	99.8%
• % of customer enquiries resolved at first point of contact	87%	85%	97%	94%	88%

Transforming delivery – The target here is to have 80% of transactions across the business conducted on-line by the end of the five-year period. This is a Key Success Factor (KSF). An associated measure is to monitor the increase in the number of tenants signed up for and using Bernicia's digital portal. Significant progress has been made on phase II of the QL (housing management system) project, primarily the tenant and staff portal, alongside the new tenant app. These were significantly developed during 2020, although the expected launch date of Q4 2020/21 was ultimately not achievable. The formal introduction of these is now Summer 2021, although a soft launch and a number of pilot activities are well underway. This will significantly increase the ability for tenants to transact with us on-line, including managing payments, scheduling and tracking repairs, requesting aids and adaptations and reporting non urgent ASB. The staff portal will enable our colleagues to operate with greater agility, allowing them to transact through the portal, as they would their desk top computer.

Report of the Board of Management *(continued)*

Priority one – Delivering an exceptional housing service *(continued)*

The tenant and staff portals will continue to build our digital offer, following the success of our contractor portal that was launched in 2019 and which enabled our business transactions to move online. A Customer Contact Centre manager has also recently been appointed, with a key objective being the transition of the call centre to a contact centre, creating a multi-channel contact centre that manages service requests through a range of digital mediums and platforms.

The advent of COVID-19 saw Bernicia move to a remote working basis, with the digital provision of services to customers (albeit a more limited range) and more business to business services conducted on-line. Examples of the changes include:

- On-line meetings with vulnerable tenants supported by the Intensive Housing management team.
- Resident involvement activities conducted on-line and through social media.
- 'Your say, services your way' campaign delivered using digital and social media, as well as traditional methods.
- The demise of the 'cheque-run' with all electronic payments.
- On-line ordering, variations and invoicing of sub-contractor repairs and gas servicing.
- External and internal audit conducted remotely through share filing and the use of business intelligence and analytics.
- Conferences, seminars, and other meetings held using video technology thereby reducing travel, cost and time resources.
- Recruitment and on-boarding undertaken digitally.

The number of tenants now registered to transact with us through the tenant portal was 2,418 at the year end and 2,589 at the end of May, we aim to increase this number through the promotion of our digital offer. It is recognised that as we aim to continue to tailor services and their delivery to the specific needs of individuals, that digital is not the preferred option for all customers and we must continue to provide different options for how we interact with our customers. Thus, the next iteration of our Corporate Strategy will focus more on the range of interactions we facilitate, including, but not exclusively digital.

Customer satisfaction – The Board agreed six targets, five of which have met or exceeded the target and one, satisfaction with major repairs, not being reported this year. The results for three of the targets (VFM, Overall Service and Views) are based on the STAR survey with the target being the previous result and as such are only reported triennially (2019 results shown here). The other three are collected and reported annually and quarterly as part of the Operational KPIs with annual targets as set out in the Business Plan.

Performance - The Board agreed four targets with performance meeting or exceeding the target for all four. It is pleasing to note that emergency repairs have improved from last year when an amber was reported. Three of the four measures show an improvement, from an already high base, on the previous years with a minor decrease (0.3%) being reported for appointments made and kept. Given the challenges during the year, the performance levels have to be viewed as excellent. Additionally, a measure, the number of complaints received, forms part of the reporting in this area with 329 complaints being received during 2020/21 (312 in 19/20, 373 in 18/19). Interestingly compliments over the same period were 1,523, 1,229 and 1,274.

Report of the Board of Management *(continued)*

Priority one – Delivering an exceptional housing service *(continued)*

The Customer Services Committee in April 2021 considered a detailed report on all aspects of customer feedback.

Priority two – Investing in homes, neighbourhoods and communities

Key action and targets	Bernicia Target 2022	Bernicia Target 2021	Bernicia 2021	Bernicia 2020	Bernicia 2019
New homes:					
- starts on site (cumulative)	420	250	379	251	116
Existing homes:					
- SAP Rating	72.0 by 2023	72.0 by 2023	71.55	71.35	71.13
- Average NPV of stock	>£25k	>£25k	£27k	£27k	£25k
Social value:					
- SHIFT accreditation	Silver	Silver	Silver	N/A	N/A
- Apprenticeships supported – internal	17	17	19	20	15
- Direct funding of social initiatives	£182k	£229k	£261k	£120k	£225k
- Sustainability investment	£1,350k	£1,350k	£760k	£1,357k	£930k

New homes - the Business Plan had originally set a target of 500 new start on sites within the five-year period which was increased by a further 100 in 2019. Actual start on sites over the three-year period to 31 March 2021 were 379 against a target of 250.

Existing homes - Bernicia invests significantly in its existing stock. Two targets have been set to provide assurance that this investment is making a difference. The first relates to the SAP rating of our properties where we aim to increase the average rating from the 2018 level of 70.24 to 72 over the five-year business plan period. This supports our aim of helping to tackle fuel poverty by improving the thermal efficiency of our homes. The SAP rating has shown year on year increases and is now 71.55 thereby continuing to report a 'green'.

The second target relates to increasing the average NPV of our stock as measured by our asset sustainability tool (SAMS). This KSF provides an assurance on two broad fronts, firstly that our investment is improving our homes rather than simply maintaining them. Secondly whilst we are committed to making decisions on scheme sustainability not simply on financial grounds and will continue to invest in schemes with a negative NPV where the socio-economic arguments override the financial factors, this can only be supported if the business as a whole is financially healthy and robust. Hence, the Board set a target that the average NPV of our stock should increase over the period.

Report of the Board of Management *(continued)*

Priority two – Investing in homes, neighbourhoods and communities *(continued)*

In 2017/18 this stood at £25k per unit. SAMS is updated triennially with the latest update being reported in October 2019. This showed an increase to £26.6k and thus returns a 'green' rating.

Whilst we did not fund sustainability works to the level anticipated, due to the impact of the pandemic on our ability to deliver works on the ground, we did make some important decisions on projects that are now being undertaken and we are developing a pipeline of schemes that will benefit our tenants and communities.

Social value – As a socially responsible landlord, we undertake affordability assessments of our rents. These assessments are then used to inform the annual rent setting process. Our assessments compare our rents to market rents within the same beacon reference area (e.g. NE63 0) applying an 80% affordability marker. We further layer this work with local earnings information. Using published average local earnings from the Office of National Statistics, and the Affordable Housing Commission (Lord Best) report, a 33% affordability marker was applied to the data. From this exercise we are able to determine our rents as affordable. Our affordability assessments are further supported by comparing our rents with our regional peers.

During the year Bernicia supported nineteen apprentices. Four colleagues were also upskilled through the apprenticeship levy.

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

The added social value activities we continue to focus on are financial wellbeing and social wellbeing.

Examples of our added value work during 2020/21 included:

Financial wellbeing
In 2021, our focus has been very much on helping our tenants sustain their tenancies whilst dealing with the impacts of COVID-19, which have been far reaching to say the least. Impacts ranged from having to change methods of payment as places closed and people couldn't go out, to individuals and families having no income at all while Universal Credit claims were processed. This meant redirecting resources and upskilling colleagues to support households and protect income streams, and, unfortunately, help people access additional help through food banks, volunteering services and community hubs. Nine local food banks received funding from Bernicia.

Our staff benefitted from joining the Money Advice and Pensions Service network and Money Guiders initiative, both of which provided free, brilliant information and training. Continuing our work with the Illegal Money Lending Team we became the first housing provider in the North East to achieve Stop the Loan Sharks Partner recognition.

Despite restricted face to face contact our Intensive Housing Management Team achieved a 73% success rate in successful tenancy outcomes. This meant 347 tenants were helped to sustain their tenancy, which without this help may have failed. Just over £83,000 was secured in additional income and grants for tenants.

Sadly, our Learning Hives had to close, however, by using other methods of engagement and in partnership with Northern Learning Trust, 463 individuals were supported into training and 18 into employment.

Report of the Board of Management *(continued)*

Priority two – Investing in homes, neighbourhoods and communities *(continued)*

Additionally, Berwick Community Trust helped 105 individuals into training and 35 into employment.

We continue as partners in the ESF project North of Tyne Working Homes and during the year joined the Durham L!NKCD employability project. This has allowed us to extend our offer of employability support to more tenants across the North East.

Additional funding has again been provided to third sector organisations to help people with more complex welfare benefit issues.

Social wellbeing

Loneliness and isolation have, for obvious reasons, been high on our radar.

Whilst we cannot even start to comprehend the full impacts of lockdown on our tenants and residents, we have done our best to help them through these difficult times, particularly our older residents.

Resources were redirected to make over 3,000 check in and chat calls, activity wellbeing packs, produced in partnership with physical activity organisation RISE, were delivered to 600 residents, small gifts were distributed at Christmas and the overwhelming support from local businesses, individuals and community organisations was amazing. Our main aim was to keep in touch and keep talking to our residents.

A whole host of activities that could be done at home, such as celebrating VE Day and Christmas, were encouraged in sheltered housing schemes.

To help people remain in their homes 186 aids and adaptations were fitted by ourselves with a further 30 externally funded adaptations being installed.

Inevitably the uptake of community grants for social activities was lower than previous years with just over £18,000 being accessed for wellbeing initiatives.

Despite the limitations imposed by lockdown periods, we are confident through both human and financial support we have made a significant contribution to maintaining social wellbeing.

Report of the Board of Management *(continued)*

Priority three – Effective organisation

Key action and targets	Bernicia Target 2022	Bernicia Target 2021	Bernicia 2021	Bernicia 2020	Bernicia 2019
Governance:					
- Retain G1	G1	G1	G1	G1	G1
- Valid gas certificates	100%	100%	99.87%	99.86%	99.96%
- Valid solid fuel certificates	100%	100%	98.1%	100%	100%
- Electrical testing	100%	100%	99.98%	99.97%	99.8%
- Water hygiene	100%	100%	100%	99.37%	98.1%
- Asbestos	100%	100%	98.4%	98.57%	100%
- Fire Risk Assessment	100%	100%	100%	96.46%	100%
Income collection:					
- Void rent loss	2.98%	2.98%	2.12%	2.09%	1.81%
- Bad debts	1.86%	1.86%	0.63%	1.39%	1.32%
- Rent arrears	4.10%	4.00%	3.83%	3.59%	3.28%
- Rent collection	97.90%	97.80%	100.02%	100.53%	99.24%
Cost control:					
- Headline social housing	£3,719	£3,662	£3,212	£3,580	£3,510
- Housing management	£699	£698	£672	£678	£628
- Service charge	£416	£415	£364	£366	£348
- Maintenance	£1,162	£1,149	£1,098	£1,107	£1,105
- Major works	£1,047	£1,012	£751	£892	£977
- Other	£395	£388	£327	£537	£452

Report of the Board of Management *(continued)*

Priority three – Effective organisation *(continued)*

Key action and targets	Bernicia Target 2022	Bernicia Target 2021	Bernicia 2021	Bernicia 2020	Bernicia 2019
People: - Retain IIP Gold	Gold	Gold	Gold	Gold	Gold
Financial: - Minimum V2 rating	V2	V2	V1	V1	V1
- Compliance with Golden Rules	Compliant	Compliant	Compliant	Compliant	Compliant
- Create additional capacity (Years 6-11)	+150 units by 2023	+150 units by 2023	+150 units by 2023	+150 units by 2023	100 agreed
- (Decrease) / Increase profitability of Commercial Companies	22%	22%	19%	49%	21%

Governance - Bernicia has no risk appetite for health and safety non-compliance hence all compliance targets are 100%.

Gas servicing was reported at 99.87% at year end. At the end of the year, fifteen properties had gas services outstanding. All were due to tenant access issues, with one of these cases linked to COVID-19. No gas services remained outstanding at the date the financial statements were signed.

Electrical servicing was reported at 99.98% at year end. At the end of the year, two properties were outstanding and were due to tenant access issues. No electrical services remained outstanding at the date the financial statements were signed.

Water hygiene was reported at 100% at year end, with all properties having a valid water hygiene inspection.

At the end of March there were two common parts where the re-inspection of the condition of known asbestos had been prevented due to no access issues. Any actions arising from the re-inspections are being responded to.

Fire Risk Assessments was reported at 100% at year end. The Group carries out reviews on a twelve-month cycle, therefore all eight common parts have a Fire Risk Assessment in place completed within the previous thirteen months.

Income collection – Despite the challenges presented by the pandemic, collection rates were excellent whilst all financial indicators relating to voids, bad debts and arrears have out-performed the targets set for the year, a reflection on the success of the measures we implemented and the hard work and dedication of our staff.

People - The retention of our gold accreditation status was confirmed during the year. Bernicia is proud of its IIP status and will continue to invest in its people throughout 2021/2022. The continued retention of Gold status, and progressing all nine indicators to advanced performance level, is regarded as a major success.

Report of the Board of Management (*continued*)

Priority three – Effective organisation *(continued)*

We have undertaken regular surveys of our staff and are pleased to see that our staff valued our approach to managing the pandemic, supporting them, our tenants and customers. These surveys have confirmed high levels of buy in to our corporate objectives and values framework and the results have been used to develop our hybrid working models that will be launched during July 2021.

Cost per unit – The cost per unit targets where calculated at the start of the current strategy period in 2018. Naturally, COVID-19 has impacted on the ability to deliver services over the 2021 year. Whilst all services resumed in full, the major works (investment programme) was redesigned with a focus more on external works. Expenditure on this area exceeded our revised COVID-19 budget and forecasted expectations, however when compared to the 2018 set target, expenditure fell short and was the main contributing factor for the headline cost per unit in year being considerably lower than the 2021 target.

Priority four – Helping to deliver the Regional Agenda

The overall aim of this objective is for Bernicia to engage positively with Government policy on matters relating to Social Housing within Bernicia's geographical operating area. However, Bernicia understands that Social Housing policy is not the only issue impacting on, or important to its tenant's and communities, and so where it can, it will work with other regional and national agencies operating within the same space to promote healthcare, wellbeing, transport and social and economic inclusion.

Bernicia welcomes the opportunity to work collaboratively with other like-minded partners and will seek to influence and deliver plans aimed at improving the North East of England region. By growing its knowledge and understanding of the communities and markets it serves, Bernicia will position itself to promote and champion the needs of its current and future tenants.

To evaluate delivery on this objective it is important to understand how we are perceived by our stakeholders.

