

Cheviot Housing Association Limited

Report of the Board of Management
and Financial Statements
Registered Society Number 19086R
31 March 2017

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Report of the Board of Management

BOARD OF MANAGEMENT

Chair:	W Worth I Armstrong	(appointed 1 June 2016) (resigned 31 May 2016)
Members:	S Anderson L Charles-Jones (co-optee) K Cochrane F Foster J Holmes (co-optee) D Jennings (co-optee) J Manuel H Parker A Pegg B Renforth K Riddell X Setna T Stevenson A Tarn	(appointed 1 June 2016) (appointed 1 March 2017) (resigned 31 May 2016) (resigned 31 May 2016) (appointed 1 March 2017) (appointed 1 July 2017) (resigned 31 May 2016) (appointed 1 June 2016) (appointed 1 June 2016)

SENIOR MANAGEMENT TEAM

Group Chief Executive:	W Heads	
Group Deputy Chief Executive:	J Johnston	
Executive Director, Finance and Corporate Services:	M Axe	(from 1 June 2016)
Executive Director, Finance:	M Smith	(to 31 May 2016)
Company Secretary:	M Axe W Heads	(from 1 June 2016) (to 31 May 2016)

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

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

Other information: A Registered Society (under the Co-operative and Community Benefit Societies Act 2014) No. 19086R
Registered with the Homes and Communities Agency (HCA) No L0862

Report of the Board of Management

Principal Activities

Cheviot Housing Association Limited (the "Association") is a Private Registered Provider (PRP), which is registered with the Financial Conduct Authority (FCA) under the Co-operative and Community Benefit Society Act 2014 as a Registered Society (RS) that also has charitable status.

The principal activity of the Association is the maintenance and management of social housing for rent.

Performance for the Year

The Association's operating results have been prepared in accordance with Financial Reporting Standard 102 (FRS 102) and the Housing SORP 2014: Statement of Recommended Practice for registered social housing providers.

The operating results are in line with budgets and forecasts. The operating surplus of £7,930,000 (2016: £6,670,000), shows an increase in performance, however this is mainly due to the accounting treatment of the Association's pension scheme in 2016, whereby a charge had been made to the financial statements of £914,000 in respect of the latest Social Housing Pension Scheme (SHPS) deficit recovery plan. Income from lettings has increased because of new developments, offset by the Governments change in the rent formula, whereby a four year 1% real rent reduction has come into effect. 2017 is the first of these four years.

The Association's development programme has always been important part of the organisation's activity. The Association has a programme of 119 new units to be developed as part of the Homes and Communities Agency (HCA) Affordable Development Programme 2015 – 2020. During the year, 30 units were completed. The remaining 89 are programmed to complete during 2017/18.

The Association has maintained a strong asset base and ensures it has sufficient reserves (2017: £36,864,000; 2016 £32,156,000) to meet future stock reinvestments and to manage exposure to risk.

Future developments

On 1 June 2016, Four Housing Group merged with Bernicia Group and Bernicia Group Limited became the new Group for all Members. To date the merger has generated savings that have exceeded initial plans and projections. These efficiencies will enable the Association to maintain levels of service despite the planned rent reductions.

A three phase plan to fully implement the merger and maximise the benefits over the first four years was established at the outset, with the phases being:

- Consolidation
- Integration
- Simplification

The three phase plan has been accelerated, and it is now the aim of the Group to deliver all phases by the end of the second year, 2017/18. During 2016/17 the consolidation phase completed and the integration of teams commenced. Integration will be fully completed by October 2017. During 2016/17 the Board also approved in principle the business case to simplify the Group. The target date for this is 31 March 2018. It is estimated that the simplification of the Group will improve the Group's 30 year business plan by over £24million over the life of the plan, and will also ensure that financial capacity across the Group is released. Therefore, simplification is one of the main priorities for the forthcoming year.

During 2017/18 the Board will consider strategies in respect of Housing, ICT, Asset, Development and People. All of these strategies will inform the Groups new Business Strategy, and all will be effective from 1 April 2018. A new Value for Money strategy will also be developed to reflect the new Business Strategy. The strategies will provide clear links to the actions in the updated value for money action plan.

Report of the Board of Management *(continued)*

Future developments *(continued)*

The Association continues to complete its commitments to the HCA under the 2015-20 Affordable Housing Programme. Funding was awarded to develop 119 units.

As part of the Bernicia Group, the Association will also be seeking to generate efficiencies through the development of shared services across the Group.

Value for money

The Association is an active contributor to the Value for Money (VFM) objectives of its parent company (Bernicia). Details of the Group's Value for Money objectives are described in detail in the Group financial statements and a full copy of the Group's VFM Statement is available on the website (www.bernicia.com).

Corporate Governance

The Association has adopted the NHF 2015 Code of Governance and complied fully in 2016/17. The Board has also adopted the NHF Code of Conduct 2012. Copies of the Association's policies are available on request.

A statement of the responsibilities of the Board of Management in respect of the financial statements is given on page 8. Below is a brief description of the role of the Board followed by a statement regarding the Association's internal controls.

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

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

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

Tenant Involvement

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

Report of the Board of Management *(continued)*

The Board

The Board comprises members with a wide range of skills and experience who are recruited openly by public advert. Following the merger of Bernicia Group and Four Housing Group on 1 June 2016, the Board members changed as outlined on page 1.

The Board holds at least six meetings per annum, setting and monitoring the strategy and performance, ensuring adequate funding and formulating policy on key issues. There are also two committees; the Audit Committee and the Remuneration, Resources and Appointments Committee, to which it has delegated some of its Board function. Representatives from the Association sit on both committees. Day to day management is delegated to the Group Chief Executive and the other executive officers as part of the new merged group arrangements. The Bernicia executive management team comprises the Group Chief Executive, the Deputy Chief Executive and the Executive Director, Finance and Corporate Services. It meets regularly and members attend meetings of the Boards and committees.

