County Durham Housing Group Limited

Annual Report and Financial Statements for the period ending 31 March 2016

Co-operative and Community Benefits Society registered number: 7043

HCA registered number: 4805

Contents

Board Members, Executive Directors, Advisors and Bankers

Registration numbers

Co-operative and Community Benefit Society registration number	7043
Homes and Communities Agency registration number	4805

Board members

All Board members have been appointed from the date of registration unless stated otherwise:

Judith Common
Paul Morgan (resigned 24 September 2015)
Michael Bell (appointed 24 September 2015)
David Boyes
John Gardner
Lynn Jordison (resigned 13 June 2016)
Yvonne Lowe (resigned 12 December 2015)
Leonora Pattinson (retired 19 November 2015)
Geoff Paul (resigned 11 August 2015)
Kathryn Paylor-Bent
Maria Plews (resigned 13 October 2015)
Doug Ross
Colin Stockwell
Eddie Tomlinson
Gurpreet Jagpal (appointed 14 July 2016)

Chief Executive	Bill Fullen
Executive Directors	Alan Smith, Group Director of Finance & Resources & Company Secretary
	Marie Roe, Group Director of Performance & Business Development
	Ged Walsh, Group Director of Assets and Regeneration
	Peter Chaffer, Managing Director, Dale & Valley Homes (retired 31 July 2016)
	Simon Bartlett, Managing Director, Durham City Homes
	Michael Doyle, Managing Director, East Durham Homes

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

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 County Durham Housing Group is pleased to present its first Annual Report and financial statements for the period ended 31 March 2016.

This first Annual Report and financial statements covers the period from registration with the Financial Conduct Authority ('FCA') on 24 November 2014 to the 31 March 2016. There was no activity from the 24 November 2014 through to the 12 April 2016 and therefore the trading period covered by this Annual Report and financial statements is from 13 April 2015 to 31 March 2016.

Strategic Report

Corporate structure and business model

County Durham Housing Group was registered as a charitable Co-operative and Community Benefit Society with the FCA on the 24 November 2014.

County Durham Housing Group (including its subsidiaries) was registered with the Homes and Communities Agency ('HCA') on 5 February 2015 as a registered provider of social housing, prior to the transfer of housing stock from Durham County Council on the 13 April 2015.

The Group is made up of a parent company – County Durham Housing Group Ltd, a charitable Co-operative and Community Benefit Society and registered provider, which is landlord to three shared ownership properties; and three local social landlords who lead the delivery of housing services. The Group operates over a large geographical area, stretching from the remote rural Pennine area of outstanding natural beauty in the west of the county, through Durham City and out to the more densely populated heritage coast line in the east. The three subsidiary organisations making up the Group are:

- Dale & Valley Homes, 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 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 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 sets out the Group structure. The figures set out in this diagram are for the period to 31 March 2016 and stock numbers are stated as at 31 March 2016.

2016 Group turnover: £67.6m
Group stock size: 18,271 homes

dale&valley homes	durhamcity homes	eastdurham homes
2016 turnover: £15.6m	2016 turnover: £22.3m	2016 turnover: £29.6m
Stock size: 4,198 homes	Stock size: 5,848 homes	Stock size: 8,222 homes

References in this Annual Report and financial statements to 'the Association' refer to County Durham Housing Group as an individual parent entity. References in this Annual Report and financial statements to 'the Group' refer to the parent and its subsidiaries collectively.

The Group and its individual components all meet 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').

On the 13 April 2015, the following properties were transferred to County Durham Housing Group from Durham County Council:

Property Type	**Number**
General needs social housing stock	18,373
Garage blocks	3,193
Garage plots	860
Retail properties	34
Leaseholder properties	194
Other non-social housing stock	261

At the 31 March 2016, the Group manages 18,271 homes which represents around 40% of all social housing stock in the County Durham area and has a combined turnover of £67.554m and an asset base of £134.011m.

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, our driving force is to transform lives, communities and neighbourhoods and enable our customers to live a life without barriers.

