Dale & Valley Homes Limited

Annual Report and Financial Statements
for the year ended 31 March 2017

Co-operative and Community Benefits Society registered number: 7048

HCA registered number: 4575

Contents

Board Members, Executive Directors, Advisors and Bankers

Registration numbers

Co-operative and Community Benefit Society registration number	7048
Homes and Communities Agency registration number	4575
Registered office	27 Longfield Road South Church Enterprise Park Bishop Auckland County Durham DL14 6XB

Board members

During the year there has been a change in the governance arrangements at Dale & Valley Homes.

From 1 April 2016 to 15 September 2016 the following individuals served as Board members:

Helen Campbell
Hazel Dale
Terry Dean
Derek Beard
Dorothy Irvine
Charles Kay
Lesley Mellis
Colin Stockwell
Peter Studd
Fraser Tinsley
Christine Wilson
Samual Zair

From the 15 September 2016 to the date of signing the financial statements the following individuals served as Board members:

Judith Common (appointed 15 September 2016)
Douglas Ross (appointed 15 September 2016)
David Boyes (appointed 15 September 2016)
Hazel Dale (appointed 15 September 2016)
John Gardner (appointed 15 September 2016, resigned 31 March 2017)
Russell Hall (appointed 15 September 2016)
Gurpreet Singh Jagpal (appointed 15 September 2016)
Beverley Ann Tindale (appointed 15 September 2016)
Eddie Warner Tomlinson (appointed 15 September 2016, resigned 9 May 2017)

Board Members, Executive Directors, Advisors and Bankers (continued)

Two Executive Board members were appointed to the Board on the 15 September 2016:

Bill Fullen
Alan Smith

Chief Executive	Bill Fullen
Executive Directors	Alan Smith, Group Director of Finance and Resources and Company Secretary Marie Roe, Group Director of Performance and Business Development (resigned 13 August 2017) Ged Walsh, Group Director of Assets and Regeneration
Managing Director	Peter Chaffer (retired 31 July 2016)
Solicitors	Trowers & Hamlins LLP 3 Bunhill Row London EC1Y 8YZ
Bankers	The Co-operative Bank Norfolk House 90 Grey Street Newcastle upon Tyne NE1 6BZ
Independent auditors	Grant Thornton UK LLP Registered Auditors and Chartered Accountants No1 Whitehall Riverside Leeds LS1 4BN

Report of the Board

The Board of Dale & Valley Homes is pleased to present its Annual Report and Financial Statements for the year ended 31 March 2017.

Strategic Report

Corporate structure and business model

Dale & Valley Homes ('the Association') was an arm's length management organisation of Durham County Council for a number of years prior to the transfer of housing stock from the Council on 13 April 2015.

In November 2014, the Association was registered as a charitable Co-operative and Community Benefit Society with the Financial Conduct Authority ('FCA'). On 5 February 2015 Dale & Valley Homes was registered with the Homes and Communities Agency ('HCA') as a registered provider of social housing.

Dale & Valley Homes is a subsidiary organisation of County Durham Housing Group ('the Group'). The Group is made up of the following organisations:

- County Durham Housing Group Limited, the parent of the Group and a charitable Co-operative and Community Benefit Society. It provides central services to the subsidiaries and is also a registered provider which is landlord to three shared ownership properties and 18 general needs properties;

- Dale & Valley Homes, a subsidiary of the Group, a charitable Co-operative and Community Benefit Society and registered provider which operates in the west of the county, providing services to over 4,000 households;

- Durham City Homes, a subsidiary of the Group, a charitable Co-operative and Community Benefit Society and registered provider which operates in Durham City and its surrounding areas, providing services to over 5,800 households; and

- East Durham Homes, a subsidiary of the Group, a charitable Co-operative and Community Benefit Society and registered provider which operates in the east of the county, providing services to over 8,000 households.

The diagram on page 5 illustrates the Group structure. The figures set out in this diagram are for the year ended to 31 March 2017 and stock numbers are stated as at 31 March 2017.

2017 Group turnover: £68.3m
Group stock size: 18,172 homes

dale&valley homes	durhamcity homes	eastdurham homes
2017 turnover: £15.8m	2017 turnover: £22.6m	2017 turnover: £29.9m
Stock size: 4,178 homes	Stock size: 5,811 homes	Stock size: 8,183 homes

References in this Annual Report and Financial Statements to 'the Association' refer to Dale & Valley Homes as an organisation only. References in this Annual Report and Financial Statements to 'the Group' refer to County Durham Housing Group and its subsidiaries collectively.

The Association meets the definition of public benefit entities as set out in Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ('FRS 102') and the Housing Statement of Recommended Practice 2014 ('SORP').

Objectives and strategy

County Durham Housing Group was established in April 2015 to revitalise the social housing offer in County Durham. Charged with the delivery of a radically different package of services and investment programmes, the Group's driving force is to transform lives, communities and neighbourhoods and enable our customers to live a life without barriers.

The core vision and values established the foundation for the Group's corporate plan and the vision and values have been adopted by Dale & Valley Homes:

> ***We believe in a life without barriers****. If everyone expects more, they can achieve more and we can transform lives together. It is this power of "more" that will let people realise what is possible – change perceptions, raise aspirations and create inclusive, vibrant communities.*

Our Values

The group wide values and beliefs are:

People first

People are at the heart of everything we do. In our communities the way we listen and respond to people will determine the way we grow. It is only by connecting with and trusting people that living can be fully brought to life.

Outstanding delivery

Push the boundaries of customer service and added value through proactive behaviour. Because the smallest detail can make the biggest difference, outstanding must be the new standard and the new routine.

Proud communities

Taking responsibility and feeling confident only occur when there is a sense of pride and optimism at home. Positive steps lead to more positive steps and as a result, there is an ability to create and seize better opportunities.

Our Objectives

A Group wide Corporate Plan was approved by the Board in March 2016 and sets out the transformational vision for the Association. It reaffirms our commitment to the delivery of outstanding homes, neighbourhoods and services and to our belief in a life without barriers.

Objective 1: Enhance our customers' experience of their homes, neighbourhoods and the services we provide *by radically improving the look and feel of their home and the neighbourhood they live in and providing outstanding services that really make a difference to their lives.*

During the year the following has been achieved:

- Established a new customer panel known as Voice of Customers and Leaseholders ('VOCAL') as part of the new governance structure. Terms of reference are in place and a recruitment process was completed in the year.

- Established a single Assets Directorate from 1 October 2016, which allows for a joined up approach to asset management.

- Developed a Neighbourhood Quality Standard that sets out our commitment to maintaining neighbourhoods and estates by delivering a package of environmental projects.

- Worked with Durham Key Options on a new lettings policy, which will provide a better service to customers whilst delivering improved performance. This new policy came into force on 1 April 2017.

Objective 2: Build vibrant and resilient communities *which are empowered to take control of their own destiny and are actively influencing and shaping local decision making*.

During the year the following has been achieved:

- Developed a group wide Community Investment Strategy, which sets out a planned approach to investing in priority areas and set up a centralised Engagement and Community Investment Team from 1 January 2017.

- Implemented the Housing Associations Charitable Trust ('HACT') system, which is used to assist in the prioritisation of community initiatives and measurement of social return on investment.

- Developed a dedicated Tenancy Sustainment Team, which will be part of the new Housing Operations Directorate.

- Established a new Universal Credit team from 1 January 2017 to develop the Group's approach to supporting customers on universal credit.

- Operated a junior warden scheme in the Dale & Valley area, which encouraged young people to get involved in improving their neighbourhoods.

Objective 3: Establish the County Durham Housing Group brand *by setting a reputation for creativity, quality; innovation and outstanding service that set the organisation's that make up County Durham Housing Group apart from other Registered Providers.*

During the year the following has been achieved:

- Brought the three existing tenant newsletters into one new Group publication. The new newsletter utilises the same digital format as staff communications.

- Overhauled the design and format of the Group's annual report and created an online microsite to publish the report, with only a limited print run for customers who requested a hard copy. Utilising the microsite allowed the team to track readership of the report and also resulted in an annual recurring cost saving of £15,531.

- Rationalised the Group's existing websites onto one common platform, which has resulted in a reduction in staff time required to maintain the sites, an improvement in the consistency of message communicated by the Group and a reduction in the Group's hosting fees of £1,400 per year.

Objective 4: Create an environment for long lasting business success and growth *by investing in people and services to establish a culture where outstanding performance is the norm.*

During the year the following has been achieved:

- Implemented a new governance structure from September 2016. This is further commented on later in this report.

- During 2016/17 the first new build homes at Bracks Farm and Ushaw Moor were completed and let to new tenants. The updated Group Business Plan (2017-2047) includes an updated development programme, which incorporates the development to be done following the successful bid for funding under the HCA's Affordable Homes Programme.

- A single asset management system went live in June 2016 which has enabled us to develop a single investment programme across the Group that was approved by the Common Board in November 2016.

- The Financial Assessment Tool and Asset Locator ('FATAL') has been developed, which allows for identification of poorly performing assets and the ability to make an informed decision on future investment. The Board have delegated responsibility to the Executive Management Team for approving the disposal of properties that show a negative net present value of more than £5,000.

On 29 March 2017 the group wide corporate objectives were streamlined to sharpen our focus on the things that will have the biggest impact on customers, communities and the business overall. The refreshed objectives are:

- Outstanding business
- Outstanding services
- Outstanding communities

The corporate aim is to:

- manage an **outstanding business** by safeguarding our income, building a reputation as an outstanding landlord who invests in our people to maximise their potential;
- provide **outstanding services** that really set us apart as a landlord, delivering a modern, efficient customer experience; and
- build **outstanding communities** that are empowered to actively influence and shape local decision making.

Work is ongoing during 2017/18 to develop group wide strategies and action plans to support the delivery of the refreshed Corporate Plan objectives.

Regroup

Regroup was launched in January 2016 with four key themes:

- **Transform services** – bring together our operational teams into one directorate so they deliver consistently outstanding services in local communities, helping us to benefit from shared expertise, capacity, skills and economies of scale to deliver outstanding operational performance.

- **Transform people** – ensure that people working across the business are enabled to do an outstanding job by implementing consistent and fit for purpose structures and processes; and establish a joined up organisational culture that is led by strong and effective decision makers.

- **Transform systems** – develop cutting edge IT systems that support the delivery of outstanding services across the whole Group; and benefit from economies of scale to purchase, develop and deliver outstanding services through common IT systems.

- **Transform finances** – ensure the Group remains financially robust, provides value for money, delivers targeted efficiencies and remains constantly vigilant in testing risk and stress testing the business plans.

To deliver Regroup, eight strategic projects were developed and during 2016/17 significant progress has been made across all of these projects, including:

Services

Operational transformation: throughout 2016/17 work has been ongoing to develop a single housing operations directorate to provide centrally managed, locally delivered services to customers.

New homes: aspirations of developing 700 new homes by 2022 were set out in the original offer document to customers. Work has been ongoing throughout 2016/17 to develop plans to deliver new homes with firm commitments now in place to deliver 289 homes over the next three years. The Group's Business Plan also includes aspirational but as yet uncommitted schemes to give a total of 347 planned new homes. This is expected to see a total investment of around £32m in new homes and provide up to 100 new jobs and apprenticeships.

People

People first: during 2016/17 new structures have been put in place across the Finance & Resources Directorate and the Assets Directorate. In addition, work started to implement the new housing operations directorate structure with the new structure in place from 1 July 2017. Work has now commenced on the Group's culture and values, which will be developed further over the course of 2017/18 with a view to establishing a new set of values to embed across the Group.

Governance review: a governance review commenced in January 2016 and was completed in May 2016. From September 2016 a new governance structure was implemented with one Common Board replacing the previous four Boards which has in excess of 40 members across them.

Engagement review: a review of the way in which the Group engages with tenants was undertaken in early 2016/17 to look at the legacy arrangements in place and develop a new approach to engagement, using feedback from tenants and employees as well as external learning. This led to the creation of VOCAL as part of the Group's new governance arrangements.

Systems

Single housing management system: this project was to implement one housing management system for the Group. During 2016/17, a competitive procurement process resulted in the appointment of Aareon as the provider of a new housing management system and the project to implement the system was named 'Unity'.

Financial assessment tool and asset locator ('FATAL'): during 2016/17 work has been ongoing to refine the FATAL model developed in 2015/16 to provide a financial assessment on each of the Association's properties. FATAL has been used to make intelligent, informed asset management decisions on the future plans for individual property assets. Further details on FATAL can be found in the Group's Added Value Annual Review at https://www.countydurhamhousinggroup.co.uk/about-us/finance/value-for-money/.

Finance

Cost reduction and efficiency programme: monitoring of costs and reductions in costs has been ongoing during 2016/17 to assess progress against the savings target set by Regroup of £4m. Further details on cost reductions can be found in the Group's Added Value Annual Review at https://www.countydurhamhousinggroup.co.uk/about-us/finance/value-for-money/.

Review of the business

Reported surplus

For the year ended 31 March 2017, the Association reports a surplus on ordinary activities before taxation of £4.064m (2016: £3.476) compared to a budgeted surplus of £4.937mm and total comprehensive income for the year of £2.204m (2016: £3.746m).