Audit Committee

The Board has constituted a separate Audit Committee that operates across the Group, which has delegated authority from the Board. Internal and external audit matters are reported to this committee, and the internal and external auditors are invited to attend relevant meetings as appropriate. The committee and the auditors have the opportunity to meet without any officers present at least annually.

Key Elements of Internal Control

The Board, working with the Audit Committee and the Executive team, have established a framework of controls which are in place across the Group:

Internal Audit & Non-Negotiable Controls - RSM provided internal audit services during 2016-17 for both Four Housing (during Quarter 1) and Bernicia. They had direct access to the Audit Committee and worked in line with recognised Internal Auditing standards and the associated code of practice. They followed approved internal audit plans, based on the assessment of risk. During this accounting year, the following activities were examined by internal audit, with all providing either substantial or reasonable assurance and with no high level actions identified:

Follow Up of Recommendations, Data Quality, Lifts and Commercial Boilers, Procurement, Planned Maintenance (Financial Control), Policies, Safeguarding (including Lone Working)*, Agency Managed*, Estates Inspections*, Service Charges*, Legionella*, Legionella, Asset and Liability Register, Non-Negotiable Controls, Gas Service Data, Voids (PMD Focused), Key Financial Controls*. (*Audits applied to only Four Housing Group companies.)

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. A programme of non-negotiable control testing was also carried out by a dedicated Business Assurance Team, with results reported to Audit Committee on a quarterly basis.

Business Continuity - A Business Continuity Plan (BCP) is in place and actively managed.

Anti-Fraud Measures - The Group has anti-fraud policy and procedures around the prevention, reporting and investigating of alleged fraud which were updated during the year. Briefings were also undertaken with staff during the year to raise awareness. There were no known instances of attempted or actual fraud resulting in material financial loss to the Group during 2016-17.

Report of the Board of Management *(continued)*

Anti-Money Laundering Policy - The Group has an approved anti-money laundering policy, highlighting responsibilities regarding the prevention and detection of money laundering and procedures for where it is detected or suspected. The Governance Manager is designated Money Laundering Reporting Officer. A number of large cash transaction entries were made into the register during the year, but no reports required submission to the authorities.

Risk Management

The Group has Business Assurance and Risk Management Frameworks which contribute to the identification and mitigation of current and future risks. There are Strategic, Executive and Operational Risk Registers which are reviewed regularly by staff and members. Staff also received briefings and support from the Business Assurance Team.

Policies on Internal Control - The Group has established policies and procedures to monitor and emphasise the need for strong internal control. These include Standing Orders and Financial Regulations that require adequate segregation of duties. A Scheme of Delegation sets out delegated powers of committees of the Board and Officers of the Group. These were reviewed and approved during 2016-17.

Reports to the Board - Regular reports to the Board provide information on financial and operational progress against objectives. Performance is measured against agreed KPI's and externally benchmarked. Budgets are set before the beginning of each financial year. Reports on income and expenditure against these budgets are presented to the Board on a quarterly basis. Variance analysis and any corrective action is proposed and discussed at the Board meetings. Board also scrutinised Value for Money and efficiency, as well as receiving information in respect of loan covenant compliance. All reports to the Board contain consideration of risk, particularly around the financial impact of any proposed actions. The Business Plan and key assumptions are reviewed regularly and subject to stress testing with the involvement of members. Board is provided with minutes of all committee meetings. Funders were also provided with financial performance information.

Recruitment and development of staff - The quality and integrity of staff are essential for maintaining good internal control. The Group continued to ensure staff had the necessary competences and qualifications for their role through development, training, appraisal and performance management. All underpinned by HR-related policies including Standards of Behaviour, Disciplinary Policy, Grievance Policy and Whistleblowing Policy.

Probity Policy - A Probity Policy is in place as part of Standing Orders and is based on National Housing Federation guidance. It was reviewed during the year. The Group made the required Slavery and Human Trafficking Statement during 2016-17. There were no significant breaches reported during the year in relation to probity.

Code of Governance - In accordance with the Regulatory Standard on 'Governance and Financial Viability,' the Group is compliant with the 2015 National Housing Federation code 'Promoting board excellence for housing associations'.

Compliance with the Regulatory Framework – There were no regulatory interventions during the year and we continue to operate within the standards laid down by our Regulators.

Summary

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

The Board concludes that an effective system of internal control has been in place for the year ended 31 March 2017.

Report of the Board of Management *(continued)*

Going Concern

The Association'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 on page 2.

The Association meets its day to day working capital requirements through the current account, which is cash positive at the year end. The Association meets its development programme requirements through a combination of grant and debt funding. Note 24 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 Association's forecasts and projections show that the Association should be able to continue to operate within the level of its current facilities and no matters have been drawn to its attention to suggest that future funding may not be forthcoming on acceptable terms.

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

Disclosure of Information to the Auditor

The Board members, who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the company'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 Association'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 Association is to be proposed at the forthcoming Annual General Meeting.

The Report of the Board of Management was approved on 25 July 2017 and signed on its behalf by:



W Worth
Chair

Oakwood Way
Ashwood Business Park
Ashington
Northumberland
NE63 0XF

25 July 2017

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

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

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

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

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

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

The Board is responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Association and enable them to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. The Board has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the 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 Cheviot Housing Association Limited

We have audited the financial statements of Cheviot Housing Association Limited for the year ended 31 March 2017 set out on pages 10 to 42. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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

Respective responsibilities of the Board and auditor

As more fully explained in the Statement of Board's Responsibilities set out on page 7, the Association's Board is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the Association as at 31 March 2017 and of its income and expenditure for the year then ended;
- comply with the requirements of the Co-operative and Community Benefit Societies Act 2014; and
- have been properly prepared in accordance with the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Independent auditor's report to Cheviot Housing Association Limited
(continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Co-operative and Community Benefit Societies Act 2014 requires us to report to you if, in our opinion:

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



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

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

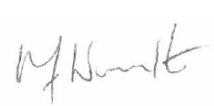
31 July 2017

Statement of Comprehensive Income
for the year ended 31 March 2017

	Note	2017 £000	2016 £000
Turnover	2	21,386	25,380
Cost of sales	2	(2,424)	(7,063)
Operating expenditure	2	(11,032)	(11,647)
		<hr/>	<hr/>
Operating surplus	8	7,930	6,670
Gain on disposal of tangible fixed assets	7	15	258
Interest receivable and similar income	11	130	124
Interest payable and similar charges	12	(4,276)	(4,271)
Other finance expense	13	(53)	(37)
Movement in fair value of financial instruments	17,19	92	(8)
Gift Aid receivable	14	870	825
		<hr/>	<hr/>
Surplus on ordinary activities before taxation	2-14	4,708	3,561
Tax on surplus on ordinary activities	15	-	-
		<hr/>	<hr/>
Surplus on ordinary activities after taxation		4,708	3,561
		<hr/>	<hr/>
Total comprehensive income for the financial year		4,708	3,561
		<hr/> <hr/>	<hr/> <hr/>

The notes on pages 13 to 42 form an integral part of these financial statements.

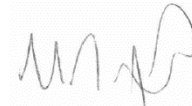
These financial statements were approved by the Board on 25 July 2017 and were signed on its behalf by:



W Worth
Chair



S Anderson
Member



M Axe
Secretary

Statement of Financial Position
at 31 March 2017

	Note	2017 £000	2016 £000
Fixed assets			
Tangible assets	16	136,927	128,744
Long term investments	17	808	766
HomeBuy loans receivable		11	11
Investments in subsidiaries	18	2,367	2,367
Investment properties	19	4,071	3,997
		144,184	135,885
Current assets			
Stock	20	570	349
Debtors	21	6,570	3,429
Cash and cash equivalents	22	17,976	26,640
		25,116	30,418
Creditors: amounts falling due within one year	23	(6,930)	(10,602)
		18,186	19,816
Net current assets			
		162,370	155,701
Creditors: amounts falling due after more than one year	24	(125,506)	(123,545)
		36,864	32,156
Total net assets		36,864	32,156
Reserves			
Share capital	26	-	-
Income and expenditure reserve		36,864	32,156
		36,864	32,156
Total reserves		36,864	32,156

The notes on pages 13 to 42 form an integral part of these financial statements.

These financial statements were approved by the Board on 25 July 2017 and were signed on its behalf by:



W Worth
Chair



S Anderson
Member



M Axe
Secretary

Registered society number: 19086R

Statement of Changes in Reserves

	Called up share capital	Income and expenditure reserve	Total reserves
	£000	£000	£000
Balance at 31 March 2015	-	28,595	28,595
Total comprehensive income for the period			
Surplus from statement of comprehensive income	-	3,561	3,561
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2016	-	32,156	32,156
	<hr/>	<hr/>	<hr/>
	Called up share capital	Income and expenditure reserve	Total reserves
	£000	£000	£000
Balance at 31 March 2016	-	32,156	32,156
Total comprehensive income for the period			
Surplus from statement of comprehensive income	-	4,708	4,708
Other comprehensive expense	-	-	-
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2017	-	36,864	36,864
	<hr/>	<hr/>	<hr/>

Notes

(forming part of the financial statements)

1 Accounting policies

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

The Association's ultimate parent undertaking, Bernicia Group Limited includes the Association in its consolidated financial statements. The consolidated financial statements of Bernicia Group Limited are available to the public and may be obtained from Oakwood Way, North Seaton Industrial Estate, Ashington, Northumberland NE63 0XF. In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

As the consolidated financial statements of Bernicia Group Limited include the equivalent disclosures, the Association has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- The disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

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

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

Measurement convention

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

Basis of consolidation

As a wholly owned subsidiary of Bernicia Group Limited, the results of the Association have been consolidated in those financial statements in accordance with FRS 102.9.

Turnover

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

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.

Notes (continued)

1 Accounting policies (continued)

Tangible fixed assets – housing properties

Initial recognition

Housing properties are initially recorded at cost.

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

Shared ownership properties

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

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 or losses are recognised in the Statement of Comprehensive Income at the date of transfer of title after deducting any element of proceeds that is payable under right to buy sharing arrangements.

Disposals

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

Depreciation

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

Housing properties held for letting	- over 70 - 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 & Doors	- 25 - 30 years
Roof	- 70 years
Lifts	- 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 Association's weighted average cost of borrowings. Where a loan is not specifically drawn down to fund a development, no interest is capitalised.

Notes (continued)

1 Accounting policies (continued)

Capitalisation of acquisition and development costs

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

Improvement works to existing properties

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

Impairment

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

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

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

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

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

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

Tangible fixed assets – other

Initial recognition

Other tangible fixed assets are initially recorded at cost.

Depreciation

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

Freehold land	- Nil
Freehold office buildings	- 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

Notes *(continued)*

1 Accounting policies *(continued)*

Capitalisation of IT staff costs

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

Long term investments

Investments held on the Statement of Financial Position are deposits held by lenders and are therefore related to loan balances due. These are regarded as basic financial instruments and are recognised and measured at fair value with changes in the fair value being recognised in the profit or loss, in accordance with FRS 102.11.

Investment properties

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

The assets are valued on an annual basis by a qualified Chartered Surveyor. The Association uses an employed resource to carry out valuations. Increases or decreases in the value of assets are recognised immediately in the Statement of Comprehensive Income.

Stock

Stocks 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 Association under certain conditions, if a property is sold, or if another relevant event takes place. In these cases, the Government grant may be used for projects approved by the Homes and Communities Agency, however, the grant may have to be repaid if certain conditions are not met.

Taxation

The Association 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.

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.

Notes *(continued)*

1 Accounting policies *(continued)*

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.

Units managed by third parties

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

Where the Association 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 Association.

Employee benefits

Pension costs

The Association participates in a defined benefit pension scheme, the assets are held separately from those of the Association.