A triennial perception study undertaken during the period revealed significant progress and provided high levels of assurance from our stakeholders that we are both committed to and delivering upon this objective. Drawn from local authorities, peer organisations, public and private sector bodies, the business community, trade bodies and politicians, our stakeholders were unanimous in their views that we understand the needs of our region and communities, we recognize the influence and support we can leverage to advantage these, and value the collective impact of partnership working. The following excepts from the perceptions study epitomize the sentiments of our valued stakeholders;

Bernicia are part of the wider conversations. They try and get involved in regional issues. Other employees, not just those at the top, give back but also have a say'

'[Bernicia has] a growing reputation for what they do. Their engagement with the wider business community has really stepped up in recent years.'

'if we are going to improve the economy in the North East, having more values based, socially confident organisations really does help. The North East business infrastructure needs organisations like Bernicia to be dedicated to it'

Despite the challenging year, which inevitably impeded many of our social value activities, we continued to make a real and lasting impact through our social and financial inclusion activities,

Report of the Board of Management *(continued)*

Priority four – Helping to deliver the Regional Agenda *(continued)*

enabling hundreds of people to participate in employability training, with many progressing into employment, alongside supporting new entrants to the workplace through apprenticeships, traineeships and work experience, and delivering a package of wellbeing activities for our tenants to remain active members of the community.

Using the HACT Social Value calculator, we estimate the benefit realised from these activities equates to £2.64m of social benefit to the region, with every £1 we invest generating £1.44 in the local economy.

This year also saw The Bernicia Foundation award its first grants, with circa £465,000 given to charitable organisations and inspirational young talent in the region. Applying social value methodologies to this investment, suggests a further £3.34m of value has been generated in North East communities.

Key financial ratios

Historically the Group has reported performance against a number of key financial ratios covering growth, profitability and our ability to service debt. The table below sets out the changes over the last four years and compares our performance to the latest available data for the sector (2020 Global Accounts).

Key financial ratios	2021	Global benchmark 2020*	2020	2019	2018	2017
Growth						
➢ Growth in turnover	0.8%	1.8%	2.1%	(1.5%)	1.1%	1.0%
➢ Growth in total assets	(4.5%)	6.0%	3.8%	(2.6%)	(4.5%)	(0.3%)
➢ Growth in total debt	(18.7%)	7.6%	7.4%	(11.7%)	(4.3%)	(3.5%)
Profitability						
➢ Effective interest rate	5.9%	3.8%	4.7%	5.0%	5.9%	4.6%
Debt servicing ability						
➢ Adjusted net leverage	25.2%	Not available	25.7%	27.6%	28.4%	29.1%
➢ Debt to turnover	1.5	3.9	1.9	1.8	2.0	2.3

* *The Global Benchmark is taken from the 2020 Global Accounts of Housing Providers and is the mean cost across social housing providers.*

Growth

Growth in turnover of 0.8% was driven by three separate revenue streams in the year. Income from social housing activities was 1.2% higher than that of the previous year. Rental and service charge income increased by £1,629k to £61,223k (2020: £59,594k), c2.7% in accordance with the permissible levels as determined by the rent standard. However, water rates receivable was £778k lower at £2,683k (2020: £3,461k), c22.5% with reciprocal reductions being reported in water rates payable. Disposals of First Tranche Shared Ownership properties of £218k (2020: £908k) were significantly lower than those of the previous year, thereby impacting growth in turnover. Finally, the Group’s commercial activities continued to generate strong revenues.

Report of the Board of Management *(continued)*

Key financial ratios *(continued)*

Turnover for 2021 increased by £250k to £5,039k (2020: £4,789k), the increase in the year also favourably contributed to the Group's overall growth in turnover.

Growth in total assets reports a year on year decrease of 4.5%. Property, plant and equipment assets have increased by £5m during the year as new supply units were added to the statement of financial position. Net current assets have decreased by £17.6m. Cash balances at the year-end reduced by £24.6m whilst housing properties held for sale (stock) increased and debtors and long-term provisions decreased. The Group accessed its revolving credit facility towards the end of the March 20 drawing down £15m to ensure liquidity remained in place throughout the outbreak of COVID-19. This drawing contributed to the higher prior year cash balance. The full amount of £15m was repaid to the facility in May 2020. Other cash balances have been used to early repay other drawn debt and settle other drawn revolving credit facilities during the year.

The Group's reduction in total debt of 18.7% reflects these repayments.

Profitability ratios
The Group's effective interest rate, excluding early debt redemption costs of £5m, increased by 1.2% to 5.9% as a direct result of the settling of fixed rate debt and repayment of the revolving credit facilities during the year.

Debt servicing ability
This remains strong and well below the sector averages. Bernicia remains lowly geared with sufficient capacity for further investment to support the Group's overall objectives.

How we perform against the RSH VFM metrics
Bernicia routinely reports its performance, against the sector as a whole and a regional peer group, to the Board, ensuring performance information is used to inform Board's decision making.

Demonstrating Bernicia's continued emphasis on value for money and understanding its performance, the following sections would traditionally present how Bernicia has performed against the VFM metrics published by the RSH, along with Bernicia's own internal targets and performance measures. Whilst the 2021 results have been compared to the 2020 Global Accounts median VFM metric results with commentary provided where appropriate, it should be noted that 2021 was, in financial terms, an anomalous year due to COVID-19. Further comparative would also normally be made with performance compared to a peer group of thirteen registered providers in the region. The 2021 targets contained within the following sections are based upon the Group's budget which was updated to reflect financial changes derived from COVID-19. Commentary in the following sections therefore compares Bernicia's results with both the Global Accounts and our internal 2021 target.

Report of the Board of Management *(continued)*

Business health

Global Accounts VFM Metrics	Bernicia 2022 Target	Bernicia 2021 Target	Bernicia 2021 (Group)	Bernicia 2020 (Group)	Bernicia 2019 (Group)	Bernicia 2018 (Group)	Global Accounts 2020 Median	Global Accounts 2020 local peer group Median
Operating margin – overall	20.9%	19.3%	27.7%	24.0%	24.4%	26.0%	23.1%	24.0%
Operating margin – social housing lettings	20.8%	18.8%	29.6%	27.4%	27.9%	28.7%	25.7%	26.1%
EBITDA MRI interest cover	227.0%	153.3%	192.5%	228.7%	223.4%	194.9%	170.0%	201.0%

Operating margin – overall - the 2020 global accounts median across the peer group was 24.0%, with margins ranging from 12.8% to 29.5%. Bernicia had an operating margin of 27.7% for 2021 which would have positioned the Group seventh highest within its peer group in 2020. When compared to the 2021 target, the operating margin exceeded expectations. During the year staffing costs were significantly lower than budgeted. This was due to a number of posts not being appointed to in the year due to COVID-19. Recruitment to these posts has now resumed. Lower day to day operating costs and office associated costs were incurred again due to changes in working practices during the pandemic period. The delivery of the major works (investment) programme was reshaped during the year with a greater emphasis on external works. Furthermore, Bernicia's commercial company Kingston Property Services outperformed budget expectations. All of these factors contributed to the higher operating margin and have also favourably impacted on a number of the other value for money metrics reported in the following sections.

Operating margin – social housing lettings - the 2020 median for the peer group was 26.1%. In 2020 Bernicia ranked fifth highest with a margin of 27.4%. Margins in the peer group ranged from 17.6% to 29.3%. Bernicia's 2021 result of 29.6% when compared to the in-year target of 18.8% was positively impacted due to, in the main, lower staffing and operating costs, excellent income collection performance and lower major works expenditure as discussed within the operating margin – overall section.

EBITDA MRI interest cover is a key measure of liquidity and investment capacity. The Group's Interest cover continues to remain strong, with 2021 performance exceeding the 2020 Global Accounts median.

EBITDA MRI interest cover for 2020 the median for the peer group was 201%. When comparing Bernicia's 2020 result to the regional peer group, Bernicia's EBITDA MRI was recorded at 229%, placing Bernicia in sixth highest position. During 2021, Bernicia repaid some long-term debt early. This increased the Group's interest charges by £5m. EBITDA MRI for 2021, including these additional interest costs is reported at 192.5%, with outperformance against the target being for the reasons as previously mentioned.

Report of the Board of Management *(continued)*

Development (capacity and supply)

Global Accounts VFM Metrics	Bernicia 2022 Target	Bernicia 2021 (Target)	Bernicia 2021 (Group)	Bernicia 2020 (Group)	Bernicia 2019 (Group)	Bernicia 2018 (Group)	Global Accounts 2020 Median	Global Accounts 2020 local peer group Median
New supply delivered – social housing units	182	34	78	74	92	135	N/A	N/A
New supply delivered – social housing %	1.2%	0.2%	0.5%	0.5%	0.6%	0.9%	1.5%	1.2%
New supply delivered – non-social housing %	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Gearing	26.1%	26.7%	24.1%	24.9%	26.9%	28.1%	44.0%	41.6%

In 2021, Bernicia delivered a new supply of Social Housing accommodation totalling 78 units comprised of 69 affordable rent units and 9 low cost home ownership units.

Bernicia's five-year Corporate Strategy, in which the Group targets the start on site of 600 units, has now completed its third year. During the first three years, the Group has delivered 235 units against its target, with a further 144 units on site at the end of the year and a further 197 units approved. During the year, the Board agreed to accelerate start on site units from 2023 to 2022 with the remaining units being targeted to start in 2022.

Bernicia continues to deliver appropriate housing accommodation, to meet local demand and strengthen communities. When comparing 2021 performance to the regional peer group for 2020, the new supply of social housing is recognised as lower quartile. The Board and Officers have considered this measure with both a retrospective and prospective outlook and remain confident Bernicia's contribution to the supply of housing accommodation in the region is comparable to that of other providers.

Bernicia's Gearing is low when compared to other providers. As such, gearing relating to 2020 is recognised in the lower quartile of the Global Accounts national data set and regional peer group, where Bernicia is ranked fourth lowest.

Although Bernicia delivered 78 units in the year ended March 2021, no new funding was required to deliver the programme. In accordance with our Treasury Strategy and golden rules requirements, a new £70m Revolving Credit Facility was entered into at the end of March 2020. In addition, in August 2020 Bernicia secured £75m through a private placement with Legal and General Investment Management, drawing £20m at spot in November 2020. This drawing along with cash balances was used to repay some more expensive legacy debt along with drawn RCF's. These actions, along with reduced expenditure during the year have further reduced Bernicia's gearing levels.

Bernicia's business plan has sufficient finance in place to meet the requirements of the 2018-2023 development programme. Bernicia's low gearing therefore demonstrates it is well positioned, nationally and regionally, to respond to potential economic challenges and at the same time, is able to leverage more debt than others should it choose to.

Report of the Board of Management *(continued)*

Outcomes delivered

Global Accounts VFM Metrics	Bernicia 2022 Target	Bernicia 2021 (Target)	Bernicia 2021 (Group)	Bernicia 2020 (Group)	Bernicia 2019 (Group)	Bernicia 2018 (Group)	Global Accounts 2020 Median	Global Accounts 2020 local peer group Median
Reinvestment %	9.1%	5.5%	4.1%	4.6%	4.2%	4.2%	7.2%	7.9%

In 2020/21, Bernicia made a combined investment in existing stock and new stock of £18.5m, with £12.6m invested in the new supply of properties and £5.9m invested in existing properties. This represents a reinvestment of 4.1% when compared to the overall value of housing properties.

Investment in **existing** properties considers only the capital expenditure spent on improvement and modernisation of existing housing stock. The investment programme was reshaped during the year as a direct consequence of the pandemic. The budgeted spend for 2021 of £12.8m, approved by Board in March 2020, was adjusted accordingly to £8.5m, with the costs associated with catch up works being incorporated into future budgets.

A sustained higher than average investment in existing properties has been a conscious and informed decision of the Board. Taking its responsibilities seriously, the Board aims to ensure the quality and safety of its tenant's homes remains at the very highest standards possible. This continues to be a Board priority.

The Global Accounts for 2020 highlighted Bernicia's continued investment for the 2019/20 year of £9.3m, equating to £675 per property. Investment at this level positioned Bernicia as the regions fifth highest investor in its existing stock.

During 2020/21, as a result of the challenges presented by the pandemic, Bernicia's investment was lower at £5.9m equating to £431 per property in existing stock.

The Group's investment in **new supply** continues to reflect the Corporate Strategy aim of delivering 600 new units.

With a total spend of £11.2m on the development of new properties in 2019/20, the 2020 Global Accounts position Bernicia as the regions eighth highest investor in new housing accommodation.

The 2020/21 year-end accounts include a total spend on new supply of housing accommodation of £12.6m. 2020/21 has seen a higher amount of investment made than reported in the previous year as the Group continues to deliver on its Corporate Strategy objectives.

When comparing with the local peer group, Bernicia's 2021 reinvestment percentage is in line with the 2020 lower quartile.

Report of the Board of Management *(continued)*

Effective asset management

Global Accounts VFM Metrics	Bernicia 2022 Target	Bernicia 2021 (Target)	Bernicia 2021 (Group)	Bernicia 2020 (Group)	Bernicia 2019 (Group)	Bernicia 2018 (Group)	Global Accounts 2020 Median	Global Accounts 2020 local peer group Median
Return on capital employed (ROCE)	3.6%	3.4%	4.69%	3.88%	4.06%	4.10%	3.40%	3.90%
Ratio of responsive repairs to planned maintenance	77.9%	76.3%	69.4%	57.8%	51.9%	44.4%	65.3%	68.2%

The Group is proud of its approach to effective asset management. This is underpinned by significant capital investment deployed into the Group's property portfolio. Investment decisions are informed through the use of the Group's sustainability model, further demonstrating the Group considers effective asset management critical in its strategic and operational activities. The metrics above focus on how well Bernicia has taken care of its assets, ensuring the high quality of homes that people want to live in, now and in the future.

Return on Capital Employed is essentially a profitability ratio focused on returns over the long-term aspect and is a measure of how well net assets are performing. The ratio focuses on two primary calculations, operating surplus and the capital employed in the business. The Group's profit margin performance is detailed in the Business Health section on page 29.

The Return on Capital Employed at 3.88% for the year 2019/20 was within the median quartile when compared to the 2020 Global Accounts national and regional peer group data set. Return on Capital Employed at 3.88% placed Bernicia seventh highest when compared to its regional peer group. The Group can therefore demonstrate it is using its debt and capital to effectively manage its assets. The results for the year 2020/21 indicate a Return on Capital Employed of 4.69%, assuming no change in the quartiles, the result for 2021 is expected to be in line with the upper quartile. It should be noted, that Bernicia's operating surplus during the year was higher than expected as not all operating costs were expended due to the pandemic.