The loss on the remeasurement of the pension scheme for the year is £1.860m compared to a gain the previous year of £0.270m, which is the main reason for the reduction in total comprehensive income for the year when compared to 2015/16.

Statement of Financial Position

The Statement of Financial Position reports a total net assets position of £2.150m at the 31 March 2017 (2016: net liabilities of £0.054m). The key components of the

Statement of Financial position are the Association's social housing properties, the intra-group loans and the Association's pension liability which are explained in further detail below.

Fixed assets

All of the Association's housing properties are categorised as tangible fixed assets as their intended use is for the social benefit they provide.

The Association's properties are stated at cost and at the 31 March 2017 are reported at a net book value of £34.038m (2016: £32.393m). The increase in net book value is attributable to the capital investment programme for the social housing properties, which has been completed in the year.

Pensions

The Statement of Financial Position incorporates the Association's pension liability for the Durham County Council Pension Fund ('the Pension Fund') of £5.170m at 31 March 2017 (2016: £3.140m).

This represents the actuarial estimation, prepared for the purposes of statutory accounts as required by FRS 102, of the Association's net liability at the 31 March 2017 under the Pension Fund. It is based on an actuarial calculation incorporating a number of assumptions and does not represent a valuation of the Pension Fund, nor does it influence the Association's cash contributions to the Pension Fund.

A triennial valuation of the Pension Fund as at 31 March 2016 has recently been completed. Following this valuation the Association's employer contribution rates increased from 13.8% to 16.1% from 1 April 2017.

Treasury

The Statement of Financial Position includes the Association's outstanding loans with County Durham Housing Group under the Intra-Group Loan Agreement. At the date of transfer a £150m loan facility was agreed by County Durham Housing Group; £75m with M&G Investment Management Limited ('M&G') and £75m with Barclays Bank PLC ('Barclays'). This facility is then lent on by County Durham Housing Group to Dale & Valley Homes under the Intra-Group Loan Agreement under the same terms and conditions as the original funding agreement.

The loans have been accounted for as basic financial instruments under FRS 102 and are therefore measured at amortised cost. The classification of the loans as a basic financial instrument is a key management judgement that has been discussed with the Audit Committee and Common Board as part of the statement of accounting policies review.

The judgement applied is in interpreting the guidance set out in FRS 102 in the context of the loan agreement, specifically in relation to the inclusion in the loan agreement of a two way breakage clause which allows for compensation in the event of early repayment of the loan to be paid either to the funder or back to the borrower. This judgement has been applied based on the following considerations:

- In the event of early repayment of the loans, the amounts repaid to funders would be the principal and interest owed with a separate amount calculated relating to the compensation payable due to breaking the loan agreement early. This amount could either be payable by the Group to the funders or vice versa, however, it would be a separate calculation to the repayment of the principal loan amount and interest and is considered to be a separate cash flow.

- The guidance set out in FRS 102 is intended to have the same outcome when classifying loans with breakage costs and breakage gains, rather than different conclusions.

- The interest rate fixed within the loan agreement is part of the Group's overall arrangements to manage interest rate risk and is not considered to be or planned to be an instrument that could be traded separately from the loan agreement.

Interest rate risk

Exposure to movements in interest rates is managed by entering into a fixed interest rate arrangement which are an option under the Group's original loan facility agreement. All loans drawn down as at 31 March 2017 were at fixed rates which apply to the intra-group loans held by Dale & Valley Homes. Details of the terms and conditions of the funding arrangements are set out in note 19 to the financial statements.

Performance

Key Performance Indicators

The Performance Management Framework has been developed to assist in achieving outstanding performance across services. This framework sets the tone for effective performance recording, reporting and review, which in turn supports the continuous improvement of services. Key Performance Indicators ('KPIs') were set centrally by the Group and the performance scorecards were developed with the involvement of all Board members.

The Boards agree a performance target at the beginning of the financial year and a tolerance which is lower than the target set but would be considered acceptable (with explanation). The performance against the KPIs is set out in the table below comparing against the target set and the tolerance agreed by the Board:

KEY:

Year end position against target	
Target met - **green**	☺
Target within tolerance **- amber**	😐
Target not met – **red**	☹

Indicator	Local Target	Tolerance	Actual Performance	Target Met
Enhance our customers experience of their homes, neighbourhoods and services				
% repairs completed within target (all categories)	**94.70%**	**93.00%**	**91.86%**	☹
% customers satisfied with the repairs and maintenance service	**91.00%**	**90.00%**	**94.29%**	☺
% dwellings that meet the decent homes standard	**100.00%**	**100.00%**	**100.00%**	☺
Build vibrant and resilient communities				
% tenancy turnover rate	**9.48%**	**9.96%**	**8.77%**	☺
% tenancies ending in first 12 months	**4.14%**	**5.00%**	**4.89%**	😐
Local projects supported through grant schemes	**For information only**		**21**	
Establish the County Durham Housing Group brand				
% of statutory returns successfully completed	**100%**	**100%**	**100%**	☺
Number of complaints referred to fully or partially upheld by the Ombudsman	**-**	**-**	**-**	☺
Number of RIDDOR reported incidents	**-**	**-**	**2**	☹
% dwellings with a valid gas safety certificate	**100.00%**	**100.00%**	**99.98%**	☹
Create an environment for long lasting business success and growth				
Rent collected as a % of annual rent owed – actual	**99.20%**	**98.90%**	**99.44%**	☺
Rent collected as a % of annual rent owed – at point of housing benefit received	**99.20%**	**98.90%**	**99.44%**	☺
Current tenant rent arrears as a % of annual rent debit - actual	**1.50%**	**1.80%**	**1.45%**	☺
Current tenant rent arrears as a % of annual rent debit – at point of housing benefit received	**1.50%**	**1.80%**	**1.45%**	☺
Rent loss due to empty properties as a % of rent due	**1.30%**	**1.35%**	**0.94%**	☺

Average number of days lost to sickness per full time equivalent ('FTE') employee	**8.84**	**9.00**	**16.10**	☹
Staff turnover	**For information**		**32.43%**	

There are four performance indicators that have not been met and are outside of the tolerance set:

- Percentage of repairs completed within target (all categories): the centralised assets team have been working closely with the contractor delivering the repairs and maintenance service to drive improvement in the percentage of repairs completed within target. In 2017/18 there has been an improvement in performance which is continuing to be monitored closely.

- Percentage of dwellings with a valid gas certificate: at 31 March 2017 there was one property which did not hold a valid gas safety certificate due to access issues. This has been resolved in early 2017/18 and the gas supply has been capped off.

- Number of RIDDOR reported incidents: all RIDDOR reported incidents have been reviewed by the central Health and Safety team and reported to the Audit Committee as part of the quarterly Health and Safety reports. Actions identified by the Health and Safety team to prevent reoccurrence have been identified and a plan put in place to implement them by September 2017. A number of these actions have already been completed with only one action outstanding.

- Average number of days lost to sickness per full time equivalent ('FTE') employee: in late 2016/17 a new group wide sickness policy was approved by Board which aligns the policies across the Group. In June 2017/18 the implementation of a new self service system which allows managers to monitor attendance and sickness across teams and automates the process followed for sickness is expected to assist in reducing this performance indicator. This performance indicator continues to be monitored closely.

It is also noted that staff turnover is 32.43% for the year; this is due to the staff restructure that was ongoing throughout 2016/17 as part of Regroup.

Sector scorecard and social housing cost per unit

In 2016/17 social housing providers have worked together to develop a common suite of performance metrics which have been combined together into a 'sector scorecard'. The scorecard has been developed for greater transparency in the reporting of performance and to allow easier comparison between different housing associations.

The scorecard includes a number of financial and non-financial metrics and also incorporates the social housing cost per unit figures developed and introduced by the HCA in 2015/16. We have decided to revisit the peer groups we use for comparing and benchmarking our performance. In light of regression analysis published by the

HCA in June 2016 investigating the key explanatory factors which influence variations in unit costs between registered providers, we have looked to create more specific bespoke peer groups with providers more closely matching the Group and the Association's characteristics. We have also benchmarked our performance against our closest individual peer to provide a clear like-for-like comparison of our performance.

The sector scorecard has been produced at a Group level and is incorporated into the County Durham Housing Group consolidated accounts. The Association's individual sector scorecard is set out in the table below:

<table>
<tr><th colspan="3">Overall operating margin</th></tr>
<tr><td>2016/17 DVH
2015/16</td><td>**30.3%**
28.8%</td><td rowspan="9">We have delivered a strong operating margin in 2016/17, around 4.5 percentage points above the 2015/16 margin achieved by our peers and 1.5 percentage points above the social housing sector at large. This reflects, in part, that we don't provide supported housing or housing for older people which, in being more costly, reduce a provider's operating margin. Our overall operating margin has increased in the current year, driven primarily by a decrease in our management costs.

Our operating margin solely on social housing lettings is very similar to the overall operating margin – reflecting that the overriding focus of our operations is our social housing offer.

Closer analysis to our peers suggests it is our comparative lack of costs for which a service charge is charged and lower depreciation charge which results in our higher operating margin. Service charges are charged to directly cover costs and so they do not generate a margin for the provider. Our depreciation charge is lower than the majority of our peers because our properties had a lower original value, based on the cost paid for them, rather than their existing use value.</td></tr>
<tr><td>2015/16 Entity sector median</td><td>**28.7%**</td></tr>
<tr><td>2015/16 Subsidiary peer group median</td><td>**25.9%**</td></tr>
<tr><td>2015-16 Subsidiary closest comparator</td><td>**20.1%**</td></tr>
<tr><th colspan="2">Operating margin – social housing lettings</th></tr>
<tr><td>2016/17 DVH
2015/16</td><td>**29.8%**
31.1%</td></tr>
<tr><td>2015/16 Entity sector median</td><td>**30.8%**</td></tr>
<tr><td>2015/16 Subsidiary peer group median</td><td>**26.4%**</td></tr>
<tr><td>2015-16 Subsidiary closest comparator</td><td>**21.0%**</td></tr>
<tr><th colspan="3">EBITDA MRI interest cover</th></tr>
<tr><td>2016/17 DVH
2015/16</td><td>**231%**
-45%</td><td rowspan="3">The EBITDA MRI interest cover of 231% in 2016/17, an increase of 276 percentage points over our 2015/16 position. The increase is due to a reduction in our capitalised major repairs expenditure in the current year and an increase in our depreciation charge for the year.

Our interest cover is higher than the sector median, but lower than the peer group's median. The primary difference between our figure and that of our closest</td></tr>
<tr><td>2015/16 Entity sector median</td><td>**175%**</td></tr>
<tr><td>2015/16 Subsidiary peer group median</td><td>**251%**</td></tr>
</table>

2015-16 Subsidiary closest comparator	**-183%**	comparator is their capitalised major repairs cost which, being significantly more than their reported operating surplus, results in a large negative EBITDA MRI figure. An interest cover well in excess of 100% provides assurance that our operations have sufficient earning and cash generating capacity to continue to comfortably service its debts without significant risk of default.
Number of new units developed		
2016/17 DVH *2015/16*	**0** *0*	All development is being carried out within CDHG and so there is nothing to report for our subsidiaries for these metrics.
2015/16 Entity sector median	**52**	
2015/16 Subsidiary peer group median	**19**	
2015-16 Subsidiary closest comparator	**0**	
New units developed as a proportion of units owned		
2016/17 DVH *2015/16*	**0%** *0%*	
2015/16 Entity sector median	**1.1%**	
2015/16 Subsidiary peer group median	**0.7%**	
2015-16 Subsidiary closest comparator	**0%**	
Gearing		
2016/17 DVH *2015/16*	**76.7%** *81.2%*	Our gearing ratio is higher than both our peer group median and the sector median position. This is symptomatic of the recent nature of our stock transfer. Whilst our closest comparator is also a recent stock transfer, the debt they incurred to purchase their properties was significantly less than our debt and so this has led to their more favourable gearing ratio. Our gearing ratio in 2015/16 was 81.2% and has fallen to 76.7% in 2016/17 and we expect that this ratio will continue to fall in future years unless additional debt is drawn down to fund, for example,
2015/16 Entity sector median	**49.0%**	
2015/16 Subsidiary peer group median	**49.0%**	
2015-16 Subsidiary	**42.1%**	