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

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

Social Housing Pension Scheme (SHPS)

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

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

Termination benefits

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

Financial instruments

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

Notes (continued)

1 Accounting policies (continued)

Leased assets

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

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

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

	Turnover	Cost of sales	Operating expenditure	2017 Operating surplus	2016 Operating surplus
	£000	£000	£000	£000	£000
<i>Social housing lettings</i>					
General needs housing	10,002	-	(5,956)	4,046	2,118
Housing for older people	6,355	-	(4,033)	2,322	4,382
Supported housing accommodation	1,629	-	(956)	673	253
Shared ownership accommodation	348	-	(88)	260	311
	<u>18,334</u>	<u>-</u>	<u>(11,033)</u>	<u>7,301</u>	<u>7,064</u>
<i>Other social housing activities</i>					
First tranche low cost home ownership sales	1,612	(1,612)	-	-	-
Restructuring	-	-	(65)	(65)	-
Past service pension deficit adjustments	-	-	248	248	(914)
Other	-	-	(182)	(182)	-
	<u>1,612</u>	<u>(1,612)</u>	<u>1</u>	<u>1</u>	<u>(914)</u>
<i>Activities other than social housing activities</i>					
Sale of development services	812	(812)	-	-	-
Other operating income (note 6)	491	-	-	491	407
Serviced Right to Buy	-	-	-	-	29
Private rented accommodation	92	-	-	92	52
Commercial and other	45	-	-	45	32
	<u>1,440</u>	<u>(812)</u>	<u>-</u>	<u>628</u>	<u>520</u>
Total	<u><u>21,386</u></u>	<u><u>(2,424)</u></u>	<u><u>(11,032)</u></u>	<u><u>7,930</u></u>	<u><u>6,670</u></u>

Notes *(continued)*

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

Shared ownership transactions

	First tranche £000	Staircasing £000	2017 Total £000	2016 Total £000
Proceeds	1,612	342	1,954	559
Cost of sales (including fees)	(1,612)	(145)	(1,757)	(324)
	-	197	197	235
	-	197	197	235

The amount of costs related to the sale of shared ownership properties released to the Statement of Comprehensive Income from current assets was £1,612,000 (2016: £183,000) and arose from first tranche sales. The amount released from tangible fixed assets during the period was £145,000 (2016: £nil) and arose from staircasing.

Notes (continued)

3 Particulars of turnover and operating expenditure from social housing lettings

	General needs housing £000	Housing for older people £000	Supported housing £000	Shared ownership £000	2017 Total £000	2016 Total £000
<i>Income</i>						
Rent receivable net of identified service charges	8,142	4,251	895	333	13,621	13,642
Service charges receivable	540	1,693	691	6	2,930	2,492
Water rates receivable	366	188	1	-	555	549
Supporting people income	-	-	-	-	-	221
Amortised government grants	954	223	42	9	1,228	826
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Turnover from social housing lettings	10,002	6,355	1,629	348	18,334	17,730
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Operating expenditure</i>						
Management	(1,220)	(628)	(285)	(40)	(2,173)	(1,544)
Service charges payable	(553)	(1,045)	(394)	(7)	(1,999)	(2,492)
Routine maintenance	(1,456)	(793)	(63)	(6)	(2,318)	(2,058)
Planned maintenance	(435)	(237)	(25)	(2)	(699)	(341)
Major repairs expenditure	(387)	(212)	(17)	-	(616)	(1,451)
Bad debts	(53)	(10)	1	-	(62)	(104)
Water rates payable	(377)	(198)	(1)	-	(576)	(561)
Depreciation of housing properties	(1,475)	(910)	(172)	(33)	(2,590)	(2,110)
Other costs	-	-	-	-	-	(5)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Operating expenditure on social housing lettings	(5,956)	(4,033)	(956)	(88)	(11,033)	(10,666)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Operating surplus on social housing lettings	4,046	2,322	673	260	7,301	7,064
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Void losses (being rental income lost as a result of property not being let, although it is available for letting)	74	152	6	1	233	324
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Notes (continued)

4 Accommodation owned

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

	2017 Owned and managed Number	2017 Managed by others Number	2017 Managed for others Number	2016 Owned and managed Number	2016 Managed by others Number	2016 Managed for others Number
General needs housing:						
Social rent	1,561	-	88	1,573	-	88
Affordable rent	285	-	-	269	-	-
Housing for older people	1,044	-	12	1,001	-	12
Supported housing accommodation	60	9	-	47	9	-
Shared ownership accommodation	118	-	-	115	-	-
Serviced Right to Buy	-	-	283	282	-	-
Rent to HomeBuy	-	-	-	-	-	-
Private rented accommodation	-	12	-	-	12	-
Commercial and other:						
Garages	81	-	-	77	-	-
Shops	6	-	-	6	-	-
	<u>3,155</u>	<u>21</u>	<u>383</u>	<u>3,370</u>	<u>21</u>	<u>90</u>

5 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:

	2017 £000	2016 £000
Recognised in the Statement of Comprehensive Income	23,336	22,108
Held as deferred income (note 23 & 24)	56,711	56,988
	<u>80,047</u>	<u>79,096</u>

Notes *(continued)*

6 Other operating income

	2017	2016
	£000	£000
Rate collection allowance	49	48
Office rental	267	169
Sale of management services	89	101
Sundry income	86	110
	<hr/>	<hr/>
Total other operating income	491	428
	<hr/> <hr/>	<hr/> <hr/>

7 Gain on disposal of tangible fixed assets

	2017	2016
	£000	£000
Proceeds from sale of housing properties	390	636
Cost of sales of housing properties (including fees)	(383)	(383)
	<hr/>	<hr/>
Net gain on disposal of housing properties	7	253
Proceeds from sales of other tangible fixed assets	8	10
Cost of sales of other tangible fixed assets	-	(5)
	<hr/>	<hr/>
Net gain on disposal of other tangible fixed assets	8	5
	<hr/>	<hr/>
Gain on disposal of tangible fixed assets	15	258
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

8 Expenses and auditor's remuneration

Included in the surplus are the following:

	2017	2016
	£000	£000
Planned maintenance and major repairs	1,315	1,792
Charge for the provision of bad debts	62	104
Depreciation of tangible fixed assets – housing properties	2,590	2,457
Depreciation of tangible fixed assets – other	365	361
Impairment of tangible fixed assets – housing properties	-	-
	-	-

Auditor's remuneration:

[Exclusive of VAT]

	2017	2016
	£000	£000
Audit of these financial statements	13	10
Amounts receivable by the company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the company	6	3
Audit -related assurance services	7	-
Taxation compliance services	11	-
Other assurance services	-	-
Internal auditors remuneration from internal audit services	6	-
	6	-

9 Staff numbers and costs

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

	2017	2016
	Number	Number
Operational	123	136
Finance and administration	47	49
	170	185

Notes (continued)

9 Staff numbers and costs (continued)

The aggregate payroll costs of these persons were as follows:

	2017	2016
	£000	£000
Wages and salaries	4,904	4,864
Compensation for loss of office	100	-
Social security costs	441	385
Contributions to defined benefit plan accounted for as a defined contribution plan (SHPS)	501	447
Contributions to defined contribution plan (NEST)	12	16
Current service cost of defined benefit plan (LGPS)	-	-
	<hr/>	<hr/>
	5,958	5,712
Net recharges from/(to) group undertakings	(3,135)	(3,435)
	<hr/>	<hr/>
	2,823	2,277
	<hr/> <hr/>	<hr/> <hr/>

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

	2017	2016
	£000	£000
£60,000 - £70,000	-	1
£70,001 - £80,000	3	3
£80,001 - £90,000	1	1
£90,001 - £100,000	-	-
£100,001 - £110,000	-	-
£110,001 - £120,000	-	1
£120,001 - £130,000	1	-
£130,001 - £140,000	1	1
	<hr/>	<hr/>
	6	7
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

10 Directors' remuneration and key management personnel

Key management personnel are employed as directors by other Associations in the Group. The costs of time spent managing Cheviot Housing Association Limited are recharged accordingly. The proportion of the remuneration of the key management personnel in the year as charged to Cheviot Housing Association Limited was as follows:

	2017	2016
	£000	£000
Wages and salaries	153	153
Company contributions payable in respect of pensions (SHPS)	5	6
Company contributions payable in respect of pensions (LGPS)	15	15
Compensation for loss of office	32	-
Non-executive Board members' emoluments	20	27
	<u>225</u>	<u>201</u>

The Chief Executive is Bill Heads. The aggregate of his emoluments charged to Cheviot Housing Association Limited, including Association pension contributions, as the highest paid director, was £62,000 (2016: £56,000). He is an ordinary member of the Social Housing Pension Scheme, has no enhanced or special pension terms and has no other pension arrangements to which the Association contributes.

	2017	2016
	Number	Number
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	5	8
	<u>5</u>	<u>8</u>

The gross remuneration of the non-executive Board members for their service to Bernicia Group, Four Housing Group (until 31 May 2016), Cheviot Housing Association, Wansbeck Homes, Three Rivers Housing Association and Berwick Borough Housing Association in the year was as follows:

	2017	2016
	£000	£000
Mr S Anderson	6	6
Mr I Armstrong	6	9
Mr C Blakey	-	4
Mr B Butterworth	1	4
Mr I Darling	2	4
Mr F Foster	4	4
Mr W Gilbert	2	4
Mr P Harding	1	4
Mr JP Heron	4	-
Mrs I Hunter	1	4
Mrs H Parker	7	6
Mr A Pegg	5	4
Mr B Renforth	7	-
Mr K Riddell	5	2
Mr E Ritz	4	4
Mr X Setna	5	4
Mr T Stevenson	5	4
Ms A Tarn	5	4
Dr M Stewart	1	4
Mr W Worth	13	10
Ms L Charles-Jones	-	-
Mr J Holmes	-	-
	<u>86</u>	<u>85</u>
Non-executive Board members' emoluments	<u>86</u>	<u>85</u>

Notes (continued)

11 Interest receivable and similar income

	2017 £000	2016 £000
Bank deposits	106	100
Net gain on financial assets measured at fair value through profit or loss	24	24
	<hr/>	<hr/>
Total interest receivable and similar income	130	124
	<hr/> <hr/>	<hr/> <hr/>

12 Interest payable and similar charges

	2017 £000	2016 £000
Loans repayable in more than five years	4,273	4,268
Obligations under finance leases and hire purchase agreements	3	3
	<hr/>	<hr/>
Total interest payable and similar charges	4,276	4,271
	<hr/> <hr/>	<hr/> <hr/>

13 Other finance expenses

	2017 £000	2016 £000
Unwinding of discount on contractual agreements to fund past service pension deficits	53	37
	<hr/>	<hr/>
Total other finance expenses	53	37
	<hr/> <hr/>	<hr/> <hr/>

14 Gift Aid

During the year, the Association recognised Gift Aid income of £870,000 (2016: £825,000) from its subsidiary undertakings. Details of Cheviot Housing Association's ownership of the following subsidiaries is disclosed in note 18.

	2017 £000	2016 £000
Kingston Property Services Limited	632	613
Livingspaces (UK) Limited	111	154
Avoca Estate Management Limited	127	58
	<hr/>	<hr/>
	870	825
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

15 Taxation

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

	2017	2016
	£000	£000
Current tax		
Current tax on income for the period	-	-
	<hr/>	<hr/>
Total tax	-	-
	<hr/> <hr/>	<hr/> <hr/>

The current tax charge for the period is lower (2016: lower) than the rate of corporation tax in the UK of 20% (2016: 20%). The differences are explained below.