Ratio of responsive repairs to planned maintenance explains how much money is spent on responsive repairs when compared to the amount invested into planned maintenance. Generally, a lower percentage is regarded as more favourable. In 2019/20, Bernicia's ratio of responsive repairs to planned maintenance was 57.8%, meaning for every pound spent on planned maintenance, Bernicia spent a further fifty-eight pence on responsive repairs. A ratio of 57.8% positioned Bernicia towards the lower quartile (most favourable) and sixth lowest in the regional peer group, where ratios ranged from 33.2% to 209.8%. The results for 2021 report that Bernicia spent 69.4% on responsive maintenance when compared to planned maintenance which is an increase on the prior year, however, it should be noted that expenditure on planned maintenance was lower in the year due to the pandemic.

In its 2020 Sector Risk profile, the Regulator has highlighted it will focus particularly on areas of health and safety compliance and the overall condition of housing stock.

The areas of Regulatory focus all have a potential to influence the results of the effective asset management ratios, along with the other ratios contained within this report.

Report of the Board of Management *(continued)*

Effective asset management *(continued)*

It's therefore important that Bernicia monitors the emerging risks to ensure it remains able to deliver its strategic objectives and reports its financial performance in-line with the targets set out in the short-term financial plan.

Strategic asset management
Our property and assets are crucial to our long-term business plans. Our five-year Asset Management Strategy, commenced in April 2018, and it governs the decisions we make on future stock.

Our strategy is based on full financial appraisal of current stock collectively and individually, together with the assessment of other factors such as social and environmental issues of each estate, enabling us to take a view on the future potential of each asset we own.

In informing our decisions we consider:

Stock condition information	Surveying of our existing stock enabling better planning of work and expenditure. This has helped us to identify savings within the investment programme.
Asset management matrix	We have developed the matrix to enable the analysis of a range of indicators to assess the future sustainability of our homes including; property condition, demand and socio-economic factors. From this we categorise our estates as high, medium high, medium and low risk.
Financial return on assets	To help us determine the financial return on our assets and inform investment decisions we have implemented a model to assess the net present value (NPV) of each estate and individual property, taking into account income and expenditure.

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

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

In terms of assessing the overall returns from our assets a sustainability matrix is used. The matrix is re-run in full every three years and uses a range of indicators including demand and socio-economic factors to assess sustainability of estates and provide us with an indication of the social value that our estates provide to our communities. The model was re-run in 2019/20 with results being analysed and informing the Group's future spending priorities.

Report of the Board of Management *(continued)*

Operating efficiencies

Global Accounts VFM Metrics	Bernicia 2022 Target	Bernicia 2021 (Target)	Bernicia 2021 (Group)	Bernicia 2020 (Group)	Bernicia 2019 (Group)	Bernicia 2018 (Group)	Global Accounts 2020 Median	Global Accounts 2020 local peer group Median
Headline social housing cost per unit (CPU)	£3,779	£3,405	£3,212	£3,580	£3,578	£3,394	£3,835	£3,429
Management CPU	£756	£773	£672	£678	£628	£651	£1,062	£716
Service charge CPU	£375	£382	£364	£366	£348	£331	£441	£366
Maintenance CPU	£1,184	£1,203	£1,098	£1,107	£1,105	£967	£1,107	£1,129
Major repairs CPU	£1,004	£697	£751	£991	£1,045	£1,064	£813	£879
Other social housing CPU	£460	£350	£327	£437	£452	£381	£273	£83
Overheads as a % of turnover	-	8.62%	7.71%	7.41%	6.17%	8.78%	-	-

Bernicia's headline social housing cost per unit for 2020/21 was £3,212 and the more granular cost per units were comparable to those of the previous year, with the exception of the major repairs and other categories. Major repairs were £240 per unit lower, as explained earlier, delivery of the major repairs programme was hindered by the pandemic. Allocations have been made in the 2022 budget to enable catch up works. Other social housing cost per unit was £110 per unit lower than the previous year. The main contributing factor here was lower water rate costs incurred. Bernicia collects water rates on behalf of Northumbrian Water under the terms of its agency agreement. Accounting treatment determines that the income (water rates collected from the tenant) and the expenditure (water rates paid back to Northumbrian Water) should be treated on a gross basis. This treatment has the impact of adding £199 onto each unit's cost.

When compared to the 2020 Global Accounts, Bernicia's cost per unit is £623 per unit lower than the national median and £217 per unit lower than the regional peer group median. Caution should be made when undertaking this comparison due the anomalous year that 2021 has been due to COVID-19, that said, the 2021 cost per units are broadly comparable to the 2020 peer group median, with the exception of the major repairs and other categories.

Report of the Board of Management *(continued)*

Future plans

Bernicia's Corporate Strategy is its most ambitious yet, setting a high but attainable target of investing in the delivery of 600 new housing units aimed to address the needs of the communities Bernicia serves. Investment in housing stock will also extend to the Group's existing properties, which will continue to benefit from significant investment as the Group makes plans towards ensuring its portfolio is well positioned to respond to the requirements of the anticipated revised Decent Homes Standard, and the Governments direction in relation to energy efficiency and decarbonisation. Through its transformation agenda, Bernicia continues to invest in its capabilities, which will ultimately lead to further improvements in services and the way they are delivered.

Bernicia will also seek ways to influence and work collaboratively with its partners so it can do more to support the communities it serves. Commercially, Bernicia will continue to grow and develop its commercial division with the intention of maximising profit through ethical and responsible services expected from a highly reputable provider of social housing.

The 2021/22 financial year will be the fourth year of Bernicia's 2018-2023 Corporate Strategy. Within the first three years, the majority of the priorities which underpin the Strategy have been successfully achieved and the Group looks forward to building upon the strong foundations already in place.

As detailed in the financial review and supported by the financial statements, the Group has had a further year of solid financial performance despite the challenges presented by the pandemic. It has in place a robust short term and long-term financial plan, benefiting from low debt. Bernicia continues to be well positioned with sufficient resources in place to continue delivering its Corporate Strategic aims.

Looking forward, the Group has set its sights on the work to be achieved in the forthcoming year to complete all of the objectives of the Corporate Strategy a year earlier than originally anticipated. During 2021/22, a new Corporate Strategy will be developed and launched running for a four-year period from 2022 to 2026. This will be reflective of what our operating environment and the requirements of the sector are going-forward. Work is already well underway. The Board has agreed that the four objectives of the current strategy remain relevant. The new strategy will therefore be more of a refresh rather than re-write. The Annual Plan for 2021/22 contains various work streams that will support its development, with all core, enabling and cross cutting strategies featuring heavily in the plan. These will also be refreshed in support of the Corporate Strategy.

With an evolving landscape ahead, Bernicia will work towards further understanding the impact of emerging quality standards and Government policy. In particular, the outcomes from the Housing White Paper and policy relating to building safety and energy efficiency will all have an influence on the future housing offer made to tenants as well its impact on how services will be delivered and financial resources required in support.

As a responsible landlord, Bernicia is aware of its Corporate Social Responsibilities. We are developing our environmental strategic plan which will outline our approach to reducing the impact our business practises and housing stock may have on the environment.

As Bernicia continues to contribute towards the regional agenda, it was important for Bernicia to understand stakeholder perception of the Group. A study was commissioned during the first quarter of 2020/21, with the results reported to Board in June 2021. The study was intended to gain a deeper understanding of stakeholder perception, and extremely positive results have been reported, with Bernicia now being seen as more influential in the region. The study will support the formation and delivery of future plans.

Report of the Board of Management *(continued)*

Tenant involvement

The Group's approach to tenant and customer engagement is offered in the widest sense, with involvement and our tenants voice facilitated and heard up and down, and all across the organisation. Engagement is encouraged and facilitated in all aspects of service delivery including individual consultation, solicited and unsolicited feedback and scrutiny. Formal involved tenant panels interpret and validate this intelligence to help put customer priorities into policy and practice.

The relationship with involved tenants is authentic, is built on trust and openness and is robust which in turn provides the assurance that the voice of tenants and customers is mainstreamed across, and up and down the organisation.

Embedded within Bernicia's values and culture exists a long-standing tradition of listening to and acting upon the tenants' voice. Bernicia has always recognised that, whilst, the Regulatory Involvement and Empowerment Standard is designed to ensure opportunities for tenant involvement are in place, responsible landlords should be clear that local circumstances differ and should be willing to engage with tenants to determine what is right for them.

In adopting such an approach work was undertaken with involved tenants to design a methodology and framework to enhance co-regulation and in doing so encourage more scrutiny and challenge and provide greater opportunities to increase the voice of tenants.

The implementation of the revised framework is nearing completion. The revised framework demonstrates Bernicia's pro-active and continuous approach to involvement, setting targets and service standards and annual improvement plans in the pursuit of best practice. The framework will further strengthen the links between formal tenant involvement, the Customer Services Committee and Group Board. Involved tenants, the Board and Customer Services Committee consider that this revised approach to co-regulation and reporting framework exceeds basic compliance with the Consumer Standards.

Bernicia can confidently demonstrate the voice of tenants and customers is valued, trusted and respected, heard and welcomed throughout the organisation and through the enhanced co-regulatory approach there is a commitment and desire to strengthen this further.

The steps to complete the journey to enhance co-regulation are described below:

September 2020 → August 2021

Big conversation with tenants – Your say, services your way campaign complete	Involved tenants and colleagues confirm priorities for future year	Results from Your say, services your way campaign produce refreshed service charter and standards and metrics	Annual report produced including launch new service charter and standards	Quarterly performance published against new metrics	Tenant Overview and Scrutiny Board established and operational

Report of the Board of Management *(continued)*

Tenant involvement *(continued)*

The year in review

Bernicia's involved tenants were invited to assess performance and compliance against the Consumer Standards. Authentic feedback is both welcome and encouraged, this provides an understanding of what Bernicia does well and where improvement can be made. The following is a statement written by involved tenants and is taken from the Tenants' Annual Review 2020/21.

Tenant statement

We couldn't begin our review without reflecting on the year that 2020/21 was. We started the year in total lockdown and saw many changes during the year in managing the COVID-19 pandemic. This meant that Bernicia had to make quick and sometimes difficult decisions to make sure we all were kept safe. For much of the year personal contact was restricted and we've still not been able to meet as a group face to face. However, this didn't stop us doing what we normally do, we just did things differently, so again we're well placed to give our annual overview of how Bernicia has performed.

Home

Tough decisions had to be made about repairs and improvement works. The pandemic not only impacted on Bernicia operations but also on contractors and suppliers. Twice during the year, non-essential repairs had to be suspended which was the right thing to do. All emergency repairs continued as did servicing and health and safety inspections but with the right PPE, safe systems of work in place and adjustments for those who were shielding, self-isolating or suffering from COVID-19.

Major improvements were limited mainly to external work. However, a good level of investment was still made as a result of revising the programme to redirect work to where it could be done safely.

Bernicia remains on track to honor its commitment to continue to invest in existing homes and services and to build new homes. Work on new builds continued and we've seen development progressing and brand-new homes coming into management, which is fantastic.

Throughout the year we've had access to good quality information, including health and safety compliance, which provides the assurance that homes continue to be well maintained, tenants are kept safe and legal requirements have been met which was vitally important as we all spent so much time at home during periods of lockdown.

Tenancy

We're pleased to confirm that good performance has been achieved and maintained over the last year. Again, services were affected by the pandemic especially the period when no house moves could take place. When Bernicia could re let empty properties it did so efficiently, making sure that people in need of housing were helped to move into their new homes quickly and safely.

Inevitably, people faced greater hardship as income was reduced or lost and greater costs were incurred through being at home more. It's evident that Bernicia has worked with and supported those facing hardship which is shown in good performance for rent collection and arrears levels. It has been and continues to be challenging times.

We received a wide variety of performance information during the year which has allowed us to monitor financial performance and the support available to both new and existing tenants. We've closely followed government legislation and rules to protect tenants during the pandemic and are especially pleased that performance has been maintained without the ability to take court action.

Report of the Board of Management *(continued)*

Tenant statement *(continued)*

This shows that different relationships have emerged between Bernicia and its tenants during the last year. In this spirit we'll continue to grow our positive relationship with Bernicia to help make sure tenancy sustainment remains a priority.

Neighbourhood

As we all spent more time at home our neighbourhoods and surrounding areas became even more important to us. We understand that the pandemic did impact on maintenance programmes but on the whole estates and areas were well looked after.

We were pleased to see Bernicia continued to deal effectively with anti-social behavior. At the peak of the first lockdown, reports of anti-social behaviour rose significantly and again it's reassuring that the tools available, particularly injunctions, were used to stop and prevent serious incidences of unacceptable behaviour.

Bernicia continues to make a real difference to tenants and communities through investment in added value initiatives. Community grants albeit lower than previous years were awarded to support health and wellbeing initiatives and regionally, money was redirected from the Bernicia Foundation to local authorities to help those affected by the pandemic. We really enjoy and value being part of the decision-making process and seeing the outcomes of the projects that are funded by Bernicia. It's always encouraging and pleasing to hear the feedback and appreciation of the groups and residents that have benefitted.

Despite the fact that community venues had to close, and people could not meet face to face, Bernicia continued to offer employability support. Inevitably numbers were limited but some fantastic work was still done. Coming out of lockdown it's brilliant that Bernicia and its partners will be there to help people regain the confidence and improve skills needed to find or move closer to work.

Customer Experience

We've all had to adopt new and different ways of communicating and getting what we need over the last year.

From the outset of lockdown Bernicia clearly communicated changes to service delivery to all tenants. Decisions were made swiftly to mobilise home working for staff and to ensure essential services continued to keep people and property safe. The extra time created from the reduction in service levels and customer demand was redirected to make over 3,000 check in and chat calls.

Despite the challenges and changes, customer satisfaction remained high and there were some lovely compliments made by people who said staff had gone over and beyond to help.

We continue to monitor all feedback and can report that complaints were dealt with swiftly, trends were monitored, and changes were made. We assessed Bernicia's approach to complaints against the Housing Ombudsman Complaint Handling Code and are pleased to confirm, apart from a few minor amends and considerations, we did well against this.

We were delighted that the Your say, services your way campaign took place. This demonstrates that Bernicia is fully committed to listening to and putting into action what tenants have said.

In summary

It's been a year that we couldn't ever have imagined.

Working differently during this time and as we come out of lockdown, we'll reflect to see how this experience can be used positively to shape future service delivery.

Report of the Board of Management *(continued)*

Tenant statement *(continued)*

Bernicia has made significant progress with its digital offer and we've been instrumental in testing and trialing the improved tenant portal and new app which will be of great benefit to people who want to and can use online services.

In concluding the review of 2020/21, we are confident that through our involvement and the information made available to us, Bernicia has performed well and has fully complied with the Regulator's Consumer Standards. People have been kept safe, homes have been maintained, neighbourhood services have been delivered, properties have been allocated fairly, rent has been collected and customers, including ourselves, have remained at the heart of service delivery.