<table>
<tr><td>closest comparator</td><td></td><td>new build development.</td></tr>
<tr><td colspan="3">Customer satisfaction
(Percentage of respondents very or fairly satisfied with the overall service provided)</td></tr>
<tr><td>2016/17 DVH
2015/16</td><td>88%
90%</td><td rowspan="4">Our customer satisfaction has remained high during 2016/17 and is closely comparable to the sector median figure and our closest comparator's figure. We will continue to work hard during 2017/18 to maintain and, where possible, improve our customer satisfaction.
It was not possible to obtain a figure for our peer group for this indicator.</td></tr>
<tr><td>2015/16 Entity sector median</td><td>87%</td></tr>
<tr><td>2015/16 Subsidiary peer group median</td><td></td></tr>
<tr><td>2015-16 Subsidiary closest comparator</td><td>89%</td></tr>
<tr><td colspan="3">Amount invested in new supply for every £1 generated</td></tr>
<tr><td>2016/17 DVH
2015/16</td><td>£0.00
£0.00</td><td rowspan="4">As noted elsewhere, all new development is being carried out within CDHG and so there is nothing to report for our subsidiaries for this metric.
It has not been possible to obtain benchmarking figures for the sector or our peers for this metric.</td></tr>
<tr><td>2015/16 Entity sector median</td><td rowspan="3"></td></tr>
<tr><td>2015/16 Subsidiary peer group median</td></tr>
<tr><td>2015-16 Subsidiary closest comparator</td></tr>
<tr><td colspan="3">Amount invested in communities for every £1 generated</td></tr>
<tr><td>2016/17 DVH
2015/16</td><td>£0.06
£0.03</td><td rowspan="4">2016/17 saw the completion of a customer engagement review and the establishment of a community investment team centrally within CDHG, supported by a new community investment strategy.
As a result, the investment in this area during 2016-17 represented smaller individual schemes undertaken while the new central team was being developed.
It has not been possible to obtain benchmarking figures for the sector or our peers for this metric.</td></tr>
<tr><td>2015/16 Entity sector median</td><td rowspan="3"></td></tr>
<tr><td>2015/16 Subsidiary peer group median</td></tr>
<tr><td>2015-16 Subsidiary closest comparator</td></tr>
<tr><td colspan="3">Return on capital employed</td></tr>
<tr><td>2016/17 DVH
2015/16</td><td>15.6%
15.9%</td><td>Our return on capital employed (ROCE) figure is particularly high when compared to our peers and the sector as a whole and, whilst this partly reflects the underlying strength of the business, it also reflects</td></tr>
</table>

2015/16 Entity sector median	**4.1%**	the comparatively low net book value (NBV) of our properties – a value ultimately driven by the valuation method used when we purchased our stock from Durham County Council in April 2015.
2015/16 Subsidiary peer group median	**5.9%**	Despite a comparatively high figure in 2016/17, our ROCE has fallen by 0.3 percentage points when compared to the prior year. This has been driven by an investment driven increase in our asset value not being matched by a corresponding increase in our operating surplus. The investment has been made on our existing properties which already contribute to our operating surplus, and for which there is limited scope to increase that contribution, rather than investment in new properties which would bring an additional contribution to the surplus.
2015-16 Subsidiary closest comparator	**4.7%**	
Occupancy rate		
2016/17 DVH *2015/16*	**99.3%** *99.3%*	Our occupancy rate has remained steady from 2015/16 to 2016/17 and remains closely comparable to the wider sector median position. Our occupancy rate is slightly lower than our closest comparator and this is, in part, due to our work using the FATAL tool whereby we identify void properties which are no longer financially viable and seek to dispose of this stock rather than re-investing and re-letting. As a result we have a number of vacant properties which are being assessed and marketed for disposal and this has reduced our overall occupancy rate. It has not been possible to obtain a figure for our peer group for this metric.
2015/16 Entity sector median	**99.5%**	
2015/16 Subsidiary peer group median		
2015-16 Subsidiary closest comparator	**100.0%**	
Ratio of expenditure on responsive repairs to expenditure on planned maintenance		
2016/17 DVH *2015/16*	**1.15** *0.51*	The ratio of responsive repairs to planned maintenance expenditure is 0.43 – 0.67 higher than our peers and the social housing sector. This reflects the nature of the work required to our properties during the year, but also how we internally process and carry out works and whether, for accounting purposes, works can be categorised as ‘capital’ (planned) or ‘revenue’ (responsive) expenditure. We have identified that batched repairs are significantly adding to the % of responsive to planned repairs calculations. We are proposing to remove batched repairs from the associated repairs and maintenance figures and deal with these in a consistent planned approach. The newly centralised Assets team have set up regular meetings between all of the Group’s contractors and staff from both repairs and maintenance and planned maintenance teams to discuss repetitive and or high cost repairs,
2015/16 Entity sector median	**0.63**	
2015/16 Subsidiary peer group median	**0.72**	
2015-16 Subsidiary closest comparator	**0.48**	

<table>
<tr><td></td><td></td><td>these will be identified at an early stage and delivered through planned schemes.</td></tr>
<tr><td colspan="3">Headline social housing cost per unit</td></tr>
<tr><td>2016/17 DVH
2015/16</td><td>£3,066
£3,874</td><td rowspan="17">Our headline cost per unit is almost 10% below the 2015/16 consolidated sector median and is within 1% of our peers' 2015/16 performance. We are pleased to report that our cost per unit has fallen by more than 20% when compared to last year.

Looking more closely at the constituents of the headline result, we can see that our management costs are somewhat higher than our peer group and the wider sector, but in line with those of our closest comparator. This likely reflects our status as a relatively new stock transfer organisation where we have yet to fully rationalise and streamline our operations since the formation of CDHG.

We have a comparatively small number of properties that receive services for which a service charge is levied and therefore our corresponding costs are significantly below those seen by our peers. A service charge review is to be undertaken to analyse service charges and associated costs to ensure the Association is recovering the cost of services provided. This will allow for informed decisions to be made in relation to services and the recovery of costs in light of welfare reform changes.

Similarly, our service offering beyond our core general needs lettings is comparatively limited and so we have no costs classed as 'other social housing costs'.

Our maintenance costs per unit are between 15% and 28% higher than our peers and the sector as a whole, whereas our major repairs costs are 18% lower than our peer group median and 17% below the sector median. This in part reflects the fact that, in 2016/17 we have incurred more expenditure on our properties that, for accounting reasons, cannot be classified as a 'capital' major works and so has instead been classed as 'revenue' maintenance costs. This situation has also impacted the ratio of our expenditure on responsive repairs to expenditure on planned maintenance which is markedly higher than the corresponding sector and peer group median ratios.

Whilst the classification of work isn't the only reason for our 2016/17 performance, we feel a better comparison is to look at the two figures in total as a 'works to properties' cost per unit to eliminate false positions driven by accounting practices. Our total</td></tr>
<tr><td>2015/16 Entity sector median</td><td>£3,366</td></tr>
<tr><td>2015/16 Subsidiary peer group median</td><td>£3,032</td></tr>
<tr><td>2015-16 Subsidiary closest comparator</td><td>£5,279</td></tr>
<tr><td colspan="2">Management cost per unit</td></tr>
<tr><td>2016/17 DVH
2015/16</td><td>£1,212
£1,592</td></tr>
<tr><td>2015/16 Entity sector median</td><td>£1,022</td></tr>
<tr><td>2015/16 Subsidiary peer group median</td><td>£935</td></tr>
<tr><td>2015-16 Subsidiary closest comparator</td><td>£1,244</td></tr>
<tr><td colspan="2">Service charge cost per unit</td></tr>
<tr><td>2016/17 DVH
2015/16</td><td>£66
£19</td></tr>
<tr><td>2015/16 Entity sector median</td><td>£358</td></tr>
<tr><td>2015/16 Subsidiary peer group median</td><td>£179</td></tr>
<tr><td>2015-16 Subsidiary closest comparator</td><td>£225</td></tr>
<tr><td colspan="2">Maintenance cost per unit</td></tr>
<tr><td>2016/17 DVH
2015/16</td><td>£1,117
£891</td></tr>
<tr><td>2015/16 Entity sector median</td><td>£967</td></tr>
</table>

2015/16 Subsidiary peer group median	**£870**
2015-16 Subsidiary closest comparator	**£1,482**
Major repairs cost per unit	
2016/17 DVH *2015/16*	**£671** *£1,345*
2015/16 Entity sector median	**£807**
2015/16 Subsidiary peer group median	**£819**
2015-16 Subsidiary closest comparator	**£1,467**
Total works to properties cost per unit	
2016/17 DVH *2015/16*	**£1,788** *£2,236*
2015/16 Entity sector median	**£1,774**
2015/16 Subsidiary peer group median	**£1,689**
2015-16 Subsidiary closest comparator	**£2,949**
Other social housing cost per unit	
2016/17 DVH *2015/16*	**£0** *£0*
2015/16 Entity sector median	**£212**
2015/16 Subsidiary peer group median	**£229**
2015-16 Subsidiary closest comparator	**£861**

investment per property for 2016/17 was within 1% of wider sector position, around 5% higher than our peer group, but 40% lower than our closest comparator. This suggests that while the cost mix of works carried out to our properties is unusual, the overall investment is in line with much of the rest of the sector. Our investment costs are likely to be lower than our closest comparator because, unlike many other recent stock transfer organisations, the properties transferred to DVH already met the Decent Homes Standard and therefore major investment works were not immediately required.

However we have recognised that our maintenance costs, in particular the costs for void properties are too high. In 2016/17 two reviews of our voids service and processes were undertaken, one internal and one external. The outcome of these reviews identified that voids processes were inconsistent across the Group and were inefficient in terms of the manual nature and number of steps within the processes. A new group wide voids process has been implemented from 2017/18 and the 2017/18 budgets for capital and revenue voids have been reduced by 10% to drive efficiency in the voids process.

Further commentary on plans to improve this area are summarised above in the expenditure on responsive repairs to expenditure on planned maintenance section.

We also believe that there are further improvements we can make to our management cost per unit which, although currently around the sector and peer group median, has the potential to be below the median given our favourable position regarding regional wage variations and also our lack of more costly housing for older people and supported housing. Cost savings targets established as part of Regroup continue to be monitored and the centralisation of teams and improvements in how we work will start to reduce management costs. The current years management costs include expenditure associated with the delivery of Regroup projects as part of the invest to save principles being applied to generate longer term recurring cost savings.

Rent collected from current and former tenants as a percentage of the rent due (excluding arrears b/f)

2016/17 DVH *2015/16*	**99.4%** *99.4%*	Our rent collected figure has remained high from 2015/16 to 2016/17 and compares favourably with our closest comparator, but is slightly lower than the whole sector median. In 2017/18 we plan to centralise rental income teams across CDHG, as well as reviewing and streamlining processes and procedures for rent collection, linking in with our Unity project.
2015/16 Entity sector median	**99.9%**	
2015/16 Subsidiary peer group median		
2015-16 Subsidiary closest comparator	**99.6%**	
Overhead costs as a percentage of adjusted turnover		
2016/17 DVH *2015/16*	**11.00%** *17.34%*	Our overhead costs represent just 11% of our adjusted turnover which represents a decrease of over 6.25 percentage points over our 2015/16 position. This suggests the work we have been undertaking through Regroup and other projects has been making a positive impact on our overhead costs. However, we recognise that our overhead costs still remain a larger proportion than both our closest comparator and the wider sector median position. As we complete the Regroup projects in 2017/18, we expect our overhead costs will fall further as structures and procedures are rationalised and streamlined.
2015/16 Entity sector median	**10.50%**	
2015/16 Subsidiary peer group median		
2015-16 Subsidiary closest comparator	**10.53%**	

Benchmarking cost of services

In addition to the sector scorecard, the HouseMark CORE data tool is also used to benchmark performance and costs annually. The dashboard is used to map service cost and performance, which enables us to the drill down to track progress and trends over a three year period.

Further detail on the benchmarking of costs of services and the peer group used for all benchmarking is included within the Added Value Annual Review at https://www.countydurhamhousinggroup.co.uk/about-us/finance/value-for-money/.

Principal risks and uncertainties

The Group's Risk Management Framework sets out the Group's approach to risk management, including a policy statement, strategy, the Board Risk Attitude Statement and roles and responsibilities for managing risk.

The Group's strategic risk register is monitored and reviewed by the Risk Management Working Group and reported to the Group's Executive Management Team, Audit Committee and the Common Board on a quarterly basis.

During 2016/17 the Risk Management Working Group reviewed the strategic risk register following the Brexit vote to consider whether this warranted a new strategic risk or whether appropriate risk mitigations were currently included in the register. The decision of the Risk Management Working Group, which was supported by the Board, was that Brexit and the potential impact of Brexit, is linked to the existing risk of Political Uncertainty and therefore no additional risk was added to the Strategic Risk Register.

The Risk Management Working Group also considered the HCA's Sector Risk Profile and, whilst no changes to the existing strategic risks were considered necessary, the following points were highlighted and discussed:

- **De-regulation** – as part of the annual governance internal audit review a gap analysis has been performed on the policy requirements and what needs to be implemented;

- **Consumer regulation** - a Group compliance exercise is to be undertaken by the Group's Compliance Manager on the HCA consumer regulatory standards;

- **Counter-party risks -** due diligence of key suppliers at the start and extension of contracts based on a predetermined value for contractual arrangements and particularly for contracts involving responsive repairs. Group Property Services is a cross cutting risk that impacts upon a number of Group strategic risks including - SR2 Agile Business; SR11 Robust Financial Management; SR15 Procurement and Contract Management and SR19 Health and Safety. Financial viability checks form part of the procurement process for all tendering suppliers and further work is being done to consider the implementation of credit checks for key suppliers and contracts;

- **Welfare reform** - a new Group Choice Based Lettings Policy is to be implemented from April 2017 which introduces customer affordability checks. An ongoing data gathering and financial analysis exercise of household occupancy and income will inform Group intelligence on the number of customers affected by the Local Housing Allowance cap.

The Group's strategic risk register at 31 March 2017 includes the following risks:

- **Asset Management:** Inadequate asset management arrangements lead to poor investment decisions.

- **Health and Safety:** Inadequate health and safety arrangements lead to injuries or illness, reduced productivity, and poor staff morale.