Reconciliation of effective tax rate

	2017	2016
	£000	£000
Surplus for the year after taxation	4,708	3,561
Total tax expense	-	-
	<hr/>	<hr/>
Surplus on ordinary activities before taxation	4,708	3,561
Tax using the UK corporation tax rate of 20% (2016: 20%)	942	712
Total tax exempt revenue	(942)	(712)
Total tax expense included in profit or loss	-	-
	<hr/> <hr/>	<hr/> <hr/>

The main rate of UK corporation tax changed from 21% to 20% on 1 April 2016. A further reduction in the main rate of UK corporation tax, to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020, became substantively enacted on 26 October 2016. An additional reduction to 17% (effective from 1 April 2020) was substantially enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly.

16a Tangible fixed assets

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

	<i>Note</i>	2017	2016
		£000	£000
Tangible fixed assets – housing properties	16b	131,680	123,436
Tangible fixed assets – other	16c	5,247	5,308
		<hr/>	<hr/>
		136,927	128,744
		<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

16b Tangible fixed asset – housing properties

	Housing properties held for letting		Supported housing		Shared ownership		Total £000
	Completed	Under construction	Completed	Under construction	Completed	Under construction	
	£000	£000	£000	£000	£000	£000	
Cost							
At 1 April 2016	89,690	1,381	65,446	7	3,275	-	159,799
Additions	1,597	3,757	502	3,208	-	2,119	11,183
Disposals	(652)	-	(346)	-	(146)	-	(1,144)
Completed schemes	3,764	(3,764)	2,369	(2,369)	84	(84)	-
At 31 March 2017	<u>94,399</u>	<u>1,374</u>	<u>67,971</u>	<u>846</u>	<u>3,213</u>	<u>2,035</u>	<u>169,838</u>
Depreciation and impairment							
At 1 April 2016	20,144	-	15,124	-	1,095	-	36,363
Charged in the year	1,474	-	1,083	-	33	-	2,590
Disposals	(470)	-	(298)	-	(27)	-	(795)
At 31 March 2017	<u>21,148</u>	<u>-</u>	<u>15,909</u>	<u>-</u>	<u>1,101</u>	<u>-</u>	<u>38,158</u>
Net book value							
At 31 March 2017	<u>73,251</u>	<u>1,374</u>	<u>52,062</u>	<u>846</u>	<u>2,112</u>	<u>2,035</u>	<u>131,680</u>
At 31 March 2016	<u>69,546</u>	<u>1,381</u>	<u>50,322</u>	<u>7</u>	<u>2,180</u>	<u>-</u>	<u>123,436</u>

Notes *(continued)*

16b Tangible fixed asset – housing properties *(continued)*

Security

Tangible fixed assets with a net book value of £40,892,000 (2016: £11,107,000) are securitised.

Development costs

The amount of development costs capitalised to tangible fixed assets – housing properties during the period was £153,000 (2016: £154,000).

The number of units under construction at the year end was 75 (2016: 147).

Land and Buildings

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

	2017	2016
	£000	£000
Freehold	125,259	116,541
Long leasehold	3,728	3,807
Short leasehold	2,693	3,088
	<hr/> 131,680 <hr/>	<hr/> 123,436 <hr/>

Notes *(continued)*

16c Tangible fixed assets – other

	New Office £000	Computer equipment £000	Fixtures and fittings £000	Scheme equipment £000	Motor vehicles £000	Total £000
Cost						
At 1 April 2016	4,949	992	625	436	268	7,270
Additions	-	297	24	1	7	329
Disposals	-	-	-	-	(98)	(98)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2017	4,949	1,289	649	437	177	7,501
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Depreciation						
At 1 April 2016	361	691	410	318	182	1,962
Depreciation charge for the year	91	198	39	9	28	365
Disposals	-	-	-	-	(73)	(73)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2017	452	889	449	327	137	2,254
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Net book value						
At 31 March 2017	4,497	400	200	110	40	5,247
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 March 2016	4,588	301	215	118	86	5,308
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Land and Buildings

The net book value of land and buildings within tangible fixed assets – other comprises:

	2017 £000	2016 £000
Freehold	4,497	4,588
	<hr/>	<hr/>
	4,497	4,588
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

17 Investments

	2017	2016
	£000	£000
Cost or valuation		
At 1 April	766	750
Additions	24	24
Disposals	-	-
Revaluation	18	(8)
	<hr/>	<hr/>
At 31 March	808	766
	<hr/> <hr/>	<hr/> <hr/>

Long term investments are represented as follows:

	2017	2016
	£000	£000
Long term investment in:		
UK Rents (No 1) plc	146	146
Haven Funding plc	662	620
	<hr/>	<hr/>
	808	766
	<hr/> <hr/>	<hr/> <hr/>

The long term investment in UK Rents (No 1) plc and Haven Funding plc represent amounts which are withheld by lenders as a cash reserve under the terms of a loan agreement. During the prior year, one of the underlying investments held within the Haven Funding plc investment was sold which gave rise to a loss. The loan to UK Rents (No. 1) plc could be utilised against a shortfall of funds within the other Associations participating in the loan issue.

Long term investments are analysed as follows:

	2017	2016
	£000	£000
Listed investments	373	427
Unlisted investments	435	339
	<hr/>	<hr/>
	808	766
	<hr/> <hr/>	<hr/> <hr/>
	2017	2016
	£000	£000
Listed investments – market value	373	427
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

18 Investments in subsidiaries

	£000
Cost	
At 1 April 2016	2,367
Additions	-
	2,367
At 31 March 2017	2,367
Net book value	
At 31 March 2017	2,367
At 31 March 2016	2,367

The Association has the following investments in subsidiaries and associates:

	Aggregate of capital and reserves £000	Profit or loss for the year £000	Country of incorporation	Class of shares held	Ownership 2017 %	Ownership 2016 %
Kingston Property Services Limited	198	632	England	Ordinary	100	100
Livingspaces (UK) Limited	26	111	England	Ordinary	100	100
Avoca Estate Management Limited	-	127	England	Ordinary	100	100
Cheviot Leasehold Housing Limited	-	-	England	Ordinary	100	100
Cheviot Housing Limited	-	-	England	Ordinary	100	100
Bernicia Homes Limited	-	-	England	Ordinary	100	100
Bernicia Housing Limited	-	-	England	Ordinary	100	100

19 Investment properties

	2017 £000	2016 £000
Valuation		
At 1 April	3,997	3,166
Additions	-	831
Disposals	-	-
Revaluation	74	-
	4,071	3,997
At 31 March		

The fair value of investment property is based on the professional opinion of the Group's internal Chartered Surveyor, having an appropriately recognised professional qualification and relevant experience in the location and class of property being valued. Gains or losses recognised in the period of £74,000 (2016: £nil) as a result of the change in fair value is recognised in the Statement of Comprehensive Income. Rental income from investment property is accounted for as described in the investment properties accounting policy.