Priorities

Our main priorities for 2021/22 will focus on:

- Co-creating services to reflect the voice of tenants making sure that services are developed with tenants at the heart.
- We'll look to influence services following the publication of the Social Housing White Paper and we'll pick up what's needed along with overseeing the Together with Tenants Charter.
- We'll pick up on actions identified in the Housing Ombudsman self-assessment and ensure Bernicia completes them and complies with the requirements of the new Housing Ombudsman Service.
- We'll formalise our position within Bernicia's governance arrangements and in doing so will make sure that the tenants voice is heard loud and clear.

Compliance with the Consumer Standards

The following table summarises Bernicia's performance against the Consumer Standards and reflects the outcome of the Tenants Annual Review of compliance. This review was undertaken during 2019/20 and will be revisited every three years.

Outcome of the compliance check

Consumer Standards					
Standard	No of standards	No of elements	No of elements met	No of elements not met	Compliance Red Amber Green
Home	2	8	8	0	●
Neighbourhood and Community	3	13	13	0	●
Tenancy	2	36	28*	0	●
Involvement and Empowerment	3	27	27	0	●

*8 of the elements relating to fixed term tenancies are not applicable to Bernicia.

Corporate governance

The Group has adopted the National Housing Federation's (NHF) Code of Governance 2015 and undertakes an annual assessment of compliance. From 1 April 2021 the new Code of Governance (2020 edition) will be adopted. The Board has also adopted a Standards of Behaviour policy that is in line with the requirements of the NHF's Code of Conduct 2012. Copies of the Group's policies are available on request.

Report of the Board of Management *(continued)*

Corporate governance *(continued)*

Having reviewed the Group's self-assessment against the Standard and NHF 2015 Code of Governance and the NHF's 2012 Code of Conduct, the Board can confirm that Bernicia complies with all the requirements of both the Code of Governance and Code of Conduct.

The Group recognises that good governance is a pre-requisite to excellent performance. The Group continually reviews and benchmarks its governance arrangements to ensure that it can comply with the highest standards of corporate governance and has systems in place to deal effectively with governance issues as they inevitably arise. The Regulator of Social Housing's most recent assessment of Bernicia's Governance arrangements concluded they are effective. Bernicia's Governance rating therefore remains G1.

As part of Bernicia's continuous improvement culture, opportunities leading to areas of improvement are regularly considered, this allows the Group to quickly respond to changes in best practice and the regulatory environment.

The 2020 review identified a number of key pieces of work to further strengthen compliance these were implemented during 2020/21:

- Implementation of the enhanced tenant engagement framework.
- Board strategy events.
- Risk maps redesigned to provide a clearer picture.

A statement of the responsibilities of the Board of Management in respect of the financial statements is given on page 46. A brief description of the role of the Board is provided below, followed by a statement regarding the Association's internal controls on pages 42 to 45.

The Group is also guided by the RSH's Governance and Financial Viability Standard and the Board undertakes an annual assessment of compliance and can confirm that Bernicia complies fully with its requirements. In particular, it does so by:

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

The Board
The Board comprises members with a wide range of skills and experience who are recruited openly by public advert, supplemented by Independent Committee Members and Co-optee Board Members to meet any specific identified needs. Co-optees are also recruited as part of Board succession planning. During the year the Board reviewed its skills and experience requirements and ensured that they fully align to the delivery of the Corporate Plan. This is used to inform succession planning and board learning and development plans.

The Board holds at least six meetings per annum plus, traditionally, two strategy and planning days, setting and monitoring the strategy and performance, ensuring adequate funding and formulating policy on key issues. During 2021/22 more strategy events will be held with the Board in support of the development of the new Corporate Strategy.

Report of the Board of Management *(continued)*

Corporate governance *(continued)*

The Group has four committees, Audit and Risk, Investment, Customer Services and Remuneration, Resources and Appointments, each having delegated to them, some of the Board's functions. Representatives from the Group sit on each committee.

The Group also has two subsidiaries, Kingston Property Services Limited and The Bernicia Foundation. The Group Board retains the ability to appoint and replace all members of the subsidiary boards.

Day to day management is delegated to the Group Chief Executive and the other executive officers. The Bernicia Executive Management Team comprises the Chief Executive, Executive Director, Finance, Executive Director Assets and Growth and Executive Director, People, Homes and Communities. The Executive Director, Customer Service resigned from his position with effect from 6 April 2021. The Executive Management Team meets regularly, and members attend meetings of the Board and Committees.

Report of the Board of Management *(continued)*

Statement on internal control

The Board has responsibility for ensuring an effective system of internal control is maintained and reviewed. It recognises this does not provide absolute assurance or eliminate risks but is designed to manage risk and provide the necessary assurance that key objectives can be achieved. It also provides assurance in terms of the preparation and reliability of financial and operational information, as well as the safeguarding of the Group's assets and interests.

Roles and Responsibilities
Within an established hierarchy of responsibilities, the Board has overall responsibility for the system of internal control and management of risk. The Board cannot delegate ultimate responsibility for the system of internal control but has delegated authority to the Audit and Risk Committee to regularly review the effectiveness of it. Staff are responsible for implementing policies and also in the design, operation and monitoring of appropriate controls across the risk and assurance landscape. Through monitoring the work of internal and external audit services, as well as other assurance activities, Audit and Risk Committee are able to ensure the necessary assurance on the effectiveness of internal controls.

Key Elements of Internal Control
The Board, working with the Audit and Risk Committee and Executive Team, established controls which are in place across the Group and form the central pillars of both the Board Assurance Framework and the Risk and Assurance Framework.

Business Assurance Map – We continue to use the BAM to review and assess our critical and essential business processes, as well as our Legal and Regulatory requirements against the 'three lines of defence' model. This remains important in helping us to shape future assurance activities.

Policies on Internal Control – A suite of frameworks, strategies, policies and procedures are in place and accessible for staff. These are designed to contribute to effective internal control and include: Board and Assurance Framework, Business Assurance Framework, Governance Framework, Standing Orders, Financial Regulations and Delegated Financial Authority, Audit Policy, Confidentiality Policy, Whistle Blowing Policy, Fraud and Corruption Policy, Probity Framework, Information Governance Framework, Standards of Behaviour, Business Continuity Strategy and Policy.

Risk Maps – A Strategic Risk Map, Executive Risk Map, Commercial Risk Map, suite of Operational Risk Maps and Bespoke Risk Maps (including Covid-19 and Bernicia Foundation) are in place. These are continually reviewed to help monitor, manage and mitigate against risks across the Group at all levels.

Internal Audit & Non-Negotiable Controls – RSM were the internal auditors during 2020/21 and had direct access to the Audit and Risk Committee. They worked to recognised Internal Auditing standards and the associated code of practice – as well as the approved Internal Audit Strategy. During the accounting year, the following activities were examined by internal audit, providing either substantial or reasonable assurance: Safeguarding; Mandatory Training; Asbestos; Fuel Servicing / Gas; Non-Negotiable Control Testing: Finance Testing; Covid-19 Response; Compliance Plus, Rent Arrears. A partial assurance rating was given to the Care Alarms Process. However, the concerns were quickly tackled and a timely Follow Up review by the Internal Auditors confirmed that good progress had been made. Non-Negotiable Control Testing was also implemented to provide further assurance.

Meanwhile Non-Negotiable Controls Validation, Follow Up of Previous Audit Actions, GDPR and Follow-Up: Phase 2 Care Alarms, were all advisory audits and no high-level actions were identified.

Report of the Board of Management *(continued)*

Statement on internal control *(continued)*

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

Non-Negotiable Control Testing – A suite of non-negotiable control tests was in place during the year, with results reported to Audit and Risk Committee on a quarterly basis. In 99.2% of the tests conducted, controls were either fully or mostly effective.

Business Continuity – A Business Continuity Cycle is in place, with a Strategy, Policy and Plans that are regularly reviewed. These are available to staff and training has been undertaken.

Anti-Fraud Measures - The Group has an anti-fraud policy and procedures in place. There were no detected incidences of fraud which resulted in financial loss to the Group.

Anti-Money Laundering Policy - An anti-money laundering policy is in place. Large cash transaction entries are recorded onto the register and reported to the relevant authorities where required.

Performance, Stress Testing and Recovery Planning – The Board were provided with information on financial and operational progress against objectives via agreed KPIs which are externally benchmarked. Budgets are set before the beginning of each financial year. Reports on income and expenditure against these budgets are presented to the Board on a quarterly basis. Variance analysis and any corrective action is proposed and discussed at the Board meetings. Board also considered the Value for Money statement and received quarterly updates in respect of performance against the Regulator's Value for Money Metrics. They also received information in respect of covenant compliance and performance against golden rules. All reports to the Board contain consideration of risk, particularly around the financial impact of any proposed actions. The Business Plan and key assumptions are reviewed regularly and subjected to stress testing, led by Members. This informs the Group's Recovery Planning. These plans are also underpinned by data from our Assets and Liabilities Register which is updated regularly. Board is provided with minutes of all Committee meetings. Funders were also provided with financial performance information. All consideration of performance and wider decision-making was considered within the context of the Group's agreed risk appetite parameters.

Recruitment and development of staff – Our People Strategy ensured staff were supported and had the necessary competences and confidence to carry out their respective roles. This was achieved through our Organisational Development and HR activities, including training, appraisal and performance management, with new ICT systems delivered during the period.

Probity Framework - A Probity Framework is in place. There were no breaches reported during the year.

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

Report of the Board of Management *(continued)*

Statement on internal control *(continued)*

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

Compliance with the Regulatory Framework
The Group continued to operate within the Regulatory Framework. We continue to undertake self-assessments against the Regulatory Standards and the Sector Risk Profile. We maintain the highest possible regulatory judgement of a G1, V1 rating.

COVID-19
During the year the Group effectively managed the multi-layered risks presented by the COVID-19 pandemic. A Command and Control structure was introduced led by the "Gold Team" comprising of the Chief Executive, the Executive Team, Company Secretary and the Managing Director, Commercial. The team responded agilely to the rapidly changing situation presented, ensuring that good governance was maintained; and strong systems of controls remained in place at all times. The Groups response was subjected to a review by Internal Audit, who complimented our commendable and comprehensive approach.

Summary
The Board delegated authority for the initial review of the internal control and risk framework to the Audit and Risk Committee. The Chief Executive's annual report on internal control assurance, combined with internal audit assurance levels have been considered by Audit and Risk Committee and they offered a reasonable to significant level of assurance. The compiling of this Statement did not identify any significant material breaches; in respect of the controls themselves, or around sources of assurance. After the required scrutiny and consideration of the report, the Audit and Risk Committee has recommended the Statement to Group Board, who retain overall responsibility for the effectiveness of internal controls.

The Board concludes that an effective system of internal control has been in place for the year ended 31 March 2021.

Going concern
The Group's business activities, together with the factors likely to affect its future development, performance and position are described in the Report of the Board of Management (Strategic Report).

The Group meets its day to day working capital requirements through the current account, which is cash positive at the year end. The Group meets its development programme requirements through a combination of grant and debt funding. Note 22 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. See note 1 for further details.

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.

Report of the Board of Management *(continued)*

Statement on internal control *(continued)*

Disclosure of information to the auditor

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

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

The Report of the Board of Management was approved on 3 August 2021 and signed on its behalf by:

J Holmes
Chair

Oakwood Way
Ashwood Business Park
Ashington
Northumberland
NE63 0XF

3 August 2021

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

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

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the group's and the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless it either intends to liquidate the group or the association or to cease operations or has no realistic alternative but to do so.

The Board is responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the association and enable them to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2019. It is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the association and to prevent and detect fraud and other irregularities.

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

KPMG LLP
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX
United Kingdom

Independent auditor's report to Bernicia Group

Opinion

We have audited the financial statements of Bernicia Group ("the association") for the year ended 31 March 2021 which comprise the consolidated and association statements of comprehensive income, the consolidated and association statements of financial position, the consolidated and association statements of changes in reserves, the consolidated statement of cash flows and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view, in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, of the state of affairs of the group and the association as at 31 March 2021 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 prepared in accordance with the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2019.

Basis for opinion

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

Going concern

The association's Board has prepared the financial statements on the going concern basis as they do not intend to liquidate the group or the association or to cease their operations, and as they have concluded that the group's and the association's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the Board's conclusions, we considered the inherent risks to the group's business model and analysed how those risks might affect the group's and the association's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the Board's use of the going concern basis of accounting in the preparation of the financial statements is appropriate;

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

- we have not identified, and concur with the Board's assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the group's and the association's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the association will continue in operation.

Fraud and breaches of laws and regulations – ability to detect
Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of the Board, the audit and risk committee, internal audit as to the association's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the association's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board and audit and risk committee minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that Group's management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because of the lack of opportunities due to the nature of the revenue streams.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual accounts.
- Assessing significant accounting estimates for bias

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the Board and other management as required by auditing standards, and from inspection of the Association's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Association is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

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

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Association is subject to laws and regulations that directly affect the financial statements including financial reporting legislation including related co-operative & community benefit society legislation, and taxation legislation, pensions legislation and specific disclosures required by housing legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Association is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the need to include significant provisions. We identified the following areas as those most likely to have such an effect: health and safety, employment law and social housing legislation recognising the regulated nature of the Association's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

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

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

We have nothing to report in these respects.

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

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

We have nothing to report in these respects.

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

Board's responsibilities
As explained more fully in their statement set out on page 46, the association's Board is responsible for: the preparation of financial statements which give a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to liquidate the group or the association or to cease operations, or has no realistic alternative but to do so.

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

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

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

T. Stonehouse

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

25 August 2021

Consolidated Statement of Comprehensive Income

for the year ended 31 March 2021

	Note	2021 £000	2021 £000
Turnover	2	**75,994**	75,424
Cost of sales	2	**(216)**	(879)
Operating expenditure	2	**(54,768)**	(56,419)
Operating surplus		**21,010**	18,126
Gain on disposal of tangible fixed assets	6	**1,286**	728
Interest receivable and similar income	10	**26**	112
Interest payable and similar charges	11	**(11,341)**	(6,791)
Other finance expense	12	**(97)**	(203)
Movement in fair value of investment properties	17	**42**	(8)
Surplus on ordinary activities before taxation	2-13	**10,926**	11,964
Tax on surplus on ordinary activities	13	**-**	-
Surplus on ordinary activities after taxation		**10,926**	11,964
Actuarial (loss) / gain in respect of pension schemes	24	**(8,505)**	4,003
Total comprehensive income for the financial year		**2,421**	15,967

The notes on pages 58 to 96 form an integral part of these financial statements.