- **Agile Business:** unable do not adapt quickly to insight on the changing operational environment leading to potential financial risk, missed opportunities and timely decision making.

- **Workforce Management:** Poor management of workforce matters may result in poor employee relations, failure to retain key skills and experience and failure to deliver services effectively.

- **Reputation**: Lack of organisational commitment to effective Board and Management oversight, strong communication, and focus on quality and operational performance leads to poor reputation.

- **Political Uncertainty:** Failure to understand the impact of political uncertainty and future political decisions on the Business Plan and service delivery.

- **IT Strategy:** Inappropriate IT strategy leads to poor value for money, poor customer services and ineffective business processes.

- **Robust Financial Management:** Ineffective financial management leads to poor VFM, inability to ensure cash flow and covenant compliance, resulting in regulatory downgrading.

- **Fraud:** Internal or external fraud leads to financial loss and / or reputational damage.

- **Welfare Reform:** Failure to model the financial impact on income streams through welfare reforms results in an inability to deliver the business plan and services.

- **Governance and Compliance:** Insufficient skilled resource, technical infrastructure, and inappropriate governance arrangements leading to potential for data loss, financial loss, poor decision making, reputational damage or unsatisfactory regulatory grading.

- **Business Continuity Arrangements:** Business continuity arrangements are not sufficiently resilient resulting in being unable to operate effectively.

- **Data Quality**: Poor data quality results in the Group being unable to determine accurate business performance and make properly informed business decisions.

- **Procurement and Contract Management** : Ineffective procurement or contract management prevents the Group meeting its business objectives

- **Development:** Lack of due diligence, adequate funding and poor performance management lead to unnecessary development costs and reputational damage.

- **Pensions:** Failure to clearly understand the local government pension scheme fund deficit and longer term financial and workforce impacts.

There are operational risk registers in place which link to the Group's Strategic Risk Register and identify operational risks and responses for each area of the business.

Following the tragic events at Grenfell Tower on the 14 June 2017 work has been done to assess the impact of Grenfell Tower on the Group's housing properties. Health and Safety, which incorporates fire safety risks, remains a strategic risk to the Group and will continue to be monitored closely in line with actions put in place to manage this risk. No issues have been identified similar to those at Grenfell Tower which would require immediate remedial action.

Value for Money (VFM)

The group wide approach to value for money is entitled Added Value. The complete Added Value Annual Review sets out in full details of the assessment of Added Value for the year, examples of added value and a follow up to actions and targets identified in 2015/16. The following section provides a summary of this information and the full Added Value Annual Review can be found at https://www.countydurhamhousinggroup.co.uk/about-us/finance/value-for-money/.

The VFM Strategy has been developed to take account of the national context, which presents increasing challenges for housing providers following the rent reduction announced in the Summer Budget 2015. The rent reduction combined with ongoing public sector spending cuts, welfare reform challenges and wider political and economic uncertainty means that there is an even greater need for landlords to continually review their costs and business processes to make sure that they are 'lean'. This also requires a greater focus on strategic asset management to make sure that assets continue to be sustainable in the long term.

The VFM Strategy was reviewed and updated in February 2017 and approved by the Board. The vision is:

"to maximise the use of our assets and resources to invest in our people, our communities and deliver outstanding services"

The VFM strategy sets out four objectives:

- Manage our resources effectively to achieve the strategic priorities of County Durham Housing Group
- Actively promote and embed a value for money culture
- Ensure a common approach to understanding the Group's costs and performance
- Achieve an optimum return on our assets

Establishing a value for money culture

Processes have been implemented across the Group to ensure that VFM is considered and forms part of the organisations' day-to-day operations and thinking, rather than representing an 'add-on' considered in isolation. VFM continues to be embedded into all policies and procedures, so it remains at the forefront of key decisions and forms and integral part of how we work. VFM is incorporated into staff objectives and development plans, confirming that it is the responsibility of everyone, not just senior staff and executives, to deliver value for money.

A VFM working group was established in January 2016 to support the delivery of this strategy and to monitor and report progress against objectives and targets. The role of the working group is to oversee the production of the annual self assessment, monitor and record savings and efficiencies for both internal and external reporting, ensuring appropriate training is provided to Board Members and staff and ensuring VFM is reflected in strategies, policies and procedures.

Further information on the embedding of an added value culture is included in the Group's Added Value Annual Review.

Board and EMT assurance on value for money

The Board ultimately has overall responsibility for ensuring the delivery of the VFM strategy and objectives.

The VFM working group is overseen by the Board and reports annually to the Board on progress against VFM objectives. Reports are presented to the Group's Executive Management Team for their review prior to being presented to the Board.

In addition, the Board has oversight of a range of other information from both internal and external sources, which provides assurance over performance and how this links to value for money. All reports presented to the Board include a section covering the VFM implications of the report and this helps to ensure the Board maintain their oversight of VFM.

Involving our teams

A VFM training plan to develop knowledge and understanding of the core principles of VFM has been implemented. The aim is to enable employees to apply and embed VFM into the Group's ways of working.

Added Value Champions representing different areas of the business across the Group are responsible for cascading training to all staff. This will ensure that all staff and teams are aware of VFM, its importance and how they can contribute to delivering the VFM objectives and strategy.

VFM is a standing agenda item for team meetings, keeping it at the forefront of what teams do and maintaining team involvement in the group wide approach to delivering a value for money service to its customers.

The Added Value champions also have responsibility for capturing VFM savings for their area of the business and recording these on the VFM log spreadsheet.

Customer involvement and scrutiny

VOCAL is responsible for reviewing, scrutinising and challenging the quality and delivery of the Group's customer-facing services, primarily through gathering feedback from directly from customers in the areas in which the Group operates.

Part of the scrutiny VOCAL will provide will be around the value for money the Group achieves in the work that it does and also in monitoring the social impact of the Group's work in the communities in which it operates.

VOCAL have been involved in reviewing the Added Value Annual Review and providing feedback on the form and content of the report as part of its first meeting in June 2017.

Return on assets

Understanding our assets

As at 31 March 2017, Dale & Valley Homes directly managed 4,178 social housing properties, 13 leasehold properties and 33 commercial units.

Dale & Valley Homes accounts for 23% of the Group's stock, which is predominantly located in Bishop Auckland, Crook and rural west of County Durham.

Our asset management strategy (AMS)

Over 99% of the Association's income is derived from social housing properties and, as such, this forms the focus of the current asset management strategy.

The AMS provides a framework for identifying the range and type of homes the Association provides for the local people and considers local demand and markets. It also provides a mechanism to review stock to ascertain whether it is fit for purpose and to consider options for poorly performing stock such as altering, re-modelling, demolishing or changing the tenure or stock disposal. As a new stock transfer organisation it is imperative that the primary focus is on the financial sustainability of stock to ensure that future investment decisions are based on sound business principles.

Asset management

During 2016/17 the FATAL model developed in 2015/16 has been refined. A full update of the datasets used within the model has been carried out and improvements have been made to the processing and allocation of the Group's costs across the stock.

The most significant improvement made to the model during 2016/17 has been to overhaul the way in which demand for our properties is reflected. Originally, historic void data were used to adjust the income generated by each property to reflect expected future void losses. However it was identified that, for a significant number of the Group's stock, the historic void figures were not reflective of our expectations regarding their future void rates. To resolve this issue the knowledge and experience of local housing management teams was used to assign each of our properties a score from 1 to 5 (where 1 reflects the least popular properties and 5 the most popular) and then translated this demand score into a void rate to be used over the thirty year period covered by our model. The demand score takes into account the local housing management team's experience of a property's historic popularity as well as their understanding of how well that property meets customer's future requirements. Additionally, the demand scoring has been used to adjust the allocation of tenancy turnover costs, with properties identified as having poorer demand also assumed to have shorter tenancies and therefore more turnovers. Each turnover has a number of standard costs associated with it and, as a result, a property which turns over more regularly will cost the Association more money. By utilising the demand scoring system the model now more accurately reflects this distribution of costs.

During 2016/17 improvements have also been made to the way in which FATAL is used to make intelligent, informed asset management decisions. A process map has been developed in collaboration with the central asset team and local housing management teams. It sets out the actions that need to be taken when a property becomes void to ensure it is assessed for its sustainability and, where unsustainable properties are identified, these are put forward for a more detailed options appraisal to determine the most effective course of action.

The voids process represents the reactive side of the proposed usage of FATAL and, having developed and established a process for this work is underway to look at how FATAL can be used to proactively identify individual or groups of properties requiring detailed appraisal because they do not provide value for money or do not fit with longer term strategic plans. The first review begins in early 2017/18 with further reviews to follow later in 2017/18 and beyond.

Return on capital employed

The Association also keeps track of asset performance through the return on capital employed (ROCE) ratio, which is calculated using figures taken from the financial statements, specifically the surplus generated, plus the gain on disposal of fixed assets, as a proportion of housing stock net book value (the initial cost of the properties, plus the value of works subsequently undertaken on the properties, less the depreciation charged against each property) and the net current assets.

Using figures from the financial statements allows us to compare our performance against our peers, both locally and nationally, using the Homes and Communities Agency 2016 Global Accounts of Housing Providers, which are produced from the financial statements of regulated providers of social housing.

This information is incorporated into the sector scorecard on pages 15 to 21.

Improving the current stock

The Association has worked closely with the other two subsidiaries of the Group for a number of years to agree common practices in the way that planned investment in the stock, including the formulation of the “Durham Standard”, is delivered. This standard has brought together the best areas of all three organisations.

A three year stock investment plan was approved by the Board in July 2016. The plan was designed around the following factors:

- Information from an external stock condition survey.
- A draft programme produced from the single asset management database system (PIMSS) which utilised up to date stock condition information.
- Review of the PIMSS generated programmes against repairs and maintenance data and the local knowledge of staff.
- Helping deliver the promises made in the offer document.
- Ensuring that all sustainable stock, per the FATAL asset management tool, continue to meet the Decent Homes standard as a minimum.

A centralised assets team was formed in October 2016, which consolidated the existing assets teams from across the three landlords. As part of this new team structure a dedicated team of stock condition surveyors was formed to deliver a rolling programme of stock condition surveys, ensuring there is robust stock information at all times. The team is currently developing a handheld solution that enables all stock condition surveys to be entered directly into PIMSS.

A procurement exercise is currently underway that will see a single external contractor appointed to deliver a substantial proportion of the Group investment programme. The contract will be for an initial three year period with the option to extend this by up to seven years should VFM continue to be demonstrated. The remainder of the investment programme will be delivered by Group Property Services, the Group's in-house direct labour organisation, and consideration will also be given to using frameworks to deliver some of the programme.

Key Added Value achievements

We have set out, throughout the narrative of our Added Value Annual Review, the key achievements against the targets established in the VFM self assessment for 2015/16 which was published in September 2016. Further detail can be found in the Group's Added Value Annual Review, but a summary is included in the table below:

Action/Target	**Progress**
Single housing management system – replacing the three different systems currently operating across the Group with a single group-wide system.	See page 10 for details of progress on this project.
Governance review – the Group's governance structure was complex and inefficient. A review was undertaken to appraise Board members and streamline the governance structure and processes to achieve more efficient and effective oversight of the Group.	See page 32 for details of progress on this project.
Customer engagement review – a project to review the approach to customer involvement and engagement across the Group.	See page 10 for details of progress on this project.

People First – a project to develop the Group's culture and values and establish organisational structures and job roles that will ensure the business can meet current and future needs.	See page 9 for details of progress on this project.
£4.2k saving on hosting costs for a single website	Rationalising the Group's existing websites onto one common platform. In reducing the number of Group sites, there has been a reduction in staff time required to maintain the sites, an improvement in the consistency of message communicated by the Group and a reduction in the Group's hosting fees of £1.4k per year.
£3.6k saving for single online accessibility	Savings of £4.2k have been achieved by consolidating the online accessibility from four websites to one.
£65k saving across the Group from rationalising postage arrangements.	A procurement exercise will be completed in 2017/18 and is expected to realise a direct cost saving as well as improved efficiency.
Cost reduction and efficiency programme – to demonstrate that we are delivering on the promises made in the Offer Document and Corporate Plan, whilst also achieving value for money. A minimum of £4m of annual financial savings is needed over a three year period starting in 2016-17 and is expected to be achieved through procurement, service reviews, technology reviews, a review of governance, and a review of Group staffing.	Regroup savings of £1.5million have been realised to date and are reflected in the budgets for 2017/18. The savings include the following: • Meridian Court lease savings of £100k per annum; • IT Service Level agreement net cost saving of £170k per annum following the insourcing of the service help desk; • A reduction of 10% in Group's voids budgets offset by an increase in gas servicing costs resulting in a net saving of £436k; • Savings in grounds maintenance service level agreement of £63k per annum; • Regroup staffing savings of £481k from centralisation of teams to date; and • Centralisation of services and associated cost and procurement savings of £250k.
Rationalisation of subscriptions and memberships	Group subscriptions and memberships during 2016/17 have been rationalised resulting in a total saving of £3.3k.