Notes *(continued)*

20 Stock

	2017	2016
	£000	£000
Shared ownership properties held for resale	570	349
	<u>570</u>	<u>349</u>
	<u>570</u>	<u>349</u>

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

21 Debtors

	2017	2016
	£000	£000
Rents and service charges arrears	1,260	1,400
Less: Provision for bad and doubtful debts	(870)	(803)
	<u>390</u>	<u>597</u>
Amounts owed by group undertakings	2,888	-
Amounts owed by subsidiary undertakings	1,363	1,178
Other debtors	1,075	825
Prepayments and accrued income	854	829
	<u>6,570</u>	<u>3,429</u>
	<u>6,570</u>	<u>3,429</u>

22 Cash and cash equivalents

	2017	2016
	£000	£000
Cash at bank and in hand	17,976	26,640
	<u>17,976</u>	<u>26,640</u>
	<u>17,976</u>	<u>26,640</u>

Notes (continued)

23 Creditors: amounts falling due within one year

	2017	2016
	£000	£000
Bank loans (see note 24)	744	5,232
Rents and service charges received in advance	253	455
Trade creditors	75	922
Amounts due to group undertakings	51	96
Taxation and social security	137	6
Other creditors	35	41
Accruals and deferred income	2,132	1,440
Amounts due under finance leases and hire purchase agreements (note 24)	30	45
Deferred capital grants	1,228	900
Grant in advance	9	351
Recycled capital grant fund (note 24)	91	46
Interest payable	800	101
Service charge sinking funds	1,047	967
Contractual agreements to fund past service pension deficits (SHPS) (note 25)	298	-
	6,930	10,602

24 Creditors: amounts falling due after more than one year

	2017	2016
	£000	£000
Bank loans	67,454	64,474
Amounts due under finance leases and hire purchase agreements (note 24)	-	30
Deferred capital grants	55,483	56,088
Recycled capital grant fund	229	205
Disposals proceeds fund	85	-
Contractual agreements to fund past service pension deficits (SHPS) (note 25)	2,255	2,748
	125,506	123,545

Interest-bearing loans and borrowings

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

Included within bank loans are amounts repayable after five years by instalments and otherwise than by instalments include £12,760,000 and £55,801,000 respectively.

Bank loans are secured against tangible fixed assets – Housing properties with a net book value of £40,892,000 (2016: £11,107,000).

Included within bank loans are borrowings of £64,616,000 (2016: £69,706,000) with fixed interest rates ranging from 3.95% to 14.75% and borrowings of £3,945,000 (2016: £3,000,000) with variable interest rates ranging from 2.52% to 5.65%.

Notes (continued)

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

Borrowings are repayable as follows:

	2017	2016
	£000	£000
Within one year	744	5,232
Between one and two years	944	693
Between two and five years	2,863	2,837
In five years or more	64,010	60,944
	<hr/>	<hr/>
	68,561	69,706
Less: Issue costs	(363)	-
	<hr/>	<hr/>
	68,198	69,706
Less: Amounts included within Creditors: amounts falling due within one year (note 23)	(744)	(5,232)
	<hr/>	<hr/>
	67,454	64,474
	<hr/> <hr/>	<hr/> <hr/>

Recycled capital grant fund

All funds are pertaining to activities within areas covered by the Homes and Communities Agency (HCA). The movements in the Recycled Capital Grant Fund (RCGF) and disposal proceeds fund (DPF) for the Association are as follows:

	RCGF	DPF	2017	2016
	£000	£000	£000	£000
At beginning of year	251	-	251	195
Grants recycled	115	85	200	114
New build	(46)	-	(46)	(58)
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	320	85	405	251
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Due within one year	91	-	91	46
Due after more than one year	229	85	314	205
	<hr/>	<hr/>	<hr/>	<hr/>
	320	85	405	251
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Amounts 3 years old or older where repayment may be required (£000)	8	-	8	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes *(continued)*

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

Amounts due under finance leases and hire purchase agreements

	2017	2016
	£000	£000
Amounts due under finance leases and hire purchase agreements	30	75
	<u>30</u>	<u>75</u>

The finance leases are repayable as follows:

	2017	2016
	£000	£000
Within one year	30	45
Between one and two years	-	30
Between two and five years	-	-
	<u>30</u>	<u>75</u>
	<u>30</u>	<u>75</u>

Deferred capital grants

Deferred capital grants are made up as follows;

	2017
	£000
At 1 April 2016	56,988
Additions	2,040
Disposals	(1,089)
Amortisation	(1,228)
	<u>56,711</u>
At 31 March 2017	56,711
	<u>56,711</u>
Due within one year	1,228
Due after more than one year	55,483
	<u>56,711</u>
	<u>56,711</u>

Notes (continued)

25 Employee benefits

Defined benefit plan - SHPS

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

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

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.

The Association has been notified by The Pensions Trust of the estimated employer debt on withdrawal from the scheme, based on the financial position of the scheme as at 30 September 2016. At this date, the estimate employer debt for the Association was £26,806,000.