These financial statements were approved by the Board on 3 August 2021 and were signed on its behalf by:

J Holmes	**D Jennings**	**M Axe**
Chair	*Member*	*Secretary*

Association Statement of Comprehensive Income

for the year ended 31 March 2021

	Note	2021 £000	2020 £000
Turnover	2	**70,955**	70,635
Cost of sales	2	**(216)**	(879)
Operating expenditure	2	**(50,878)**	(52,563)
Operating surplus		**19,861**	17,193
Gain on disposal of tangible fixed assets	6	**1,286**	728
Interest receivable and similar income	10	**26**	111
Interest payable and similar charges	11	**(11,341)**	(6,791)
Other finance expense	12	**(97)**	(203)
Movement in fair value of investment properties	17	**42**	(8)
Gift aid receivable		**1,265**	1,050
Surplus on ordinary activities before taxation	2-13	**11,042**	12,080
Tax on surplus on ordinary activities	13	**(8)**	-
Surplus on ordinary activities after taxation		**11,034**	12,080
Actuarial (loss) / gain in respect of pension schemes	24	**(8,505)**	4,003
Total comprehensive income for the financial year		**2,529**	16,083

The notes on pages 58 to 96 form an integral part of these financial statements.

These financial statements were approved by the Board on 3 August 2021 and were signed on its behalf by:

J Holmes	**D Jennings**	**M Axe**
Chair	*Member*	*Secretary*

Consolidated Statement of Financial Position
At 31 March 2021

	Note	**2021 £000**	2020 £000
Fixed assets			
Intangible fixed assets	*14*	**2,496**	2,502
Tangible fixed assets	*14*	**457,514**	452,479
Long term investments	*15*	**652**	669
HomeBuy loans receivable		**140**	144
Investment properties	*17*	**2,157**	2,115
		462,959	457,909
Current assets			
Stock	*18*	**1,078**	297
Debtors (including £31,800k *(2020: £36,485k)* due after more than one year)	*19*	**36,775**	41,977
Cash and cash equivalents	*20*	**6,835**	31,428
		44,688	73,702
Creditors: amounts falling due within one year	*21*	**(31,974)**	(43,368)
Net current assets		**12,714**	30,334
LGPS Pension asset	*24*	**415**	340
Total assets less current liabilities		**476,088**	488,583
Creditors: amounts falling due after more than one year	*22*	**(264,807)**	(282,647)
Provisions for liabilities and charges	*23*	**(30,468)**	(35,174)
SHPS Pension liability	*24*	**(13,248)**	(5,618)
Total net assets		**167,565**	165,144
Reserves			
Share capital	*25*	**-**	-
Income and expenditure reserve		**167,565**	165,144
Total reserves		**167,565**	165,144

The notes on pages 58 to 96 form an integral part of these financial statements.

These financial statements were approved by the Board on 3 August 2021 and were signed on its behalf by:

J Holmes	**D Jennings**	**M Axe**
Chair	*Member*	*Secretary*

Registered society number: 7711

Association Statement of Financial Position
at 31 March 2021

	Note	**2021** **£000**	2020 £000
Fixed assets			
Intangible fixed assets	*14*	**921**	915
Tangible fixed assets	*14*	**457,311**	452,305
Long term investments	*15*	**652**	669
HomeBuy loans receivable		**140**	144
Investments in subsidiaries	*16*	**2,367**	2,367
Investment properties	*17*	**2,157**	2,115
		463,548	458,515
Current assets			
Stock	*18*	**1,078**	297
Debtors (including £31,800k *(2020: £36,485k)* due after more than one year)	*19*	**37,561**	41,917
Cash and cash equivalents	*20*	**5,411**	30,817
		44,050	73,031
Creditors: amounts falling due within one year	*21*	**(31,127)**	(42,613)
Net current assets		**12,923**	30,418
LGPS Pension asset	*24*	**415**	340
Total assets less current liabilities		**476,886**	489,273
Creditors: amounts falling due after more than one year	*22*	**(264,807)**	(282,647)
Provisions for liabilities and charges	*23*	**(30,468)**	(35,174)
SHPS Pension liability	*24*	**(13,248)**	(5,618)
Total net assets		**168,363**	165,834
Reserves			
Share capital	*25*	**-**	-
Income and expenditure reserve		**168,363**	165,834
Total reserves		**168,363**	165,834

The notes on pages 58 to 96 form an integral part of these financial statements.

These financial statements were approved by the Board on 3 August 2021 and were signed on its behalf by:

J Holmes	**D Jennings**	**M Axe**
Chair	*Member*	*Secretary*

Registered society number: 7711

Consolidated Statement of Changes in Reserves

	Called up share capital £000	Income and expenditure reserve £000	Total reserves £000
Balance at 31 March 2019	-	149,177	149,177
Total comprehensive income for the financial year			
Surplus for the year	-	11,964	11,964
Other comprehensive income			
Actuarial movement in respect of LGPS pension scheme	-	(2,704)	(2,704)
Actuarial movement in respect of SHPS pension scheme	-	6,707	6,707
Balance at 31 March 2020	-	165,144	165,144
Balance at 31 March 2020	-	165,144	165,144
Total comprehensive income for the financial year			
Surplus for the year	-	10,926	10,926
Other comprehensive income			
SHPS opening balance adjustment on initial recognition	-	-	-
Actuarial movement in respect of LGPS pension scheme	-	138	138
Actuarial movement in respect of SHPS pension scheme	-	(8,643)	(8,643)
Balance at 31 March 2021	**-**	**167,565**	**167,565**

Association Statement of Changes in Reserves

	Called up share capital £000	Income and expenditure reserve £000	Total reserves £000
Balance at 31 March 2019	-	149,751	149,751
Total comprehensive income for the financial year			
Surplus for the year	-	12,080	12,080
Other comprehensive income			
Actuarial movement in respect of LGPS pension scheme	-	(2,704)	(2,704)
Actuarial movement in respect of SHPS pension scheme	-	6,707	6,707
Balance at 31 March 2020	-	165,834	165,834
Balance at 31 March 2020	-	165,834	165,834
Total comprehensive income for the financial year			
Surplus for the year	-	11,034	11,034
Other comprehensive income			
SHPS opening balance adjustment on initial recognition	-	-	-
Actuarial movement in respect of LGPS pension scheme	-	138	138
Actuarial movement in respect of SHPS pension scheme	-	(8,643)	(8,643)
Balance at 31 March 2021	**-**	**168,363**	**168,363**

Consolidated Statement of Cash Flows
for year ended 31 March 2021

	2021 £000	2020 £000
Cash flows from operating activities		
Surplus for the financial year	**10,926**	11,964
Adjustments for non-cash items		
Depreciation of tangible fixed assets and software	**11,793**	11,571
Amortisation of goodwill	**116**	116
Taxation		-
(Increase) / decrease in stock	**(781)**	1,128
Decrease in trade and other debtors	**5,202**	3,435
(Decrease) / increase in trade and other creditors	**357**	1,576
Decrease in provisions	**(4,706)**	(3,232)
Pension costs less contributions payable	**(1,047)**	(941)
Gain on sale of tangible fixed assets	**(1,286)**	(727)
Movement in fair value of investment properties	**(50)**	8
Government grants utilised in the year	**(3,923)**	(2,708)
Interest payable	**11,341**	6,791
Other finance expense	**97**	203
Interest receivable	**(26)**	(112)
Net cash from operating activities	**28,013**	29,072
Cash flows from investing activities		
Capitalised housing properties expenditure	**(18,464)**	(20,423)
Purchases of other fixed assets and software	**(551)**	(1,161)
Proceeds from sale of tangible fixed assets	**2,992**	2,459
Grants received	**1,878**	3,672
Interest receivable	**6**	112
Net cash from investing activities	**(14,139)**	**(15,341)**
Cash flows from financing activities		
Interest payable	**(11,790)**	(7,020)
New secured loans	**20,000**	15,000
Repayments of borrowings	**(46,677)**	(5,132)
Net cash from financing activities	**(38,467)**	2,848
Net (decrease) / increase in cash	**(24,593)**	16,579
Cash and cash equivalents at 1 April	**31,428**	14,849
Cash and cash equivalents at 31 March	**6,835**	31,428

Notes
(forming part of the financial statements)

1 Accounting policies

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

These financial statements were prepared in accordance with the Housing SORP 2018: Statement of Recommended Practice for registered social housing providers, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2020 and Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland ("FRS 102"). The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

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

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

Measurement convention

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

Going concern

The financial statements have been prepared on a going concern basis which the Board considers to be appropriate for the following reasons.

The Board has prepared cash flow forecasts covering a period of 24 months from the date of approval of these financial statements (the going concern period) which indicate that, taking account of severe but plausible downsides, the Group and Association will have sufficient funds to meet their liabilities as they fall due for that period. In addition, the Board prepares a 30 year business plan which is updated and approved on an annual basis. The most recent business plan was approved in June 2021 by the Board. As well as considering the impact of a number of scenarios on the business plan the Board also adopted a stress testing framework against the base plan. The stress testing impacts were measured against loan covenants and peak borrowing levels compared to agreed facilities, with potential mitigating actions identified to reduce expenditure. Following the outbreak of Covid-19 the Board has undertaken a series of further scenario testing including severe but plausible downsides in the worst-case assessment.

The Board, after reviewing the Group and Association budgets for 2021/22 and the Group's medium term financial position as detailed in the cash flow forecasts and 30-year business plan, including changes arising from the Covid-19 pandemic, is of the opinion that, taking account of severe but plausible downsides, the Group and Association have adequate resources to continue to meet their liabilities over the going concern period. In reaching this conclusion, the Board has considered the following factors:

- The property market – budget and business plan scenarios have taken account of delays in handovers along with any sales proceeds from right to buy or right to acquire properties reducing to breakeven;
- Maintenance costs – budget and business plan scenarios have been modelled to take account of cost increases and delays in maintenance expenditure, with major works being phased into future years;
- Rent and service charge receivable – void rates, arrears and bad debts have been increased to allow for customer difficulties in making payments and budget and business plan scenarios to take account of potential future reductions in rents;
- Liquidity – current available cash and unutilised loan facilities across the group of £119m which gives significant headroom for committed expenditure and other forecast cash flows over the going concern assessment period;
- The Group's ability to withstand other adverse scenarios such as higher interest rates and increases in the number of void properties; and
- Pension deficit – budget and business plan scenarios have taken account of increased pension deficit payments.

Notes (*continued*)

1 Accounting policies *(continued)*

Going concern *(continued)*
The Board believes the Group and Association have sufficient funding in place and expect the Group to be in compliance with its debt covenants even in severe but plausible downside scenarios.
Consequently, the Board is confident that the Group and Association will have sufficient funds to continue to meet their liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Basis of consolidation

The statutory accounts for Bernicia Group incorporate the results of Bernicia Group, Kingston Property Services Limited and the Bernicia Foundation in accordance with FRS 102.9.

Turnover

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

Service charges

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

Intangible fixed assets

Goodwill

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

Software

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

Tangible fixed assets – housing properties

Initial recognition

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

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

Shared ownership properties

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

Right to buy sales

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

Notes *(continued)*

1 Accounting policies *(continued)*

Tangible fixed assets – housing properties *(Continued)*

Disposals

The surplus or deficit on the disposal of fixed assets, including first and subsequent tranches of shared ownership properties, is accounted for in the income and expenditure account of the period in which the disposal occurs.

Depreciation

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

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

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

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

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

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

Capitalisation of interest

Interest on loans financing the development programme is capitalised up to the date of practical completion of the scheme. Interest costs are included at rates based on the Group's weighted average cost of borrowings. Where a loan is not specifically drawn down to fund a development, no interest is capitalised.

Capitalisation of acquisition and development costs

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

Improvement works to existing properties

Costs of improvement works to existing properties are only capitalised when there is a demonstrable enhancement of economic benefits of the asset, or where a component of the tangible fixed asset that has been treated separately for depreciation purposes and depreciated over its useful economic life is restored or replaced.

Notes *(continued)*

1 Accounting policies *(continued)*

Tangible fixed assets – housing properties *(continued)*

Impairment

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

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

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

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

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

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

Tangible fixed assets – other

Initial recognition

Other tangible fixed assets are initially recorded at cost.

Depreciation

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

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

Freehold land is not depreciated.

Capitalisation of IT staff costs

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

Notes *(continued)*

1 Accounting policies *(continued)*

Tangible fixed assets – other *(continued)*

Long term investments

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

Investment properties

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

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

Stock

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

Government grants

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

Government grants can be recycled by the Group under certain conditions, if a property is sold, or if another relevant event takes place. In these cases, the Government grant may be used for projects approved by Homes England, however the grant may have to be repaid if certain conditions are not met.

Improvement provision

Provisions represent the Group’s liabilities to undertake the refurbishment works under Development Agreements entered into by Wansbeck Homes Limited with Wansbeck District Council and by Berwick Borough Housing Limited with Berwick-upon-Tweed Council. The Group has also recognised a debtor in respect of this work, as the Group will benefit from the work which it is obliged to perform. This is explained further in note 23.

Taxation

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

Kingston Property Services Limited is registered for UK taxation. The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes which have arisen, but not reversed by the balance sheet date.

Notes *(continued)*

1 Accounting policies *(continued)*

Deferred taxation

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

Value Added Tax

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

As part of the development agreements with Wansbeck District Council and Berwick-upon-Tweed Council, the Group has two approved VAT shelter schemes operative from 25 February 2008 and 3 November 2008 respectively, The Wansbeck VAT shelter lasts for 10 years from that date and the Berwick VAT shelter lasts for 15 years from that date. As a result, the VAT incurred on the property stock improvement programme is recoverable. The balance of VAT recoverable at the period end is included as part of the overall net VAT current asset or current liability in the Statement of Financial Position.

Units managed by third parties

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

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

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

Employee benefits

Pension costs

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

Local Government Pension Scheme (LGPS)

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

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

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is recognised in the Statement of Comprehensive Income as operating charges, finance items and actuarial gains/losses.

Notes *(continued)*

1 Accounting policies *(continued)*

Employee benefits *(Continued)*

Social Housing Pension Scheme (SHPS)

The Group participates in an industry wide, defined benefit final salary pension scheme, SHPS.

The operating costs of providing employee (retirement) benefits to participating employees are recongised in the financial years in which the benefits are earned. The related finance costs, and any other changes in fair value of the assets and liabilities are recognised in the financial year in which they arise. The operating costs and finance costs are recognised in the statement of comprehensive income with any other changes in fair value of assets and liabilities being recongised in other comprehensive income.