Facilities / travel / office equipment - aim for £5k saving.	Changing supplier for office consumables has resulted in the Group saving £1.3k per year.
Aim to attain a 5% increase where leases are due for renewal.	In 2016/17, the Group re-negotiated five commercial lease interests where agreements had expired and the Group's commercial tenants were holding over on historic passing rents. Each renewal attained an increase in rental income of between 13% and 163% for the Group; this was due to a move from historic passing rents to newly agreed Market Rents.
Savings from negotiations of annual rent of office accommodation.	Successfully renegotiated short term leases for Thomas House and Lumley House at no additional annual cost. Short term leases have been negotiated due to longer term accommodation review where the Group are looking at accommodation needs versus current accommodation.
Improve GPS bottom line position by £50k through a review of their fleet and stores.	Procurements have been completed, however direct cost savings have not been realised as the existing contract was very competitive and the supplier declined to tender again, whilst confirming they could not continue to provide fleet services in particular. Expected efficiency savings from using new stores facilities will be monitored during 2017/18.
Staffing - £40k saving through the use of North East Jobs website and reduced external agencies.	A reduction in agency costs of £430k has been achieved in 2016/17 when compared to costs incurred in 2015/16.
Attain £200k additional grant funding to deliver new build developments.	In 2016/17 the Group was allocated £8.61m grant funding to support its new build development aspiration as set out on page 13 of this report.
Tenant surveys - savings estimated to be up to £3k by using one system rather than three.	Saving of £2.2k achieved - this included getting the contract for an additional three months to align the three licences for the landlords.
Saving of £20k through increased use of internal resources and free external service providers for training.	Saving of £17.75k achieved to date, with further savings anticipated for 2017/18.

£16k saving on production of Annual Report.	Previously each Group landlord printed and posted copies of their annual report to all customers, but for 2015/16 a single combined annual report was produced. Additionally, the team created an online microsite to publish the report, with only a limited print run for customers who requested a hard copy. This allowed the team to track readership of the report and also resulted in an annual recurring cost saving of £15.5k.
£10k saving on production of Tenants newsletter.	Bringing the three existing tenant newsletters into one new Group publication. Previously newsletters were printed and posted to customers on a quarterly basis. Now the newsletter is published online on a monthly basis, with printed copies available on request. The new newsletter utilises the same digital format as staff communications, so additional set-up costs have been avoided. Annual savings for the new, improved tenant newsletter over the old newsletters are £51.6k.
Achieve savings of £13k per annum on PIMSS licencing agreements.	£13k savings achieved by rationalising licenses for PIMSS.
Group wide accreditations review	A review of the Group wide accreditations and understanding which accreditations link to the Group's Corporate Plan objectives and strategies is ongoing.
Section 106 new build units - aim to save 30% when compared to developing its own units.	Costs for the acquisition of section 106 new build units based on actual and forecast expenditure are 56% less than the expected costs for development of own units.
Aim to achieve a £100k net gain in the business plan as a result of FATAL (Financial Assessment Tool and Asset Locator).	During 2016-17 two sales were completed where the total original net present value of the sold properties was a deficit of £69k and the consideration received from the sales totalled £32k. This therefore represents a £101k net gain to the Group resulting from these sales.

Legal staffing / costs - £24k saving initially, plus potential for reduced external legal spend.	Ongoing – performance indicators within legal services are to be set to monitor targeted reduction in spend for in-house legal services. Wider procurement of legal services will be considered throughout the latter part of 2017 so that savings and efficiency can be targeted once the legal structure is fully populated.

Governance arrangements

The financial statements for 2015/16 highlighted the issues identified with the existing governance structure across the entire Group, where multiple Boards and Committees resulted in significant inefficiencies and extra cost to the Group. This view was confirmed by the HCA who highlighted the governance-related duplication and inefficiency in their regulatory judgement published in March 2016 following an In-depth Assessment (IDA).

In January 2016 a review of the Group's governance arrangements was initiated, with support from independent consultants Altair, which saw a streamlined governance structure implemented from September 2016. The new arrangements reduced membership of the Board from in excess of 40 non-executives to 9 non-executives plus 2 executive members (the Group Chief Executive and Group Director of Finance and Resources), creating a 'Common Board' which represents each of the 4 organisations within the Group.

An Operations Committee was also formally constituted as part of the review to focus upon reviewing the performance and operational service delivery of the Group's housing, customer services, property services and customer facing functions therefore allowing the Common Board to focus on the Group's strategic direction. The Operations Committee consists of 2 non-executive Board Members and 6 additional non-executive Members who ensure representation from across all the Group's geographical areas of operations. The Committee has direct reporting links to VOCAL.

In addition to the changes described above, a Group Audit Committee and Group Remuneration and Nominations Committee were also constituted following the governance review. Both committees consist entirely of serving non-executive Board members.

Since the introduction of the new structure, there has been a clear reduction in duplication of reporting and the number of meetings being held. The administrative burden of facilitating the old structure has reduced costs both in terms of materials and staff/Board Member time.

The move to electronic Board information has reduced cost significantly in terms of materials and Ipads have now been provided to all Board and Audit/Remuneration and Nominations Committee Members. Direct cost savings are estimated to be £6k per annum and there is also the efficiency in time required to print and send out Board papers.

Within the Governance team, a staffing re-structure took place in January 2017, which resulted in a number of efficiency improvements. These include:

- The creation of a shared Governance and Legal team staff resource.
- Reallocation of responsibilities to allow a reduction in the number of Governance Lead posts from 3 to 2 following the retirement of a previous team member.
- The recruitment of a further in-house solicitor to work with the Group Solicitor, to reduce outsourced legal services spending.

The anticipated annual savings from these actions are estimated at £35k in 2017/18.

Future developments

The following projects are key priorities for 2017/18:

- Unity – implementation of Aareon as the new single housing management system for the Group which will replace the three legacy systems currently in place. This is anticipated to achieve direct cost savings of over £1m over five years as well as further savings in more efficient processes.

- Operations transformation – completing the restructure of housing operations teams across the Group to create a single housing operations directorate operating over East and West areas.

- HR systems – roll out of a new self service system for employees which will allow for administrative tasks such as requesting holidays, recording sickness and claiming expenses to be done online. For managers the new system will also provide improved reporting functionality which will allow for better monitoring of areas such as sickness absence. Following on from the launch of the new system, future developments later in 2017/18 will include recruitment, performance and learning and development.

- People First –finalising the Group's new structures within the single operations directorate. This project will also look at the development of the Group's culture and values and the development of a modern employee offer.

- Cost reduction and efficiency programme – monitoring the achievement of the group wide £4m annual savings target.

- New development – a summary of the development programme is set out on page 9 and more detailed analysis of plans are included in the Group accounts.

- Review of under performing assets – work will continue to develop FATAL and review of underperforming assets held by the Group, including assets such as community buildings and garage sites.

All of these projects link to the group wide Corporate Plan objectives of outstanding business, outstanding services, outstanding communities.

Internal Controls Statement

Assessment of the effectiveness of internal controls

The Board is the ultimate governing body of the Group and is responsible for the system of internal control and for reviewing its effectiveness. The system of internal control is designed to manage risk and to provide reasonable assurance that key business objectives will be met. It also exists to give reasonable assurance about the preparation and reliability of financial and operational information and the safeguarding of the Group's assets and interests. The Board recognises that no system of internal control can provide absolute assurance or eliminate all risk.

The Board delegates the ongoing review of internal controls to the Audit Committee and receives annual reports from the Audit Committee. Day to day management of the business is the responsibility of the Executive Management Team.

Scope of Assurance

The Board understands that the internal controls system is designed to manage rather than eliminate all risks. The Group's internal control framework is designed to manage and mitigate, as far as possible, the significant risks that may threaten its ability to meet strategic objectives. It can only provide reasonable, not absolute, assurance against material misstatement or loss.

The process for identifying, evaluating and managing the significant risks faced by the Group is ongoing and has been in place throughout the financial year commencing 1 April 2016 up to the date of approval of the Annual Report and Financial Statements.

Assurance on the efficiency, economy and effectiveness of the Groups services and operations is obtained by placing reliance on the its existing internal control framework, which encompasses the following key elements:

- A new, streamlined governance structure with clear, Board-approved terms of reference and a scheme of delegation for the Audit Committee, Operations Committee and VOCAL.
- Clear forward plan for each Board and Committee and a compliance calendar setting out regulatory and similar returns that must be submitted for monitoring by the governance team and reported through to the Board.
- Robust strategic and business planning processes with detailed financial budgets and forecasts.
- A Risk Management Framework which sets out a high level Board statement of risk attitude and tolerance, together with a Group risk management policy statement, principles, process and specific roles and responsibilities. The Framework is reviewed by the Risk Management Working Group and bi-annually by the Audit Committee and Board.
- A Risk Management Working Group meets on a quarterly basis throughout the year and monitors the Group's strategic risks to make recommendations to Audit Committee and Board.
- Clear strategic risks aligned to the Group's strategic objectives;

- Quarterly review of strategic risks and mitigating actions by the Audit Committee and the Board;
- Consideration of impact of Board discussions and decisions on strategic risks at each Board meeting;
- A robust approach to treasury management which is subject to a mid year and annual review that is reported to Board;
- Regular reporting of key performance indicators to the Executive Management Team, the Operations Committee and the Board to assess progress towards the achievement of key business objectives, targets and outcomes;
- A detailed fraud risk assessment and controls gap analysis resulting in a clear action plan reported to the Audit Committee and monitored throughout the year;
- Updated policies on whistle blowing, anti-fraud and corruption and anti-money laundering approved by the Audit Committee;
- An Annual Fraud Report for 2016/17 presented to the Audit Committee in July 2017 setting out the work done throughout the year in relation to fraud and fraud prevention;
- Board approved code of conduct for Board, Committee, VOCAL members and employees and an updated probity policy for staff;
- Annual appraisal of Board and Committee members and implementation of a training and development plan for members;
- Regular monitoring of loan covenants and requirements for new loan facilities;
- Working with the Audit Committee to development a stress testing approach to the Business Plan linked to the Group’s strategic risk register to understanding mitigating actions required;
- Regular scenario testing and stress testing of the Business Plan to understand the impact of different development opportunities;
- Financial Regulations and detailed policies and procedures in each service area;
- Board approval, due diligence and appraisal of all significant new initiatives, strategic decisions and capital commitments, such as the New Build Development Programme and Assets Options Appraisals;
- An outsourced internal audit service delivering a risk based approach to develop the annual and three year internal audit plan which is approved and monitored by the Audit Committee; and
- An Assets and Liabilities Register together with a Board approved Policy and Manual.

Effectiveness of the Key Control Framework

The Group draws upon a number of sources of assurance on an ongoing basis to establish the effectiveness of key controls which include:

- Internal and external audit reports;
- Assessment by external and regulatory bodies;
- Industry accreditations;
- Stakeholder feedback;
- Risk management reports;
- Performance management information;
- Financial performance information;

- Self-assessment against industry standards and best practice (i.e. NHF 2015 Code).

An Internal Audit Annual Report was presented to Audit Committee on 3 July 2017 highlighting the results of the 2016/17 internal audit work on the Group's system of governance, risk management and control. The Group's Internal Auditors stated that:

'Our work identified low, medium and high risk rated findings. No critical risk rated findings were identified during the year. Based on the work completed, we believe that the high risk rated findings are isolated to specific systems and processes and when taken in aggregate are not considered pervasive to the system of internal control as a whole.

One high risk report was issued during 2016/17 in relation to the health and safety arrangements at Group Property Services (GPS). This resulted from two high risk findings which identified the need for the development of health and safety procedures at GPS and identified improvements in relation to evidence retention to demonstrate the performance of health and safety related training for GPS staff. No further high risk reports or findings were noted during 2016/17.

The Annual Report also stated '*we have noted proactive action being taken during the year to implement and reduce the number of outstanding actions.'*

The Group has an ongoing process to identify, evaluate and manage key strategic risk exposures and this has been in place throughout the 2016/17 financial year.

The Board has reviewed the effectiveness of the system of internal control for the accounting period commencing 1 April 2016 up to the date of approval of the Annual Report and Financial Statements. It has not identified any weaknesses which resulted in material losses or contingencies or other uncertainties which require disclosure in the financial statements.

National Housing Federation Code of Governance (2015)

The Association confirmed its adoption of the 2015 NHF Code of Governance through the Parent Board in February 2016 and identified actions required to both ensure and enhance compliance. At that point it was identified that we were non compliant and the following actions needed to be completed to ensure compliance:

- Amendment of rules for all Boards required to explicitly prohibit co-optees taking the Board makeup beyond 12 members across.

- Amendment of rules for County Durham Housing Group only to reduce Board members to a maximum of 12.

Both of these actions were completed in September 2016 as part of the implementation of the new governance structure. In addition the creation of skills, qualifications and attributes requirements within a renewal policy / strategy for Board members was required which was implemented in July 2016.

An annual report on compliance against the Code of Governance was received by the Board in March 2017 which identified further actions for 2017/18 to ensure and enhance compliance. It was noted that we were non compliant at that point as the following action needed to be completed:

- Remuneration for Board members at Dale & Valley Homes and East Durham Homes up to the implementation of the new governance structure to be identified in the statutory accounts for 2016 /17 on an individually named basis.

The above action is addressed within note 10 of the accounts.

Compliance with Governance and Financial Viability Standard

The Homes and Communities Agency's (HCA) Governance and Financial Viability Standard (the Standard) was updated in April 2015. This was accompanied by a new Code of Practice, which provides guidance to registered providers to ensure compliance with the Standard.