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

Deficit contributions

Tier 1	£40.6m per annum
From 1 April 2016 to 30 September 2020:	(payable monthly and increasing by 4.7% each year on 1 April)
Tier 2	£28.6m per annum
From 1 April 2016 to 30 September 2023:	(payable monthly and increasing by 4.7% each year on 1 April)
Tier 3	£32.7m per annum
From 1 April 2016 to 30 September 2026:	(payable monthly and increasing by 3.0% each year on 1 April)
Tier 4	£31.7m per annum
From 1 April 2016 to 30 September 2026:	(payable monthly and increasing by 3.0% each year on 1 April)

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

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

Present values of contractual agreements to fund past service pension deficits

Notes (continued)

25 Employee benefits (continued)

Reconciliation of opening and closing provision

	2017	2016
	£000	£000
At 1 April	2,748	2,041
Unwinding of the discount factor	53	37
Deficit contribution paid	(323)	(227)
Remeasurements – impact of any change in assumptions	75	(17)
Remeasurements – amendments to the contribution schedule	-	914
	<hr/>	<hr/>
At 31 March	2,553	2,748
	<hr/> <hr/>	<hr/> <hr/>

Impact on the Statement of Comprehensive Income

	2017	2016
	£000	£000
Interest expense	53	37
Remeasurements – impact of any change in assumptions	75	(17)
Remeasurements – amendments to the contribution schedule	-	914

Assumptions

	2017	2016	2015
	%	%	%
Rate of discount	1.33	2.06	1.92

26 Capital and reserve

Share capital

	2017	2016
	£	£
Ordinary shares of £1 each at 1 April	8	8
Issued during the year	6	-
Surrendered during year	(3)	-
	<hr/>	<hr/>
At 31 March	11	8
	<hr/> <hr/>	<hr/> <hr/>

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

No provision has been made for the redemption of shares.

No shares are classified as liabilities.

Notes *(continued)*

27 Financial instruments

Carrying amount of financial instruments

The carrying amounts of the financial assets and liabilities include:

	2017	2016
	£000	£000
Assets measured at amortised cost		
Rent and service charge arrears	390	597
Other debtors	1,075	825
Liabilities measured at amortised cost		
Rents and service charges received in advance	253	455
Trade creditors	75	922
Bank loans	68,198	69,706
Deferred capital grants	56,711	56,988
Contractual agreements to fund past service pension deficits	2,553	2,748
	<u><u> </u></u>	<u><u> </u></u>

28 Leases

Finance lease payments are payable as follows:

	2017	2016
	£000	£000
Less than one year	30	45
Between one and five years	-	30
More than five years	-	-
	<u> </u>	<u> </u>
	30	75
	<u><u> </u></u>	<u><u> </u></u>

Non-cancellable operating lease rentals are payable as follows:

	2017	2016
	£000	£000
Less than one year	5	5
Between one and five years	5	11
More than five years	-	-
	<u> </u>	<u> </u>
	10	16
	<u><u> </u></u>	<u><u> </u></u>

During the year, £5,000 was recognised as an expense in the profit and loss account in respect of operating leases (2016: £4,000).

Notes (continued)

29 Capital commitments

The aggregated amount of contracts for capital expenditure not provided for at year-end was £10,178,000 (2016: £11,636,000).

The aggregated amount of capital expenditure approved which has not been contracted for at year-end was £2,154,000 (2016: £7,104,000).

The proposed financing of such expenditure is as follows:

	£000
Grant	807
Agreed loans	11,525
	<hr/>
	12,332
	<hr/> <hr/>

30 Contingent liabilities

The Association recognised a contingent liability of £2,827,000 (2016: £1,763,000) in relation to recycled grant applicable to individual housing property components that have been replaced. This will crystallise on disposal of the property.

31 Related parties

Identity of related parties with which the Association has transacted

During the year, there were related party transactions with Wansbeck Homes Limited, Three Rivers Housing and Berwick Borough Housing (Associations of the common parent). These transactions were made under commercial terms on an arm's length basis.

During the year, there were related party transactions with Kingston Property Services, Livingspaces (UK) and Avoca Estate Management whose directors are also members of the Board of the Association. Transactions were made in respect of central support services. These transactions were made under commercial terms on an arm's length basis.

Transactions with key management personnel

Total compensation of key management personnel (the directors) in the year amounted to £225,000 (2016: £201,000).

Notes (continued)

31 Related parties (continued)

Other related party transactions

	Sales to	Sales to	Expenses	Expenses
	2017	2016	incurred from	incurred from
	£000	£000	2017	2016
			£000	£000
Wansbeck Homes	4,339	2,773	1,713	1,447
Three Rivers Housing	243	-	-	-
Berwick Borough Homes	114	-	51	-
Kingston Property Services	1,486	653	-	-
Livingspaces (UK)	675	291	-	-
Avoca Estate Management	610	234	-	-
	<u>7,467</u>	<u>3,951</u>	<u>1,764</u>	<u>1,447</u>
	<u><u>7,467</u></u>	<u><u>3,951</u></u>	<u><u>1,764</u></u>	<u><u>1,447</u></u>
	Receivables	Receivables	Creditors	Creditors
	outstanding	outstanding	outstanding	outstanding
	2017	2016	2017	2016
	£000	£000	£000	£000
Wansbeck Homes	2,531	-	-	96
Three Rivers Housing	243	-	-	-
Berwick Borough Homes	114	-	51	-
Kingston Property Services	922	653	-	-
Livingspaces (UK)	273	291	-	-
Avoca Estate Management	168	234	-	-
	<u>4,251</u>	<u>1,178</u>	<u>51</u>	<u>96</u>
	<u><u>4,251</u></u>	<u><u>1,178</u></u>	<u><u>51</u></u>	<u><u>96</u></u>

32 Ultimate parent company

The Association is a subsidiary undertaking of Bernicia Group, a Co-operative and Community Benefit Society and Private Registered Provider incorporated in the UK. The ultimate controlling party is Bernicia Group and has held ultimate control since 25 February 2008. The Group and Association accounts are available from the registered office and from the Mutuels Public Register managed by the Financial Conduct Authority.

Notes *(continued)*

33 Accounting estimates and judgements

Investment properties

The Association 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 Association considers whether tangible assets are impaired. For the purpose of impairment assessments, where an indication of impairment is identified the Association 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 Association 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.

Defined Benefit Pension Scheme

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