National Employment Savings Trust (NEST)

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

Termination benefits

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

Financial instruments

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

Leased assets

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

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

Notes *(continued)*

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

Group

	Turnover £000	Cost of sales £000	Operating expenditure £000	2021 Operating surplus £000	2020 Operating surplus £000
Social housing lettings					
General needs housing	**47,864**	**-**	**(34,066)**	**13,798**	12,123
Housing for older people	**13,109**	**-**	**(8,938)**	**4,171**	3,096
Supported housing accommodation	**6,162**	**-**	**(4,510)**	**1,652**	2,755
Shared ownership accommodation	**1,108**	**-**	**(548)**	**560**	512
	68,243	**-**	**(48,062)**	**20,181**	18,486
Other social housing activities					
First tranche low cost home ownership sales	**218**	**(216)**	**(6)**	**(4)**	29
Support services	**150**	**-**	**-**	**150**	100
Development services	**-**	**-**	**(1,173)**	**(1,173)**	(1,255)
Community services	**-**	**-**	**-**	**-**	(41)
Other	**-**	**-**	**(414)**	**(414)**	(924)
	368	**(216)**	**(1,593)**	**(1,441)**	(2,091)
Activities other than social housing activities					
Leasehold management	**5,039**	**-**	**(3,774)**	**1,265**	1,050
Other operating income (note 5)	**1,209**	**-**	**-**	**1,209**	1,046
Private rented accommodation	**90**	**-**	**(5)**	**85**	90
Commercial and other	**481**	**-**	**(53)**	**428**	370
Care & Repair	**564**	**-**	**(1,165)**	**(601)**	(709)
Amortisation of goodwill	**-**	**-**	**(116)**	**(116)**	(116)
	7,383	**-**	**(5,113)**	**2,270**	1,731
Total	**75,994**	**(216)**	**(54,768)**	**21,010**	18,126

Shared ownership transactions

	First tranche £000	Staircasing £000	2021 Total £000	2020 Total £000
Proceeds	**218**	**-**	**218**	908
Cost of sales (including fees)	**(222)**	**-**	**(222)**	(879)
	(4)	**-**	**(4)**	29

Notes *(continued)*

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

The amount of costs related to the sale of shared ownership properties released to the Statement of Comprehensive Income from current assets was £222,000 *(2020: £879,000)* and arose from first tranche sales. The amount released from tangible fixed assets during the period was £nil *(2020: £nil)* and arose from staircasing.

Association (Combined)

	Turnover £000	Cost of sales £000	Operating expenditure £000	2021 Operating surplus £000	2020 Operating surplus £000
Social housing lettings					
General needs housing	**47,864**	**-**	**(34,066)**	**13,798**	12,123
Housing for older people	**13,109**	**-**	**(8,938)**	**4,171**	3,096
Supported housing accommodation	**6,162**	**-**	**(4,510)**	**1,652**	2,755
Shared ownership accommodation	**1,108**	**-**	**(548)**	**560**	512
	68,243	**-**	**(48,062)**	**20,181**	18,486
Other social housing activities					
First tranche low cost home ownership sales	**218**	**(216)**	**(6)**	**(4)**	29
Support services	**150**	**-**	**-**	**150**	100
Community services	**-**	**-**	**-**	**-**	(41)
Development service	**-**	**-**	**(1,173)**	**(1,173)**	(1,255)
Other	**-**	**-**	**(414)**	**(414)**	(924)
	368	**(216)**	**(1,593)**	**(1,441)**	(2,091)
Activities other than social housing activities					
Other operating income (note 5)	**1,209**	**-**	**-**	**1,209**	1,046
Private rented accommodation	**90**	**-**	**(5)**	**85**	90
Commercial and other	**481**	**-**	**(53)**	**428**	371
Care & Repair	**564**	**-**	**(1,165)**	**(601)**	(709)
	2,344	**-**	**(1,223)**	**1,121**	798
Total	**70,955**	**(216)**	**(50,878)**	**19,861**	17,193

Shared ownership transactions

	First tranche £000	Staircasing £000	2021 Total £000	2020 Total £000
Proceeds	**218**	**-**	**218**	908
Cost of sales	**(216)**	**-**	**(216)**	(879)
Operating Expenditure - fees	**(6)**	**-**	**(6)**	-
	(4)	**-**	**(4)**	29

The amount of costs related to the sale of shared ownership properties released to the Statement of Comprehensive Income from current assets was £222,000 *(2020: £879,000)* and arose from first tranche sales. The amount released from tangible fixed assets during the period was £nil *(2020: £nil)* and arose from staircasing.

Notes *(continued)*

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

Group and association

	General needs housing	Housing for older people	Supported housing	Shared ownership	2021 Total	2020 Total
	£000	£000	£000	£000	£000	£000
Income						
Rent receivable net of identified service charges	**41,251**	**9,642**	**3,229**	**926**	**55,048**	53,594
Service charge income	**1,541**	**2,547**	**1,940**	**147**	**6,175**	6,000
Water rates receivable	**2,100**	**575**	**8**	**-**	**2,683**	3,461
Amortised government grants	**2,972**	**345**	**985**	**35**	**4,337**	4,365
Turnover from social housing lettings	**47,864**	**13,109**	**6,162**	**1,108**	**68,243**	67,420
Operating expenditure						
Management	**(6,107)**	**(2,330)**	**(534)**	**(234)**	**(9,205)**	(9,295)
Service charge costs	**(3,191)**	**(1,016)**	**(662)**	**(113)**	**(4,982)**	(5,019)
Routine maintenance	**(7,886)**	**(2,089)**	**(378)**	**(20)**	**(10,373)**	(10,537)
Planned maintenance	**(3,328)**	**(1,063)**	**(221)**	**(51)**	**(4,663)**	(4,650)
Major repairs expenditure	**(3,159)**	**(977)**	**(199)**	**(41)**	**(4,376)**	(4,332)
Bad debts	**(263)**	**(46)**	**(61)**	**(12)**	**(382)**	(817)
Water rates payable	**(2,125)**	**(594)**	**(8)**	**-**	**(2,727)**	(3,586)
Depreciation of housing properties	**(8,006)**	**(823)**	**(2,287)**	**(77)**	**(11,193)**	(10,511)
Other costs	**(1)**	**-**	**(160)**	**-**	**(161)**	(187)
Operating expenditure on social housing lettings	**(34,066)**	**(8,938)**	**(4,510)**	**(548)**	**(48,062)**	(48,934)
Operating surplus on social housing lettings	**13,798**	**4,171**	**1,652**	**560**	**20,181**	18,486
Void losses	**(614)**	**(573)**	**(86)**	**-**	**(1,273)**	(1,116)

Notes *(continued)*

3 Accommodation owned

Group

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

	2021 Owned and managed Number	**2021 Managed by others Number**	**2021 Managed for others**	2020 Owned and managed Number	2020 Managed by others Number	2020 Managed for others Number
General needs housing:						
Social rent	**9,047**	**3**	**86**	9,118	3	97
Affordable rent	**974**	**-**	**1**	909	-	-
Housing for older people	**2,569**	**-**	**14**	2,547	-	14
Supported housing accommodation	**443**	**102**	**8**	419	127	19
Care homes	**52**	**-**	**-**	58	-	-
Shared ownership accommodation	**331**	**-**	**-**	341	-	-
Serviced Right to Buy	**757**	**-**	**-**	755	-	-
Rent to HomeBuy	**61**	**-**	**-**	61	-	-
Private rented accommodation	**12**	**-**	**-**	12	-	-
Commercial and other:						
Garages	**1,426**	**-**	**-**	1,498	-	-
Shops	**58**	**-**	**-**	56	-	-
	15,730	**105**	**109**	15,774	130	130

Association

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

	2021 Owned and managed Number	**2021 Managed by others Number**	**2021 Managed for others**	2020 Owned and managed Number	2020 Managed by others Number	2020 Managed for others Number
General needs housing:						
Social rent	**9,047**	**3**	**86**	9,118	3	97
Affordable rent	**974**	**-**	**1**	909	-	-
Housing for older people	**2,569**	**-**	**14**	2,547	-	14
Supported housing accommodation	**495**	**102**	**8**	477	127	19
Shared ownership accommodation	**331**	**-**	**-**	341	-	-
Serviced Right to Buy	**757**	**-**	**-**	755	-	-
Rent to HomeBuy	**61**	**-**	**-**	61	-	-
Private rented		**-**	**-**			
Accommodation	**11**			-	11	1
Commercial and other:						
Garages	**1,426**	**-**	**-**	1,498	-	-
Shops	**58**	**-**	**-**	56	-	-
	15,729	**105**	**109**	15,762	141	131

Notes *(continued)*

4 Financial assistance and other Government grant receivable

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

	Group		Association	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Recognised in the Statement of Comprehensive Income	**76,949**	72,603	**76,949**	72,603
Held as deferred income (note 22)	**159,409**	160,815	**159,409**	160,815
	236,358	233,418	**236,358**	**233,418**

5 Other operating income

	Group		Association	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Rate collection allowance	**350**	440	**350**	440
Office rental	**165**	178	**165**	178
Sale of management services	**139**	194	**139**	194
Sundry income	**538**	220	**538**	220
Homebuy income	**17**	14	**17**	14
Total other operating income	**1,209**	1,046	**1,209**	**1,046**

6 Gain on disposal of tangible fixed assets

	Group		Association	
	2021	2020	**2021**	2020
	£000	£000		
Proceeds from sales of housing properties	**2,992**	2,459	**2,992**	2,459
Cost of sales of housing properties (including fees)	**(1,706)**	(1,732)	**(1,706)**	(1,732)
Net gain on disposal of housing properties	**1,286**	727	**1,286**	727
Proceeds from sales of other tangible fixed assets	**-**	1	**-**	1
Cost of sales of other tangible fixed assets	**-**	-	**-**	-
Net gain on disposal of other tangible fixed assets	**-**	1	**-**	1
Gain on disposal of tangible fixed assets	**1,286**	728	**1,286**	728

Notes *(continued)*

7 Expenses and auditor's remuneration

Included in the surplus are the following:

	Group		Association	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Planned maintenance and major repairs	**2,838**	5,920	**2,838**	5,920
Charge for the provision of bad debts	**418**	906	**418**	906
Depreciation of tangible fixed assets – housing properties	**10,998**	10,737	**10,998**	10,737
Depreciation of tangible fixed assets – other	**613**	674	**605**	663
Amortisation of intangible fixed assets - software	**182**	160	**182**	157

Auditor's remuneration:

	Group		Association	
	2021	2020	**2021**	2020
Audit of these financial statements	**65**	42	57	42
Amounts receivable by the Group's auditor in respect of:				
Audit of financial statements of subsidiaries of the group	**9**	9	9	9
Audit - related assurance services	**15**	12	15	12
Taxation compliance services	**16**	16	7	16
Other non-audit services	**-**	-	-	-
Internal auditors' remuneration from internal audit services	**59**	67	59	67

Notes *(continued)*

8 Staff numbers and cost

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

	Group		Association	
	2021 Number	2020 Number	**2021 Number**	2020 Number
Operational	**390**	396	**321**	328
Finance and administration	**105**	105	**87**	89
Care and repair	**11**	12	**11**	12
	506	513	**419**	429

The aggregate payroll costs of these persons were as follows:

	Group		Association	
	2021 £000	2020 £000	**2021 £000**	2020 £000
Wages and salaries (including car allowance)	**15,008**	15,189	**14,002**	14,620
Compensation for loss of office	**58**	-	**58**	-
Social security costs	**1,364**	1,333	**1,285**	1,295
Current service cost of defined benefit plan (LGPS)	**817**	697	**817**	697
Current service cost of defined benefit plan (SHPS)	**1,140**	754	**1,098**	734
Contributions to defined contribution plan (NEST)	**75**	207	**62**	201
Contributions to defined contribution plan (Other)	**4**	4	**-**	4
Capitalised	**(328)**	(325)	**(328)**	(325)
Apprenticeship levy	**60**	60	**55**	57
Agency	**19**	62	**19**	62
	18,217	17,981	**17,068**	17,345
Recharges outside the Group	**-**	-	**-**	-
	18,217	17,981	**17,068**	17,345

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

	Group		Association	
	2021 £000	2020 £000	**2021 £000**	2020 £000
£60,000 - £70,000	**1**	-	**1**	-
£70,001 - £80,000	**2**	2	**2**	2
£80,001 - £90,000	**2**	3	**2**	2
£90,001 - £100,000	**3**	1	**2**	1
£100,001 - £110,000	**-**	2	**-**	2
£110,001 - £120,000	**1**	1	**1**	1
£120,001 - £130,000	**1**	-	**1**	-
£130,001 - £140,000	**3**	3	**3**	3
£150,001 - £160,000	**-**	-	**-**	-
£160,001 - £170,000	**-**	-	**-**	-
£170,001 - £180,000	**-**	1	**-**	1
£180,001 - £190,000	**1**	-	**1**	-
	14	13	**13**	12

Notes *(continued)*

9 Director's remuneration and key management personnel

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

	Group		Association	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Wages and salaries	**1,151**	1,245	**1,151**	1,245
Group contributions payable in respect of pensions (SHPS)	**89**	98	**89**	98
Group contributions payable in respect of pension (LGPS)	**57**	44	**57**	44
Compensation for loss of office	**58**	-	**58**	-
Non-executive Board members' emolument	**72**	61	**72**	61
Total expenses reimbursed to key management personnel and members of the Board	**9**	11 -	**9**	11 -
	1,436	1,459	**1,436**	1,459

The aggregate of his emoluments for the year, including Association pension contributions, as the highest paid director, was £185,596 *(2020: £178,857)*. He is an ordinary member of the Social Housing Pension Scheme, has no enhanced or special pension terms and has no other pension arrangements to which the Association contributes.