The Standard requires registered providers to assess their compliance with it at least annually and Boards are required to report their compliance with the Standard within their annual accounts.

Compliance with the Regulator's revised Governance and Financial Viability Standard was reviewed by the Board on 13 September 2017. The Association complies in full with the Standard.

Employee engagement and involvement

Employee involvement is established at a Group level and applies to all organisations within the Group. The Group approach to employee involvement is summarised below.

The Group is committed to engaging and involving our employees and keeping them up to date with business developments. Information on key plans and developments is communicated through a weekly group newsletter and regular employee briefings hosted by the Chief Executive and Group Directors. These communications are supplemented by regular team meetings, a group magazine publication which is distributed to all employees which addresses key developments for example employees were provided with regular updates on the 'Regroup' transformational change programme, which included the redesign of organisational structures across the Group during the period 2016/17-2017/18.

During 2016/17, the Group implemented a pilot programme of Psychological Safety training for managers and further development for managers in leading their teams effectively; creating opportunities for greater autonomy; building confidence, trust and encouraging feedback; minimising stress; and reducing sickness absence.

Wellbeing action plans are currently in development and a staff wellbeing survey will measure the impact of work in this area on employee wellbeing. The Group continues to provide access to occupational health services via an SLA with Durham County Council.

Employee consultation and change advocate groups are an important mechanism to ensure effective involvement and engagement with employees. The Group has also commenced a review of its organisational culture and values. This important work will provide further opportunities for employees across the Group to be fully involved in the development of the Group's culture and values.

Equal opportunities

The approach to equal opportunities is set at a Group level and is summarised below.

The Group is committed to equal opportunities. This is demonstrated through its approach to recruitment and selection through to accessing training and career development.

The Group's Equality, Diversity and Inclusion policy supports the Group's commitment to removing all direct and indirect discrimination and eradication of any harassment or victimisation that may occur. It is the Group's policy that less favourable treatment of anyone on the grounds of age, sex, race / ethnicity / origin, disability, religion, sexual orientation, marital status or familial / caring responsibilities will not be tolerated.

The Group aims to ensure that prospective and current employees are afforded equal and fair treatment in relation to recruitment, selection, terms and conditions or employment, training and promotion. All recruitment, development and promotion opportunities are based on fair and equitable job related criteria.

Employees with disabilities

The approach to employees with disabilities is set at a Group level and is summarised below.

The Group's policy is that people with disabilities should have full and fair consideration for all vacancies and where it is possible, reasonable adjustments will be made to meet the needs of disabled employees.

Statement of Board members' responsibilities

The Board are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Co-operative and Community Benefit Society legislation requires the Board to prepare financial statements for each financial year. Under that law the Board have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland. Under the Co-operative and Community Benefit Society legislation the Board must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and surplus or deficit of the Association for that period. In preparing these financial statements, the Board are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice (SORP) Accounting by Registered Housing Providers 2014, 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 are responsible for keeping proper accounting records that are sufficient to show and explain the registered provider's transactions and disclose with reasonable accuracy at any time the financial position of the registered provider and to enable it to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014 and Regulations thereunder the Housing and Regeneration Act 2008 and the Accounting Direction for Social Housing in England 2015. It is also responsible for safeguarding the assets of the registered provider and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board are responsible for the maintenance and integrity of the society's corporate and financial information included on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to auditors

In case of each Board member in position at the date the Report of the Board is approved, that:

(a) in so far as each member is aware, there is no relevant audit information of which the Association's auditors are unaware; and

(b) each member has taken all the steps that he/she ought to have taken as a member in order to make himself/herself aware of any relevant audit information and to establish that the Association's auditors are aware of that information.

The Report of the Board, including the Strategic Report, Value for Money and the Statement of Board members Responsibilities, was approved on the 13 September 2017 and signed on behalf of the Board by:

Judith Common
Chair of the Board

Independent auditor's report to the members of Dale & Valley Homes Limited

We have audited the financial statements of Dale & Valley Homes Limited for the year ended 31 March 2017 which comprises the Statement of Comprehensive Income, the Statement of Changes in Reserves, the Statement of Financial Position and the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom 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 society's members, as a body, in accordance with regulations made under Sections 87 of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the society's members those matters we are required to state to them 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 society and the society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Board and the auditor

As explained more fully in the Statement of Board Member's Responsibilities on pages 39 and 40, the Board are 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 of the state of the Association's affairs as at 31 March 2017 and of the Association's income and expenditure for the year then ended; and

- have been properly prepared in accordance 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.

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:

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

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Leeds
20 September 2017

Statement of Comprehensive Income

	Note	2017 £'000	2016 £'000
Turnover	3	15,810	15,609
Operating expenditure	3	(11,012)	(11,119)
Operating surplus / (deficit)	6	4,798	4,490
Gain/(loss) on disposal of fixed assets	7	452	176
Interest payable and finance costs	8	(1,186)	(1,190)
Surplus / (deficit) on ordinary activities before taxation		4,064	3,476
Tax on surplus on ordinary activities	12	-	-
Surplus / (deficit) for the period		4,064	3,476
Remeasurement (loss) / gain in respect of pension scheme	21	(1,860)	270
Total comprehensive income for the period		2,204	3,746

The reported results relate wholly to continuing activities.

The accompanying notes form part of these financial statements.

The financial statements on pages 42 to 74 were approved and authorised for issue by the Board on 13 September 2017 and signed on its behalf by:

Judith Common		Andrew Traynor
Chair of the Board	Board Member	Group Secretary

Statement of Changes in Reserves

	Income and Expenditure Reserve 2017 £'000	Income and Expenditure Reserve 2016 £'000
Balance at the beginning of the year	(54)	(3,800)
Surplus for the year	4,064	3,476
Other comprehensive income for the year	(1,860)	270
Balance at the end of the year	**2,150**	**54**

The accompanying notes form part of these financial statements.

Statement of Financial Position

	Note	2017 £'000	2016 £'000
Fixed assets			
Tangible fixed assets- housing properties at cost	13	34,038	32,393
Tangible fixed assets- other	14	-	-
Total fixed assets		34,038	32,393
Current assets			
Debtors	15	10,995	10,011
Cash at bank and in hand		1	36
		10,996	10,047
Creditors: amounts falling due within one year	16	(11,281)	(13,125)
Net current liabilities		(285)	(3,078)
Total assets less current liabilities		33,753	29,315
Creditors: amounts falling due after more than one year	17	(26,091)	(26,051)
Provision for liabilities			
Pension provision	21	(5,170)	(3,140)
Other provisions	18	(342)	(178)
Total net assets		2,150	(54)
Reserves			
Income and expenditure		2,150	(54)
Total reserves		2,150	(54)

The accompanying notes form part of these financial statements.

The financial statements on pages 42 to 74 were approved and authorised for issue by the Board on 13 September 2017 and signed on its behalf by:

Judith Common		Andrew Traynor
Chair of the Board	Board Member	Group Secretary

Notes to the financial statements

1. Legal status

Dale & Valley Homes is registered under the Cooperative and Community Benefit Society Act 2014 and is a registered provider of social housing. The country of incorporation is the United Kingdom and the Association's registered office address is: 27 Longfield Road, South Church Enterprise Park, Bishop Auckland, County Durham, DL14 6XB.

2. Accounting policies

Basis of accounting

The financial statements are prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including FRS 102 and the Housing SORP 2014: Statement of Recommended Practice for registered social housing providers, and comply with the Accounting Direction for Private Registered Providers of Social Housing 2015.

The financial statements are presented in sterling (£).

Disclosure exemptions

The individual accounts of the Association have adopted the following disclosure exemptions:

- the requirement to present a statement of cash flows and related notes.

Going concern

The Association's business activities, its current financial position and factors likely to affect its future development are set out within the Report of the Board. The Association is a subsidiary of County Durham Housing Group which has in place long-term external debt facilities to provide adequate resources to finance committed reinvestment and development programmes, along with the day to day operations to the subsidiaries. The Group also has a long-term business plan which shows that it is able to service these debt facilities whilst continuing to comply with lenders' financial covenant requirements. The long-term business plan has also been subjected to a series of stress tests to identify what mitigating actions may be required in the event of specific economic assumptions, such as inflation rates, changing.

On this basis, the Board has a reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future, being a period of at least twelve months after the date on which the report and financial statements are signed. For this reason, it continues to adopt the going concern basis in the financial statements.

2. Accounting policies (continued)

Significant judgements and estimates

Preparation of the financial statements requires management to make significant judgements and estimates. The items in the financial statements where these judgements and estimates have been made include the following:

Significant management judgements

Categorisation of property assets: the categorisation of property assets as investment properties or fixed assets is a matter of judgement and is based on the intended use of the property. Where the property is used for social benefit it is categorised as a fixed asset. Only property which is intended to be used for commercial return or capital appreciation is categorised as an investment property.

Allocation of components within housing property assets: the allocation of components within housing property assets that transferred from Durham County Council that make up the opening balances is a matter of judgement. Management have considered the nature and type of housing property and allocated components for the opening housing property asset balances using the National Housing Federation matrix developed to assist registered providers with component accounting as a basis for the allocation of components to the housing properties at transfer.

Allocation of parent company recharges: the allocation of charges incurred by the parent company to the subsidiaries is a matter of judgement. Management have considered the cost category and the nature and driver of the cost in determining the most appropriate method to apply to allocate that cost to the subsidiary companies.

Accounting for the loan allocations: The allocation of loan balances to the subsidiaries is a matter of judgement, as all loan funding is held in the name of County Durham Housing Group. Management consider that the loan balances drawn down at the year end are allocated to the subsidiary companies based on its funding purpose which was the purchase of the housing stock at transfer.

Accounting for loans as basic financial instruments: the judgement applied is in interpreting the guidance set out in FRS 102 in the context of the loan agreement, specifically in relation to the inclusion in the loan agreement of a two way breakage clause which allows for compensation in the event of early repayment for the loan to be paid either to the funder or to back to the borrower. This judgement has been applied based on the following considerations:

- In the event of early repayment of the loans, the amounts repaid to funders would be the principal and interest owed with a separate amount calculated relating to the compensation payable due to breaking the loan agreement early. This amount could either be payable to or from the funders, however it would be a separate calculation to the repayment of the principal loan amount and interest and is considered to be a separate cash flow.

2. Accounting policies (continued)

- The guidance set out in FRS 102 is intended to have the same outcome when classifying loans with breakage costs and breakage gains, rather than different conclusions.
- The interest rate fixed within the loan agreement is part of the overall funding arrangements to manage interest rate risk and is not considered to be or planned to be an instrument that could be traded separately from the loan agreement.

Estimation uncertainty

Useful lives of depreciable assets: the annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on; technological advancement, future investment, economic utilisation and the physical condition of the assets. See note 13 for the carrying amount of the property, plant and equipment.

Defined benefit obligations: the Association has obligations to pay pension benefits to 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 obligation in the Statement of Financial Position. The assumptions reflect historical experience and current trends.

Recoverability of debtors: the Association makes an estimate of the recoverable value of rental, trade and other debtors. When assessing the recoverability of these balances, management considers factors including the ageing profile of debtors, performance information and historical experience of recovering outstanding balance. See note 14 for the net carrying amount of debtors and the associated bad and doubtful debt provision.

Impairment reviews: the Association estimate the recoverable amount of social housing property assets using a depreciated replacement cost calculation. The depreciated replacement cost is calculated based on the lowest cost of replacing the housing property either through acquisition or construction.

Turnover and revenue recognition

Turnover comprises rental income receivable in the year and other services included in the invoiced value (excluding VAT where recoverable) of goods and services supplied in the year and grants receivable in the year.

Rental income is recognised from the point when a property becomes available for letting, net of any voids.

2. Accounting policies (continued)

Value Added Tax

The Association charges Value Added Tax (VAT) on some of its income and is able to recover part of the VAT it incurs on expenditure. The financial statements include VAT to the extent that it is suffered by the Association and not recoverable from HM Revenue and Customs. The balance of VAT payable or recoverable at the year end is included as a current liability or asset.

Interest payable

Interest payable is charged to income and expenditure in the period to which it relates.

Financial instruments

Financial instruments are accounted for in accordance with sections 11 and 12 of FRS 102.

Financial assets
Basic financial assets, including trade and other receivables, cash and bank balances and investments are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period, financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's effective interest rate. The impairment loss is recognised in the Statement of Comprehensive Income.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in the Statement of Comprehensive Income.

Financial liabilities
Basic financial liabilities, including trade and other payables and bank loans, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest method.

2. Accounting policies (continued)

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan, to the extent that it is probable that some or all of the facility will be drawn down.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Debtors

Short term debtors are measured at transaction price, less any impairment. Debtors on agreed payment plans are incorporated into the bad and doubtful debt provision; therefore there is no additional discounting of these balances.

Creditors

Short term creditors are measured at transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

Employee benefits

Short term employee benefits are recognised as an expense in the period in which they are incurred.

Pensions

The Association participates in the Durham County Council Pension Fund which is a defined benefit local government pension scheme.

Scheme assets are measured at their fair values. Scheme liabilities are measured on an actuarial basis using the projected unit credit method and are discounted at appropriate high quality corporate bond rates.