	Group		Association	
	2021	2020	**2021**	2020
	Number	Number	**Number**	Number
Retirement benefits are accruing to the following number of Directors and key management personnel under:				
Defined benefit schemes	**10**	11	**10**	11

Notes *(continued)*

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

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

	Group		Association	
	2021	2020	**2021**	2020
Group and Association	**£000**	£000	**£000**	£000
Mr T Stevenson	**3**	6	**3**	6
Ms A Tarn	**7**	6	**7**	6
Mr X Setna	**6**	5	**6**	5
Mr D Jennings	**7**	6	**7**	6
Mr A Pegg	**9**	8	**9**	8
Mr J Holmes	**15**	14	**15**	14
Mrs A Gibson	**7**	5	**7**	5
Mrs C-J Rewcastle	**6**	5	**6**	5
Mrs L Shearing	**6**	3	**6**	3
Mr A Dunn	**6**	3	**6**	3
Non-executive Board members' emoluments	**72**	61	**72**	61

10 Interest receivable and similar income

	Group		Association	
	2021	2020	**2021**	2020
Bank deposits	**26**	106	**26**	105
Net gain on financial assets measured at fair value through profit or loss	**-**	6	**-**	6
Total interest receivable and similar income	**26**	112	**26**	111

Notes *(continued)*

11 Interest payable and similar charges

	Group		Association	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Interest on loans	**6,666**	6,925	**6,666**	6,925
Early loan redemption costs	**5,029**	-	**5,029**	-
Interest payable and similar charges	**11,695**	6,925	**11,695**	6,925
Less amounts capitalised	**(354)**	(134)	**(354)**	(134)
Total interest payable and similar charges	**11,341**	6,791	**11,341**	6,791

12 Other finance expense

	Group		Association	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Net interest on net defined benefit plan asset / liability	**(97)**	(203)	**(97)**	(203)
Total other finance expense	**(97)**	(203)	**(97)**	(203)

13 Taxation

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

	Group		Association	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Current tax				
Current tax on income for the period	**-**	-	**8**	-
Total tax	**-**	-	**8**	-

Notes *(continued)*

13 Taxation *(continued)*

The current tax charge for the period is lower *(2020: lower)* than the rate of corporation tax in the UK of % *(2020: 19%)*. The differences are explained below:

Reconciliation of effective tax rate

	Group		Association	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Surplus for the year after taxation	**10,926**	11,964	**11,034**	12,080
Total tax expense	**-**	-	**8**	-
Surplus on ordinary activities before taxation	**10,926**	11,964	**11,042**	12,080
Tax using the UK corporation tax rate of 19% *(2020: 19%)*	**2,076**	2,273	**2,098**	2,296
Tax exempt revenues	**(2,076)**	(2,273)	**(2,090)**	(2,296)
Total tax expense included in profit or loss	**-**	-	**8**	-

In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19%, rather than reducing to 17% as previously enacted. This new law was deemed substantively enacted on 17 March 20. In the 3 March 2021 Budget, it was annouced that the UK tax rate will increase to 25% from 1 April 2023.

14 Intangible fixed assets

Group

	Goodwill	Software	Total
	£000	£000	£000
Cost			
At 31 March 2020	2,319	1,435	3,754
Additions	-	292	292
At 31 March 2021	2,319	1,727	4,046
Amortisation			
At 31 March 2020	769	483	1,252
Charged in the year	116	182	298
At 31 March 2021	885	665	1,550
Net book value			
At 31 March 2021	**1,434**	**1,062**	**2,496**
At 31 March 2020	1,550	952	2,502

Notes *(continued)*

14 Intangible fixed assets *(continued)*

Association

	Software £000
Cost	
At 31 March 2020	1,274
Additions	188
At 31 March 2021	1,462
Amortisation	
At 31 March 2020	359
Charged in the year	182
At 31 March 2021	541
Net book value	
At 31 March 2021	**921**
At 31 March 2020	915

14a Tangible assets

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

		Group		Association	
	Note	**2021 £000**	2020 £000	**2021 £000**	2020 £000
Tangible fixed assets – housing properties	*14b*	**447,549**	442,159	**447,549**	442,159
Tangible fixed assets – other	*14c*	**9,965**	10,320	**9,762**	10,146
		457,514	452,479	**457,311**	452,305

Notes *(continued)*

14b Tangible fixed asset – housing properties

Group and association

	Housing Properties held for letting		Supported Housing		Shared Ownership		Rent to Homebuy		
	Completed £000	Under construction £000	Completed £000	Under construction £000	Completed £000	Under construction £000	Completed £000	Under construction £000	Total £000
Cost									
At 31 March 2020	395,042	2,669	142,360	1,071	16,127	77	5,998	-	563,344
Properties acquired	-	3,236	-	3	-	174	-	110	3,523
Development of new Properties	15	3,532	224	4,841	-	427	-	-	9,039
Works to existing properties	5,705	-	197	-	-	-	-	-	5,902
Disposals	(1,480)	-	(184)	-	(920)	-	-	-	(2,584)
Completed schemes	5,524	(5,524)	1,459	(1,459)	617	(617)	-	-	-
Transfers	(6,237)	(744)	6,147	286	94	469	(15)	-	-
At 31 March 2021	398,569	3,169	150,203	4,742	15,918	530	5,983	110	579,224
Depreciation and impairment									
At 31 March 2020	85,744	-	32,993	-	2,065	-	383	-	121,185
Charged in the year	7,764	-	3,101	-	76	-	57	-	10,998
Transfer from OFA	-	-	-	-	-	-	-	-	-
Disposals	(558)	-	(65)	-	(175)	-	-	-	(798)
Impairment	290	-	-	-	-	-	-	-	290
Transfers	(468)	-	339	-	105	-	24	-	-
At 31 March 2021	92,772	-	36,368	-	2,071	-	464	-	131,675
Net book value									
At 31 March 2021	**305,797**	**3,169**	**113,835**	**4,742**	**13,847**	**530**	**5,519**	**110**	**447,549**
At 31 March 2020	309,298	2,669	109,367	1,071	14,062	77	5,615	-	442,159

Notes *(continued)*

14b Tangible fixed assets – housing properties *(continued)*

Security

Tangible fixed assets with a net book value of £250,687,429 *(2020: £244,999,177)* are secured.

Borrowing costs

The amount of borrowing costs capitalised to tangible fixed assets – housing properties during the period was £354,037 *(2020: £133,781)* with a capitalisation rate of 4.74% *(2020: 4.80%)*.

Included in the cost of tangible fixed assets – housing properties is £2,307,819 *(2020: £1,953,781)* in respect of capitalised finance costs.

Development costs

The amount of development costs capitalised to tangible fixed assets – housing properties during the period was £327,585 *(2020: £325,591)*.

Land and Buildings

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

	Group and Association	
	2021	2020
	£000	£000
Freehold	**431,079**	434,912
Long leasehold	**16,154**	3,557
Short leasehold	**316**	3,690
	447,549	442,159

Notes *(continued)*

14c Tangible fixed assets - other

Group

	Land and buildings £000	Leasehold property improve-ments £000	Office equipment £000	Scheme fixtures and fittings £000	Motor vehicles £000	Total £000
Cost						
At 31 March 2020	11,250	46	6,308	459	1,654	19,717
Additions	129	36	89	5	-	259
Disposals	(13)	-	(3,791)	(37)	(38)	(3,879)
At 31 March 2021	11,366	82	2,606	427	1,616	16,097
Depreciation						
At 31 March 2020	1,813	37	5,575	367	1,605	9,397
Charged in the year	230	2	349	8	24	613
Disposals	-	-	(3,810)	(34)	(34)	(3,878)
At 31 March 2021	2,043	39	2,114	341	1,595	6,132
Net book value						
At 31 March 2021	**9,323**	**43**	**492**	**86**	**21**	**9,965**
At 31 March 2020	9,437	9	733	92	49	10,320

	2021 £000	2020 £000
Freehold	**9,890**	9,373
Short leasehold	**75**	75
	9,965	9,448

Notes *(continued)*

14c Tangible fixed assets - other *(continued)*

Association

	Land and buildings £000	Leasehold property improve-ments £000	Office equipment £000	Scheme fixtures and fittings £000	Motor vehicles £000	Total £000
Cost						
At 1 April 2020	11,162	25	6,273	362	1,579	19,401
Additions	129	-	87	5	-	221
Disposals	-	-	(3,791)	(34)	(34)	(3,859)
At 31 March 2021	11,291	25	2,569	333	1,545	15,763
Depreciation						
At 1 April 2020	1,790	25	5,565	342	1,533	9,255
Charged in the year	225	-	349	7	24	605
Disposals	-	-	(3,791)	(34)	(34)	(3,859)
At 31 March 2021	2,015	25	2,123	315	1,523	6,001
Net book value						
At 31 March 2021	**9,276**	**-**	**446**	**18**	**22**	**9,762**
At 1 April 2020	9,372	-	708	20	46	10,146

	2021 £000	2020 £000
Freehold	**9,203**	9,297
Short leasehold	**73**	75
	9,276	9,372

Notes *(continued)*

15 Long term investments

	Group		Association	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Valuation				
At 1 April	**669**	690	**669**	688
Revaluation	**(17)**	(21)	**(17)**	(19)
At 31 March	**652**	669	**652**	669

Long term investments are represented as follows:

	Group		Association	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Long term investment in:				
Haven Funding plc	**506**	523	**506**	523
UK Rents (No 1) plc	**146**	146	**146**	146
Foundations UK	**-**	-	**-**	-
Agents Mutuals Limited	**-**	-	**-**	-
	652	669	**652**	669

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

Long term investments are analysed as follows:

	Group		Association	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Listed investments	**199**	316	**199**	316
Unlisted investments	**453**	353	**453**	353
	652	669	**652**	669

Notes *(continued)*

16 Investments in subsidiaries

Subsidiaries

	Association	
	2021	2020
Cost	**£000**	£000
At 1 April and 31 March	**2,367**	2,367

Investments in subsidiaries comprise 100% of the share capital of Kingston Property Services Limited. Following the consolidation of the Group's Commercial entities on 1 March 2021 the investment cost of £1,294k in Livingspaces (UK) Limited and the investment cost of £1,073k in Avoca Estate Management Limited is now recognised in Kingston Property Services Limited.

17 Investment properties

	Group and Association	
	2021	2020
	£000	£000
Valuation		
At 1 April	**2,115**	4,273
Revaluation	**42**	(8)
Transfer / change in classification (note 14c)	**-**	(2,150)
Additions	**-**	-
At 31 March	**2,157**	2,115

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

18 Stock

	Group and Association	
	2021	2020
	£000	£000
Shared ownership properties held for resale	**699**	-
Consumables	**379**	297
	1,078	297

Notes *(continued)*

19 Debtors

	Group		Association	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Rents and service charges arrears	**7,367**	7,655	**7,367**	7,655
Less: Provision for bad and doubtful debts	**(5,391)**	(5,318)	**(5,391)**	(5,318)
	1,976	2,337	**1,976**	2,337
Amounts owed by undertakings in which the association has a participating interest	**-**	452	**1,546**	1,017
Other debtors	**32,537**	36,971	**32,174**	36,864
Prepayments and accrued income	**2,262**	2,217	**1,865**	1,699
	36,775	41,977	**37,561**	41,917
Due within one year	**4,975**	5,492	**5,761**	5,432
Due after more than one year	**31,800**	36,485	**31,800**	36,485
	36,775	41,977	**37,561**	41,917

For the Group, debtors includes Other debtors of £31,800,000 *(2020: £36,485,000)* due after more than one year. £30,468,000 *(2020: £35,174,000)* of these Other debtors due after more than one year relate to contracted refurbishment works described at note 23, and £754,278 *(2020: £749,643)* relate to coupons received in advance on loans taken out by Three Rivers and HAPM and FARR insurance.

	Group		Association	
	2021	2020	**2021**	2020
	£	£	**£**	£
Unpaid share capital	**8**	8	**8**	8

20 Cash at bank and in hand

	Group		Association	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Cash at bank and in hand	**6,835**	31,428	**5,411**	30,817

Notes *(continued)*

21 Creditors: amounts falling due within one year

	Group		Association	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Bank loans (see note 22)	**6,156**	16,243	**6,156**	16,243
Rents and service charges received in Advance	**1,529**	928	**1,529**	928
Trade creditors	**1,378**	692	**1,378**	692
Amounts owed to undertakings in which the association has a participating interest		175		175
Taxation and social security	**388**	470	**314**	410
Other creditors	**3,728**	4,849	**3,748**	4,154
Accruals and deferred income	**9,595**	8,801	**8,802**	8,801
Amounts due under finance leases and hire purchase agreements	**176**	424	**176**	424
Deferred capital grants (note 22)	**4,469**	4,384	**4,469**	4,384
Grant in advance	**234**	1,708	**234**	1,708
Recycled capital grant fund (note 22)	**214**	313	**214**	313
Disposals proceeds fund (note 22)	**-**	271	**-**	271
Interest payable	**1,059**	1,153	**1,059**	1,153
Service charge sinking funds	**1,999**	1,908	**1,999**	1,908
Contractual agreements to fund past service pension deficits (SHPS) (note 24)	**-**	-	**-**	-
Contingent consideration	**1,049**	1,049	**1,049**	1,049
	31,974	43,368	**31,127**	42,613

Notes *(continued)*

22 Creditors: amounts falling due after more than one year

	Group and Association	
	2021	2020
	£000	£000
Bank loans	**108,666**	125,480
Deferred capital grants	**154,940**	156,431
Recycled capital grant fund	**730**	373
Deferred recycled capital grant fund	**471**	363
Disposal proceeds fund	**-**	-
	264,807	282,647

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

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

Group and association

	RCGF	DPF	2021	2020
	£000	**£000**	**£000**	£000
At 1 April	**686**	**271**	**957**	1,066
Grants recycled	**571**	**-**	**571**	156
Interest accrued	**-**	**-**	**-**	2
New build	**(313)**	**(271)**	**(584)**	(267)
At 31 March	**944**	**-**	**944**	957
Due within one year	**214**	**-**	**214**	584
Due after more than one year	**730**	**-**	**730**	373
	944	**-**	**944**	957
Amounts 3 years old or older where repayment may be required (£000)	**-**	**-**	**-**	251

Notes *(continued)*

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

Interest-bearing loans and borrowings

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

Bank loans are secured against Tangible fixed assets – housing properties with a net book value of £250,687,429 (*2020: £244,999,177*).

Included within bank loans are borrowings of £111,948,000 (*2020: £114,696,000*) with fixed interest rates ranging from 1% to 11.6% (*2020: 1% to 11.6%*) and borrowings of £4,125,000 (*2020: £28,055,000*) with variable interest rates ranging from LIBOR plus 0.5% to 1.99% (*2020: LIBOR plus 0.5% to 2.19%*).

Borrowings are repayable as follows:

	Group and Association	
	2021	2020
	£000	£000
Within one year	**6,156**	16,243
Between one and two years	**1,756**	9,456
Between two and five years	**6,238**	20,792
In five years or more	**101,924**	96,259
	116,074	142,750
Less: Issue costs	**(1,252)**	(1,027)
	114,822	141,723
Less: Amounts included within Creditors: amounts falling due within one year (see note 21)	**(6,156)**	(16,243)
	108,666	125,480

Notes *(continued)*

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

Deferred capital grants

	Group and Association 2021 £000	2020 £000
At beginning of year	**156,431**	159,094
Additions	**3,875**	2,446
Disposals	**(1,671)**	(2,602)
Amortisation	**(3,610)**	(2,441)
Transfer to creditors within one year	**(85)**	(66)
At end of year	**154,940**	156,431
Deferred capital grant movements within one year		
At beginning of year	**4,384**	4,318
Transfer from grant after more than one year	**85**	66
At end of year	**4,469**	4,384
Total deferred capital grants	**159,409**	160,815

23 Provisions for liabilities and charges

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

	Group and Association 2021 £000	2020 £000
At 31 March	**35,174**	38,406
Capitalised expenditure during the year	**(3,464)**	(3,077)
Revenue expenditure during the year	**(1,242)**	(155)
At 31 March	**30,468**	35,174

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

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

Notes *(continued)*

23 Provisions for liabilities and charges *(continued)*

At transfer, the Group contracted with the Councils to acquire the benefit of the agreed refurbishment works (£173,960,000) plus the price of the properties (£nil). The nature of the works under the initial agreement has not been specified and a right of set off exists between the contracts. These contracts have enabled the Group to recover the VAT on repair/enhancement costs that would otherwise have been expensed.

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

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

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

At 31 March 2021, £30,468 *(2020: £35,174)* is included within non-current debtors and £30,468 *(2020: £35,174)* is included within provisions for liabilities and charges.

24 Employee benefits

Defined benefit plan - LGPS

Group and Association
The information disclosed below is in respect of the Group's share of the Tyne and Wear Council Pension Fund (the "Fund"), which is part of the Local Government Pension Scheme. Bernicia Group were previously part of the Northumberland County Council Pension Fund, until it was merged into the Tyne and Wear pension fund on 01 April 2020. Bernicia Group participates in the Fund which provides defined benefits based on members' final pensionable salary.

Net pension asset

	2021	2020
	£000	£000
Defined benefit obligation	**(48,194)**	(39,280)
Plan assets	**48,609**	39,620
Net pension asset	**415**	340

Notes *(continued)*

24 Employee benefits *(continued)*

Movements in present value of defined benefit obligation

	2021	2020
	£000	£000
At 1 April	**(39,280)**	(40,740)
Current service cost	**(1,024)**	(987)
Past service cost	**-**	(330)
Interest expense	**(890)**	(971)
Remeasurement: actuarial (losses)/gains	**(7,933)**	3,150
Contributions by members	**(171)**	(171)
Benefits paid	**1,104**	769
At 31 March	**(48,194)**	(39,280)

Movements in fair value of plan assets

	2021	2020
	£000	£000
At 1 April	**39,620**	44,080
Interest income	**912**	1,061
Remeasurement: return on plan assets less interest income	**8,071**	(5,854)
Contributions by employer	**939**	931
Contributions by members	**171**	171
Benefits paid	**(1,104)**	(769)
At 31 March	**48,609**	39,620

Expense recognised in the statement of comprehensive income

	2021	2020
	£000	£000
Current service cost	**1,024**	987
Net interest on net defined benefit liability	**(22)**	(90)
Total expense recognised in the statement of comprehensive income	**1,002**	897
Remeasurement: actuarial loss on defined benefit obligation	**8,071**	3,150
Remeasurement: (loss)/gain on plan assets less interest income	**(7,933)**	(5,854)
Total (expense)/income recognised in other comprehensive income	**138**	(2,704)

Notes *(continued)*

24 Employee benefits *(continued)*

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

	2021 Fair value %	2020 Fair value %
Equities	**55.5**	65.8
Government debt	**2.2**	16.4
Corporate bonds	**19.8**	7.7
Property	**7.9**	4.0
Cash	**4.0**	0.8
Other	**10.6**	5.3
	100.0	100.0
	£000	£000
Actual return gain / (loss) on plan assets	**8,071**	(3,547)

Principal actuarial assumptions at the year end were as follows:

	2021 %	2020 %
Discount rate	**2.10**	2.30
Future salary increases	**4.20**	3.50
Rate of increase to pensions in payment	**2.70**	2.00
Rate of increase to deferred pension	**N/A**	2.20
RPI inflation	**2.70**	3.30
CPI inflation	**2.70**	2.00

The last full actuarial valuation was performed on 31 March 2019. To measure the defined benefit obligation as at 31 March 2021, the Association used a qualified, independent actuary.

In valuing the liabilities of the pension fund at 31 March 2021, mortality assumptions have been made as indicated below.

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

- Current pensioner aged 65: 22.2 years (male), 24.6 years (female).
- Future retiree upon reaching 65: 23.2 years (male), 26.0 years (female).

LGPS consultation

The Ministry of Housing, Communities and Local Government (MHCLG) has published guidance of the response to its consultation on proposals to remove age discrimination from the LGPS in England and Wales on 4 February 2021. The consultation, concluded on 08 October 2020, follows the McCloud court ruling which found protections given to older members in the judicial and firefighters' pension schemes directly discriminated against younger members in those schemes.

The outcome of the MHCLG's consultation is a proposed route to provide enhancements to members ("the deferred choice underpin") and confirmed which members are in the scope of the judgement:

1. the judgment applies only to members who were active on 31 March 2012 and have accrued benefits between 1 April 2015 and 31 March 2022;
2. the judgment applies to deferred members, as well as members who retire from active service; and
3. the judgment includes those with a qualifying break of service of less than 5 years in the relevant period.

Notes *(continued)*

24 Employee benefits *(continued)*

LGPS consultation *(continued)*
Prior to this confirmation, each of the LGPS Fund Actuaries had set out a standard approach for estimating the impact of McCloud. There was variation in these approaches, taking into account the above points to a greater or lesser degree.

At the previous year end, the basis of calculation of the LGPS liability included an assessment for the impact of McCloud based on the information available at that time. The adjustment has been carried forward to 31 March 2021.

As the ultimate remedy will not be known until all relevant members have retired, the assessed adjustment in the previous year is still considered to be the best estimate of the additional liability.

Defined benefit plan - SHPS

The association participates in the Social Housing Pension Scheme (the Scheme), a multi- employer scheme which provides benefits to some 500 non-associated employers. The Scheme is a defined benefit scheme in the UK.

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

The last triennial valuation of the scheme for funding purposes was carried out as at 30 September 2017. This valuation revealed a deficit of £1,522m. A Recovery Plan has been put in place with the aim of removing this deficit by 30 September 2026.

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

For financial years ending on or before 28 February 2019, it was not possible for the association to obtain sufficient information to enable it to account for the Scheme as a defined benefit scheme, therefore the association has accounted for the Scheme as a defined contribution scheme.

For financial years ending on or after 31 March 2019, it is possible to obtain sufficient information to enable the association to account for the Scheme as a defined benefit scheme.

For accounting purposes, a valuation of the scheme was carried out with an effective date of 30 September 2018. The liability figures from this valuation were rolled forward for accounting year-ends from 31 March 2019 to 29 February 2020 inclusive.

Similarly, an actuarial valuation of the scheme was carried out as at 30 September 2019 to inform the liabilities for accounting year ends from 31 March 2020 to 28 February 2021 inclusive, and as at 30 September 2020 to inform the liabilities for accounting year ends from 31 March 2021 to 28 February 2022 inclusive.

The liabilities are compared, at the relevant accouting date, with the association's fair share of the Scheme's total assets to calculate the company's net deficit or surplus.

Notes *(continued)*

24 Employee benefits *(continued)*

Net pension liability

	2021	2020
	£000	£000
Defined benefit obligation	**(58,932)**	(45,391)
Plan assets	**45,684**	39,773
Net pension liability	**(13,248)**	(5,618)

	2021	2020
	£000	£000
Movements in present value of defined benefit obligation		
At 1 April	**(45,391)**	(50,457)
Current service cost	**(910)**	(973)
Expenses	**(37)**	(37)
Past service cost		
Actuarial (losses)/gains due to scheme experience	**1,272**	(502)
Actuarial (losses)/gains due to changes in demographic assumptions	**(198)**	429
Actuarial (losses)/gains due to changes in financial assumptions	**(13,657)**	6,354
Interest expense	**(1,065)**	(1,188)
Contributions by members	**(129)**	(143)
Benefits paid	**1,183**	1,126
At 31 March	**(58,932)**	(45,391)
Movements in fair value of plan assets		
At 1 April	**39,773**	37,545
Interest income	**946**	895
Experience on plan assets	**3,940**	426
Contributions by employer	**2,079**	1,890
Contributions by members	**129**	143
Benefits paid	**(1,183)**	(1,126)
At 31 March	**45,684**	39,773
Amounts recognised in statement of comprehensive income		
Current service cost	**910**	973
Net interest on net defined benefit liability	**119**	293
Total expense recognised in the statement of comprehensive income	**1,029**	1,266
Total expense recognised in other comprehensive income		
Actuarial (losses)/gains on assets	**3,940**	426
Actuarial (losses)/gains on liabilities	**(12,583)**	6,281
Total (expense)/income recognised in other comprehensive income	**(8,643)**	6,707

Notes *(continued)*

24 Employee benefits *(continued)*

Principal actuarial assumptions at the year end were as follows:

	2021	2020
	%	%
Discount rate	**2.21**	2.35
Future salary increases	**3.87**	2.56
RPI inflation	**3.24**	2.56
CPI inflation	**2.87**	1.56

In valuing the liabilities of the pension fund at 31 March 2021, mortality assumptions have been made as indicated below.

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

Current pensioners aged 65: 21.6 years (male), 23.5 years (female).

Future retiree upon reaching 65: 22.9 years (male), 25.1 years (female).

25 Capital and reserves

Share capital

Group and Association

	2021	2020
	£	£
Ordinary shares of £1 each at 1 April	**9**	9
Issued during the year	**2**	3
Surrendered during year	**(3)**	(3)
At 31 March	**8**	9

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

Notes *(continued)*

26 Financial instruments

The carrying amounts of the financial assets and liabilities include:

	Group		Association	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Assets held at fair value through profit and loss				
Listed investments	**199**	316	**199**	316
Unlisted investments	**453**	353	**453**	353
Assets measured at amortised cost				
Rent and service charge arrears	**7,367**	7,665	**7,367**	7,665
Other debtors	**32,537**	36,971	**32,174**	36,864
Liabilities measured at amortised cost				
Rents and service charges received in advance	**928**	1,359	**928**	1,359
Trade creditors	**1,378**	692	**1,378**	692
Bank loans	**108,666**	125,480	**108,666**	125,480
Deferred capital grants	**154,940**	156,440	**154,940**	156,440
Contractual agreements to fund past service pension deficits	**-**	-	**-**	-

27 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Group		Association	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Less than one year	**11**	11	**11**	11
Between one and five years	**679**	807	**607**	711
More than five years	**-**	-	**-**	-
	690	818	**618**	722

During the year, £226,000 was recognised as an expense in the profit and loss account in respect of operating leases *(2020: £241,000)*.

28 Capital commitments

The aggregated amount of contracts for capital expenditure not provided for at year-end was £52,914,523 *(2020: £54,560,324)*.

The aggregated amount of capital expenditure approved which has not been contracted for at year-end was £24,080,437 *(2020: £33,788,625)*.

The proposed financing of such expenditure is as follows:

	Group and Association 2021
Grant	**11,329,272**
Agreed loans	**41,585,251**
	52,914,523

Notes *(continued)*

29 Contingent liabilities

The Group has a contingent liability of £4,609,000 *(2020: £4,594,000)* in relation to recycled grant applicable to individual housing property components that have been replaced. This will crystallise on disposal of the property.

30 Related parties

Transactions with key management personnel

Total compensation of key management personnel (the directors) in the year amounted to £1,159,413 (*2020: £1,188,000)*.

Other related party transactions

Group and association	**Administrative expenses charged to 2021 £000**	Administrative expenses charged to 2020 £000	**Administrative expenses incurred from 2021 £000**	Administrative expenses incurred from 2020 £000
Spirit Regeneration & Development LLP	**73**	251	**5,867**	1,151

	Receivables outstanding £000	Receivables outstanding £000	**Creditors outstanding £000**	Creditors outstanding £000
Spirit Regeneration & Development LLP	**73**	251	**371**	420

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

31 Ultimate controlling party

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

32 Accounting estimates and judgements

Investment properties

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

Impairment of tangible assets

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

Impairment of debtors

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

Provisions

The Group contracted to undertake works under Development Agreements with Berwick Council on 3 November 2008 and Wansbeck District Council on 25 February 2008 giving rise to a provision for liabilities as described in note 23. The initial value of the provision represented the best estimate of the cost of works. This provision is reduced each year by the cost value of capital works undertaken on the stock.

Notes *(continued)*

32 Accounting estimates and judgements *(continued)*

Defined Benefit Pension Schemes

The Group has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the LGPS and SHPS obligations depend on a number of factors, including; life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension surplus/liability in the balance sheet. The assumptions reflect historical experience and current trends. See note 24 for the disclosures relating to the defined benefit pension scheme.

LGPS and SHPS CPI Assumption
During 2020, the UK Government and the UK Statistics Authority (UKSA) ran a joint consultation on a proposal to align RPI with CPIH (a variant of the Consumer Prices Index that includes an estimate of housing costs), with the consultation response published on 25 November 2020 with confirmation of the intention to effect the proposed change from February 2030. Following this the CPI assumption methodology was reassessed. The impact of this change is expected to have resulted in a £1.7m increase in the LGPS Fund's liabilities compared with the approach taken in the prior year.

This change has also been taken into account in the valuation of liabilities from SHPS, the SHPS scheme has reassessed the CPI assumption, with the impact of the above change expected to have resulted in a £5.0m increase in the SHPS Fund's liabilities compared with the approach taken in the piror year.

LGPS and SHPS pension scheme mortality assumption
The COVID-19 pandemic has led to significant changes in mortality (and likely morbidity) experience in the general population in 2020 and 2021 to date. In particular, it has led to a significant number of 'excess deaths' in the general population i.e. the number of deaths in excess of those expected if mortality rates had been in line with those observed in 2019. The current pandemic has made mortality experience over 2020 and 2021 to date highly unusual when compared to historical data, as well as possibly being unrepresentative of future mortality.

The exceptional nature of mortality in 2020 means that a "business as usual" update to the mortality tables used would have shown material falls in projected mortality improvements and cohort life expectancy.

As a result of this, Bernicia Group have not updated their mortality assumptions as at 31 March 2021 to reflect the potential effects of COVID-19. This is due to the lack of evidence on which to make an assessment of the pandemic's impact on longer term expectations. Bernicia Group expect to update these assumptions as further evidence arises over the longer-term impact of the pandemic on future mortality.

33 Post balance sheet events

On 12 August 2021, Bernicia drew Note B of the Private placement funds with Legal and General Investment Management amounting to £30,000,000. Interest of 2.360% will be charged on the loan amounts and it is due for repayment in 2053.