The net surplus or deficit is presented separately from other net assets on the Statement of Financial Position. A net surplus is only recognised to the extent that it is recoverable by the Association through reduced contributions or through refunds from the plan.

The current service cost and costs from settlements and curtailments are charged against operating surplus. Past service costs are recognised in the current reporting period. Interest is calculated on the net defined benefit liability. Re-measurements are reported in the Consolidated Statement of Comprehensive Income.

2. Accounting policies (continued)

Housing properties

Housing properties are properties held for the provision of social housing or to otherwise provide social benefit. Housing properties are principally properties available for rent and are stated at cost less accumulated depreciation and impairment losses.

The opening balance cost is the deemed cost of the housing properties, which includes land, when the housing properties transferred to the organisation on the 13th April 2015. Acquisitions post transfer are recognised at cost which is the purchase price of the asset or component.

Works to existing properties which replace a component that has been treated separately for depreciation purposes, along with those works that result in an increase in net rental income over the lives of the properties, thereby enhancing the economic benefits of the assets, are capitalised as improvements.

Shared ownership properties are split proportionally between current and fixed assets based on the element relating to expected first tranche sales. The first tranche proportion is classed as a current asset and related sales proceeds included in turnover and the remaining element is classed as a fixed asset and included in housing properties at cost, less any provisions needed for depreciation or impairment.

Depreciation of housing properties

The Association separately identifies the major components which comprise its housing properties, and charges deprecation so as to write-down the cost of each component to its estimated residual value, on a straight line basis, over its estimated useful economic life.

The Association depreciates the major components of its housing properties on a straight line basis as follows:

-	Kitchen	20 years
-	Bathroom	30 years
-	Electrical Installation (Partial or Full)	30 years
-	Heating Installation	15 years
-	Windows & Doors	30 years
-	Structural	60 years
-	Roof	60 years
-	Lifts	30 years
-	Garage blocks	50 years

Freehold land is not depreciated.

Leasehold properties are amortised over the life of the lease or their estimated useful economic lives in the business, if shorter.

2. Accounting policies (continued)

Impairment

Assets, including housing properties, are assessed annually for impairment indicators. Where indicators are identified, an assessment for impairment is undertaken to compare the asset's carrying amount to its recoverable amount.

Where the carrying amount of the asset is deemed to exceed its recoverable amount, an impairment charge is recognised within operating expenditure within the Statement of Comprehensive Income and the asset is written down to its recoverable amount.

The recoverable amount is the higher of the asset's value in use and fair value less costs to sell. The value in use for assets held for their service potential, e.g. social housing properties, is determined using depreciated replacement cost. Where an asset is deemed not to be providing service potential to the Association, the recoverable amount will be its fair value less costs to sell.

Disposal of fixed assets

The gain or loss on disposal of fixed assets is recognised in the Statement of Comprehensive Income as a separate line below the operating surplus / deficit.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to the Association. All other leases are classified as operating leases.

Assets held under finance leases are included in tangible fixed assets and depreciated and assessed for impairment losses in the same way as owned assets. Assets are recognised initially at the fair value of the leased asset (or, if lower, the present value of the minimum lease payments) at the inception of the lease. The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease liability. Lease payments are apportioned between finance charges and reduction of the lease obligation using the effective interest method so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as expenditure in the Statement of Comprehensive Income.

Rentals payable under operating leases are charged to income and expenditure on a straight line basis over the lease term, unless the rental payments are structured to increase in line with expected general inflation, in which case the Association recognises the annual rent expense equal to amounts owed to the lessor as expenditure.

The aggregate benefit of lease incentives are recognised as a reduction to the expense recognised over the lease term on a straight line basis.

2. Accounting policies (continued)

Provisions for liabilities

Provisions are recognised when the Association has a present obligation (legal or constructive) as a result of a past event, it is probable that the Association will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised as the present value using a pre-tax discount rate. The unwinding of the discount is recognised as a finance cost within expenditure in the period it arises.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months of less.

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

	2017			
	Turnover	Cost of sales	Operating costs	Operating Surplus/ (deficit)
	£'000	£'000	£'000	£'000
Social housing lettings	15,658	-	(10,992)	4,666
Activities other than social housing activities				
Lettings	28	-	-	28
Other	124	-	(20)	110
	152	-	(20)	132
	15,810	-	(11,012)	4,798

	2016			
	Turnover	Cost of sales	Operating costs	Operating Surplus/ (deficit)
	£'000	£'000	£'000	£'000
Social housing lettings	15,479	-	(11,008)	4,471
Activities other than social housing activities				
Lettings	24	-	-	19
Other	106	-	(111)	-
	130	-	(111)	19
	15,609	-	(11,119)	4,490

4. Particulars of income and expenditure from social housing lettings

	General needs housing £'000	Supported housing and housing for older people £'000	Low cost home ownership £'000	2017 Total £'000	2016 Total £'000
Rent receivable net of identifiable service charges	15,412	-	-	15,412	15,212
Service charges receivable	246	-	-	246	267
Turnover from social housing lettings	15,658	-	-	15,658	15,479
Management	(5,056)	-	-	(5,056)	(6,682)
Service charge costs	(275)	-	-	(275)	(81)
Routine maintenance	(3,990)	-	-	(3,990)	(3,156)
Planned maintenance	(667)	-	-	(667)	(586)
Major repairs expenditure	(7)	-	-	(7)	-
Bad debts	(271)	-	-	(271)	105
Depreciation of housing properties	(726)	-	-	(726)	(608)
Operating costs on social housing lettings	(10,992)	-	-	(10,992)	(11,008)
Operating surplus on social housing lettings	4,666	-	-	4,666	4,471
Void losses	(224)	-	-	(224)	(190)

Particulars of turnover from non-social housing lettings

	2017 £'000	2016 £'000
Non-social housing		
Commercial units	28	24
	28	24

5. Accommodation in management and development

At the end of the period the number of units in management for each class of accommodation was as follows:

	2017 No. of properties	2016 No. of properties
Social housing		
General housing		
- social rent	4,171	4,198
Total owned	4,171	4,198
General housing managed for others	7	3
Total managed	4,178	4,201
Non-social housing		
Leasehold properties	13	13
Total owned and managed	4,191	4,214
Other property types		
Commercial units	33	33
Accommodation in development at the period end	-	-

The Association has no supported housing units.

6. Operating surplus

	2017 £'000	2016 £'000
This is arrived after charging :		
Depreciation of social housing properties	726	611
Depreciation of non social housing properties	6	5
Depreciation of other tangible fixed assets	-	93
Operating lease rentals		
- land and buildings	68	68
- other	15	27
Auditors' remuneration (excluding VAT)	9	9

The auditors remuneration is charged to the Group and allocated to the Association as part of the parent company recharge.

The 2016 operating lease rental balances have been restated to fully reflect the payments charged during that year. The restatement is purely presentational and does not impact the figures reported in the Association's primary statements.

7. Gain on disposal of fixed assets

	2017 £'000	2016 £'000
Housing properties		
Disposal proceeds	868	471
Carrying value of fixed assets	(416)	(295)
	452	176

8. Interest payable

	2017 £'000	2016 £'000
Loan interest payable	1,028	1,016
Fees and charges	58	64
Net finance costs for pensions (see note 21)	100	110
	1,186	1,190

9. Employees

Average monthly number of employees:	**2017 Number**	**2016 Number**
Administration	3	18
Housing, support and care	54	63
	57	81
Expressed as full time equivalents:		
Administration	3	18
Housing, support and care	48	58
	51	76
Employee costs:	**£’000**	**£’000**
Wages and salaries	1,395	1,772
Social security costs	134	133
Other pension costs	163	200
	1,692	2,105

The Group’s employees are members of the Durham County Council Local Government Pension Fund. Further information on the pension scheme is given in note 21.

10. Board members remuneration

The following table shows the salary and expenses paid to Board members during the year:

	Salary £	Expenses £	2017 Total £	2016 Total £
Derek Beard	660	-	660	1,444
Helen Campbell	660	-	660	1,562
Hazel Dale	660	748	1,408	2,036
Terry Dean	660	88	748	1,527
Dorothy Irvine	660	-	660	1,444
Charles Kay	1,045	-	1,045	2,286
Lesley Mellis	660	-	660	1,444
Colin Stockwell	1,833	103	1,936	4,654
Peter Studd	880	229	1,109	1,049
Fraser Tinsley	660	-	660	756
Christine Wilson	660	-	660	1,444
Samuel Zair	660	-	660	1,444
	9,698	1,168	10,866	21,090

In the 2015/16 published accounts, individual Board member expenses were not included and this was identified as an area of non-compliance against the NHF Code of Governance 2015 requirements. The 2015/16 published accounts only included Board member remuneration on a consolidated basis, however to address this matter of non-compliance the 2016 comparative figures have been restated to include expenses as well as salary.

Remuneration paid to Board members at Dale & Valley Homes related to legacy arrangements that were in place prior to the establishment of County Durham Housing Group. At the formation of the Common Board on the 15 September 2016 all legacy remuneration arrangements for Board members ceased. The total amount of remuneration (i.e. salary) paid in 2016/17 as a percentage of turnover was 0.06%. A full performance appraisal was undertaken for all Board members in 2016/17 facilitated by Altair.

Following formation of the Common Board under the new governance structure remuneration of Board members was considered and from 1 April 2017 Board and Committee members are to be remunerated. Individual and collective performance appraisals, including 360 degree feedback, are being introduced for the 2017/18 financial year to assist in determining whether payment to Members remains appropriate.

11. Directors and higher paid staff

Executive Directors – key management personnel

2017

	Basic salary £'000	Redundancy £'000	Benefits in kind £'000	Pension contributions £'000	National Insurance £'000	Total £'000
P Chaffer	31	89	-	4	5	129

The remuneration of the Group's Executive Directors is included within the financial statements of County Durham Housing Group.

Executive Directors – key management personnel

2016

	Basic salary £'000	Benefits in kind £'000	Pension contributions £'000	National Insurance £'000	Total £'000
P Chaffer	88	1	12	10	111

The full time equivalent number of staff who received emoluments:

	2017 Number	2016 Number
£60,001 to £70,000	-	1
£70,001 to £80,000	-	-
£80,001 to £90,000	-	-
£90,001 to £100,000	-	-
£100,001 to £110,000	-	1
£110,001 to £120,000	-	-
£120,001 to £130,000	1	-
	1	2

12. Tax on surplus on ordinary activities

	2017 £'000	2016 £'000
Current tax		
UK corporation tax on surplus for the period	-	-
Tax on surplus on ordinary activities	-	-

Factors affecting tax charge for the current period

On the basis that current income and gains is applied for charitable purposes, the Association should fall within the tax exemptions available to charitable entities.

The tax charge for the period differs from the standard rate of corporation tax in the UK of 20%. The differences are explained below:

	2017 £'000	2016 £'000
Surplus on ordinary activities before taxation	4,064	3,476
Tax on profit at standard UK tax rate of 20% (2016: 20%)	813	695
Effects of:		
Non taxable expenditure / (income)	(813)	(695)
Current tax charge for the period	-	-

Factors that may affect future tax charges

On the basis that future income and gains will be applied for charitable purposes, the Association should fall within the tax exemptions available to charitable entities.

13. Tangible fixed assets - housing properties

	Social housing properties held for letting £'000	Non-social housing properties held for letting £'000	Total housing properties £'000
Cost			
At 1 April 2016	31,529	1,477	33,006
Works to existing properties	2,793	-	2,793
Disposals	(431)	-	(431)
At 31 March 2017	33,891	1,477	35,368
Depreciation and impairment			
At 1 April 2016	(608)	(5)	(613)
Depreciation charged in the period	(726)	(6)	(732)
Depreciation released on disposal	15	-	15
At 31 March 2017	(1,319)	(11)	(1,330)
Net book value			
At 31 March 2017	32,572	1,466	34,038
At 1 April 2016	30,921	1,472	32,393

13. Tangible fixed assets - housing properties (continued)

Financial assistance and other government grant receivable

No financial assistance or other government grant was received or receivable in the period.

Housing properties book value, net of depreciation

	2017 £'000	2016 £'000
Freehold land and buildings	34,038	32,393
	34,038	32,393

Expenditure on works to existing properties

	2017 £'000	2016 £'000
Components capitalised	2,793	5,645
Amounts charged to income and expenditure	4,657	3,742
	7,450	9,387

Impairment

The Association considers individual schemes to be separate income generating units when assessing for impairment in accordance with Section 27 of FRS102: Impairment of Assets.

There is no impairment provision made in 2016/17.

14. Tangible fixed assets - other

	Furniture fixtures and ICT/office equipment £'000	Total £'000
Cost		
At 1 April 2016	728	728
Additions	-	-
Disposals	-	-
At 31 March 2017	728	728
Accumulated depreciation		
At 1 April 2016	(728)	(728)
Charged in the year	-	-
At 31 March 2017	(728)	(728)
Net book value		
At 31 March 2017	-	-
At 1 April 2016	-	-

15. Debtors

	2017 £'000	2016 £'000
Due within one year		
Rent and service charges receivable	1,099	1,151
Less: provision for bad and doubtful debts	(296)	(166)
Net rental debtors	803	985
Trade debtors	12	8
Prepayments and accrued income	49	31
Other debtors	368	587
Amounts owed by group undertakings	9,763	8,400
	10,995	10,011

There has been no discounting applied to agreements to pay in place with current and former tenants as it does not have a material impact on the net rental debtors stated above.

16. Creditors: amounts falling due within one year

	2017 £'000	2016 £'000
Trade creditors	-	-
Rent and service charges received in advance	90	132
Pension creditor	6	58
Other taxation and social security	16	39
Other creditors	233	3
Accruals and deferred income	543	1,651
Amounts owed to group undertakings	10,393	11,242
	11,281	13,125

17. Creditors: amounts falling due after more than one year

	2017 £'000	2016 £'000
Debt	26,399	26,399
Borrowing costs unamortised	(308)	(348)
	26,091	26,051

18. Provisions for liabilities and charges

	£'000
At 1 April 2016	178
Provision made in the period	164
At 31 March 2017	**342**

The provision relates to amounts owed in respect of ongoing legal matters. It is expected that these amounts will be paid in the next 12 months.

19. Debt analysis

	2017 £'000	2016 £'000
Debt profile		
Intra-Group loans at fixed rates of interest	26,399	26,399
	26,399	26,399

The 2016 balance has been restated to reflect the full value of the intra-group loan at that time. The restatement is purely presentational and does not impact the figures reported in the Association's primary statements.

Terms of repayment and interest rates

Dale & Valley Homes is funded through an Intra-Group Loan Agreement with County Durham Housing Group. The agreement was put in place at the date of transfer and makes available the funds drawn down by County Durham Housing Group under their £150m loan facility provided by Barclays Bank plc and M&G Investments.

The Intra-Group Loan Agreement is subject to the terms and conditions contained within the loan facility agreement between County Durham Housing Group, Barclays Bank plc and M&G Investments which are summarised below.

Funding of £115m was drawn down by County Durham Housing Group to purchase the housing stock and associated assets from Durham County Council. This has been allocated to Dale & Valley Homes based on the stock numbers they acquired at the date of transfer.

County Durham Housing Group has a £150m facility which contains four elements:

- Tranche A, a sterling note facility of £75m (currently fully drawn);
- Tranche B1, a revolving facility of £20m with the ability to drawdown funding on a revolving basis (i.e. can be drawn, re-paid and re-drawn) through to the final repayment date (currently undrawn);
- Tranche B2, a revolving facility of £45m with the ability to drawdown funding on a revolving basis through to the final repayment date (currently £40m drawn) and;
- Tranche B3, a revolving facility of £10m with the ability to drawdown funding on a revolving basis through to the final repayment date (currently undrawn).

Tranche A is provided by M&G Investments, the remaining three tranches by Barclays Bank plc.

The M&G Investments facility is on an interest only basis for the first 15 years followed by repayment on an equal instalment basis over the following 10 years. The final repayment date is 31st March 2040.

The three tranches provided by Barclays Bank plc are for periods of 5 years (B1), 7 years (B2) and 12 years (B3) respectively.

19. Debt analysis (continued)

The interest rate and margins charged on the facility are as follows:

	M&G	**Barclays**		
	Tranche A	**Tranche B1**	**Tranche B2**	**Tranche B3**
Available Facility	£75m	£20m	£45m	£10m
Interest rate	2.19%	1.23%	1.40%	1.58%
Interest margin	1.95%	1.25%	1.55%	1.75%

The interest charge is allocated to Dale & Valley Homes based on the number of properties as this is what the loan was drawn down to purchase originally.

The outstanding loan facility is repayable at a Group level as follows:

	2017 £'000	**2016 £'000**
Within one year or on demand	-	-
One year or more but less than two years	-	-
Two years or more but less than five years	10,000	10,000
Five years or more	105,000	105,000
	115,000	115,000

Applying this repayment profile to the loans at Dale & Valley Homes is as follows:

	2017 £'000	**2016 £'000**
Within one year or on demand	-	-
One year or more but less than two years	-	-
Two years or more but less than five years	2,296	2,296
Five years or more	24,103	24,103
	26,399	26,399

The 2016 balance has been restated to reflect the full value of the intra-group loan at that time. The restatement is purely presentational and does not impact the figures reported in the Association's primary statements.

All loans are secured by fixed charges over the social housing properties.

As at 31 March 2017 the Group had undrawn loan facilities of £35m which is available to all of the Group's subsidiaries through the Intra-Group Loan Agreement.

20. Non-equity share capital

Shares of £1 each issued and fully paid	**2017 No**	**2016 No**
At 1 April 2016	10	-
Shares issued / (surrendered) in the period	(2)	10
At 31 March 2017	8	10

The shares provide members with the right to vote at general meetings but do not provide any rights to interest, dividends, bonuses or distributions on winding-up. The changes in the shareholdings in the year are as a result of the governance review – when a shareholder ceases to be a shareholder his or her share is cancelled and the amount paid up on it becomes the property of the Association.

Only Board Members defined in the rules are eligible to be shareholders and a closed shareholding regime is therefore in place.

21. Pensions

The Association is an admitted body of the Durham County Council Local Government Pension Scheme. The disclosures below relate to the funded liabilities within the Durham County Council Pension Fund which is part of the Local Government Pension Scheme (the 'LGPS').

The LGPS is a funded defined benefit plan with benefits earned to the 31 March 2014 being linked to final salary. Benefits after 31 March 2014 are based on a Career Average Revalued Earning Scheme. Details of the benefits earned over the period covered by this disclosure are set out in 'The Local Government Pension Scheme Regulations 2013' and 'The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014'.

Funding/Governance Arrangements of the LGPS

The funded nature of the LGPS requires participating employers and its employees to pay contributions into the Pension Fund, calculated at a level intended to balance the pension liabilities with investment assets. Information on the framework for calculating contributions to be paid is set out in the LGPS regulations 2013 and the Pension Fund's Funding Strategy Statement. The last actuarial valuation was at 31 March 2016 and the contributions to be paid until 31 March 2020.

The Pension Fund Administering Authority, Durham County Council, is responsible for the governance of the Pension Fund.

21. Pensions (continued)

The amounts recognised in the Statement of Comprehensive Income as required by FRS 102 are as follows:

	2017 £'000	2016 £'000
Amounts (charged) / credited to operating expenditure:		
Current service cost	(240)	(340)
Past service cost	(170)	-
Employer contribution paid	340	220
Disposals / acquisitions	-	620
Total operating (debit) / credit	(70)	500
Amounts included in interest payable:		
Interest on net defined benefit liability	(100)	(110)
Remeasurement (loss) / gain recognised on defined benefit pension scheme	(1,860)	270
Total (debit) / credit to the Statement of Comprehensive Income	(2,030)	660

The amounts recognised in the Statement of Financial Position as required by FRS 102 are as follows:

Present values of provision

	2017 £'000	2016 £'000
Present value of funded obligations	(11,590)	(9,560)
Fair value of scheme assets	6,420	6,420
Net pension liability	(5,170)	(3,140)

21. Pensions (continued)

Reconciliation of opening and closing provisions

Changes in the present value of the defined benefit obligation scheme are as follows:

	2017 £000	2016 £'000
Opening defined benefit obligation	(9,560)	(11,490)
Current service cost	(240)	(340)
Past service cost	(170)	-
Acquisitions / disposals on liabilities	-	1,920
Interest on scheme liabilities	(330)	(320)
Remeasurement (losses) / gains on obligations	(1,310)	500
Contributions by scheme participants	(80)	(110)
Benefits paid	100	280
Closing defined benefit obligation	(11,590)	(9,560)

The defined benefit obligation may be analysed between wholly unfunded and wholly or partly funded schemes as follows:

	2017 £000	2016 £'000
Funded	(11,590)	(9,560)
Closing defined benefit obligation	(11,590)	(9,560)

Changes in the fair value of scheme assets are as follows:

	2017 £000	2016 £'000
Opening fair value of scheme assets	6,420	7,690
Interest on scheme assets	230	210
Remeasurement gains / (losses) on assets	(550)	(230)
Contributions by employer	340	220
Contributions by scheme participants	80	110
Benefits paid	(100)	(280)
Acquisitions and disposals on assets	-	(1,300)
Closing fair value of scheme assets	6,420	6,420

21. Pensions (continued)

The fair value of the major categories of scheme assets as a percentage of total scheme assets are as follows:

	2017 %	2016 %
Equities	47.2	40.8
Property	7.5	8.0
Government bonds	32.5	32.0
Corporate bonds	8.2	9.0
Cash	4.6	10.2

The principal actuarial assumptions as at the reporting date were:

	2017 %	2016 %
Discount rate	2.6	3.5
Retail price index inflation	3.1	2.9
Consumer price index inflation	2.0	1.8
Pension increases	2.0	1.8
Pension accounts revaluation rate	2.0	1.8
Salary increases	3.5	3.3

The current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations on future lifetime (years) from retirement age 65 are:

	2017	2016
Males		
Future lifetime from age 65 (aged 65 at accounting date)	23.2	22.7
Future lifetime from age 65 (aged 45 at accounting date)	25.4	24.9
Females		
Future lifetime from age 65 (aged 65 at accounting date)	24.9	25.2
Future lifetime from age 65 (aged 45 at accounting date)	27.2	27.5

22. Capital commitments

	2017 £'000	2016 £'000
Capital expenditure		
Expenditure contracted for, but not provided for in the in the financial statements	2,619	170
Expenditure authorised by the Board, but not contracted	1,211	-
	3,830	170

The above commitments will be financed primarily through existing working capital and loan arrangements.

23. Operating leases

The future minimum lease payments which the Association is committed to make under non-cancellable operating leases are as follows:

	2017 £'000	2016 £'000
Land and buildings		
Payments due:		
Not later than one year	68	68
Later than one year and not later than five years	204	272
Later than five years	-	-
	272	340

24. Related party transactions

The Association has taken advantage of the exemption available under FRS 102 (paragraph 33.11) which allows transactions between the County Durham Housing Group entities not to be disclosed as related party transactions.

County Durham Housing Group consists of the following entities:

County Durham Housing Group	Registered provider with the HCA	Parent	Social landlord and provides central services
Dale & Valley Homes	Registered provider with the HCA	Subsidiary	Social landlord
Durham City Homes	Registered provider with the HCA	Subsidiary	Social landlord
East Durham Homes	Registered provider with the HCA	Subsidiary	Social landlord

There were four tenant board members during the period. Their tenancies are on normal commercial terms and they are not able to use their position to their advantage. Aggregate rent received from tenant board members during the year totalled £18,156. There were no amounts owing at 31 March 2017 from tenant board members.

The following Operations Committee member who served throughout 2016/17 was also a councillor at Durham County Council during the course of the year:

- Christine Wilson

The following Board members are not members of the Common Board but were previously members of the Dale & Valley Homes' Board prior to the establishment of the new governance structure on 15 September 2016. They were councillors at Durham County Council during their time as Board members in 2016/17:

- Fraser Tinsley
- Samuel Zair

There are a number of contractual arrangements between the Group and Durham County Council including various service level agreements and transfer commitments. During the year the Group incurred £7,127,565 of expenditure with Durham County Council. At 31 March 2017, £101,880 was owed by the Group to Durham County Council and is included within creditors.

The Group also receives income from Durham County Council for specific services and arrangements provided by the Group. During the year the Group received income of £8,208. At the 31 March 2017 there were no outstanding balances owed by Durham County Council to the Group.

24. Related party transactions (continued)

All arrangements with Durham County Council are on normal commercial terms and none of the councillors who are also Board Members are able to use their position to the advantage of either party.

25. Financial assets and liabilities

	2017 £'000	2016 £'000
Categories of financial assets and liabilities		
Financial assets that are debt instruments measured at amortised cost	11,051	10,047
Financial liabilities measured at amortised cost	37,591	39,176

The policy on financial instruments and managing financial risk are explained in the Report of the Board.

Cash and debtors are categorised as financial assets measured at amortised cost. Details of these balances can be found in Note 15.

Financial liabilities held at amortised cost are the Association's debt and creditors. Details behind the debt instrument conditions, interest charges and repayment terms can be found in Note 19.

The 2016 balances have been restated to reflect the full financial asset and financial liability balances in existence at that time. The restatement is purely presentational and does not impact the figures reported in the Association's primary statements.

26. Contingent liabilities

As part of the transfer of stock from Durham County Council, the Association took ownership of 67 properties located within Durham City and the Wear Valley that had been originally developed using grant provided by the Homes and Communities Agency.

The value of the government grant funding provided by the HCA was £3.449m. The original grant agreement contains an obligation, in the event of one of the properties being disposed of, to repay the original grant attributable to the property along with an additional payment relating to the proceeds received for the property. Having taken ownership of the properties from Durham County Council, the Association is now responsible for the repayment of the grant in the event of the housing properties being disposed. The timing and value of any repayment is uncertain as they depend upon the specific circumstance of any future disposal. As such, no estimate of the total value of this contingent liability can be made at the current time. In the event of a disposal being agreed but not completed prior to the period end, a provision will be recognised in the Association's financial statements for the full value of the repayment to be made to the Homes and Communities Agency.

27. Ultimate parent undertakings and controlling party

The ultimate parent undertaking and controlling party is County Durham Housing Group Limited, first floor, Spectrum 6, Spectrum Business Park, Seaham, SR7 7TT a Co-operative and Community Benefit Society and a registered provider incorporated in the UK.