The Group's core vision and values established the foundation for the Group's corporate plan. The Group has worked with tenants, employees, Board members and other key local stakeholders to agree a core purpose and vision for the Group, which is that:

> ***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 has also agreed a series of values and beliefs with its stakeholders. These 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

In 2015/16, all four organisations within the Group adopted shared objectives. These four business objectives define the delivery of services for the years to come.

Building on these objectives, the first Group wide corporate plan was approved by the Board in March 2016 and sets out the transformational vision for the Group. It reaffirms our commitment to the delivery of outstanding homes, neighbourhoods and services and to our belief in a life without barriers.

The Group corporate plan is underpinned by the local delivery plans of the subsidiaries which set out the details of how these objectives will be achieved by the Group as follows:

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.*

We plan to:

- Deliver the commitments we made as part of the transfer process – improving homes, neighbourhoods and services across the county.
- Provide new homes and real choice in a variety of tenure products.
- Support our customers in sustaining their tenancy.
- Provide employability programmes which support customers in accessing learning and skills development opportunities; apprenticeships; and employment opportunities.
- Gather insight and intelligence on what is most important to our customers to make us more agile in shaping, improving and developing services.

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*.

We plan to:

- Strengthen our approach to engagement with our communities and provide services and programmes that empower local people to lead local decision making about services.
- Deliver targeted investment programmes to support the building of relationships between individuals and groups to improve lives and build communities.
- Work with groups and key partners to explore opportunities for communities to control local investment plans, lead neighbourhood revitalisation and deliver improvements to health, wealth and wellbeing.
- Empower communities to use assets and local resources to their full potential.

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.*

We plan to build our reputation as a Group, assuring key stakeholders of our sound business and governance structures and securing a place at the regional and national table.

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 2015/16, the Group have had to respond to significant change within the social housing sector. The government's Summer Budget announced a 1% reduction in social rents for a four year period from 1 April 2016. This news came as a huge shock, particularly as it came less than three months following the stock transfer and the establishment of the Group.

The reduction in rent by 1% for the next four years, together with wide reaching welfare changes, has major implications on the Group directly as well as our customers and the sector as a whole.

The focus of work during 2015/16 has been to respond to these challenges, fundamentally reviewing the Group's Business Plan, whilst maintaining service delivery to customers. It is projected that these changes reduce income by around £21m over the next four years. Over the course of our 30 year business plan, the effects equated to approximately £350m.

In reviewing the Business Plan to ensure long term sustainability and financial viability of the Group a number of adjustments were made to the Group's original post transfer Business Plan to mitigate the impact of the reduction in income, including removing any uncommitted spend and reducing the capital investment programme by 12%.

In the development of the Recovery Business Plan, a series of stress tests were run and a perfect storm created to combine stress tests to 'break the plan'. This process ensures the Business Plan is fit for purpose and capable of dealing with any future surprises. The stress tests performed were aligned to the corporate risk register to ensure they were specific to our business and the risks it faces. They included assessing the impact of changes in rent, inflation rates, interest rates and other costs as well as combinations of scenarios. This provided an indication of the financial impact of any future surprises, allowing for the Board to prepare a mitigation strategy on how similar situations would be addressed.

Following this stress testing the Group's Executive Management team ('EMT') were set the task of identifying and achieving efficiency savings of £4m over the three years to 2018/19, covering procurement savings, savings from services, technology and governance reviews and staff cost savings to build financial resilience back into the Business Plan.

Our transformational change programme

In response to these changes, in January 2016, a transformational change programme entitled 'Regroup' was launched. Regroup has 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.

Review of the business

Reported surplus

For the period ended 31 March 2016, the Group reported a consolidated surplus of £8.137m compared to a budgeted surplus of £23.528m and a consolidated total comprehensive income of £11.440m. This figure is reported after charging expenditure relating to the recognition of the pension liability for County Durham Housing Group and Durham City Homes. This was not included in the operating cost budget for the Group as it was unknown. If this cost is removed from expenditure the revised surplus is as follows:

	£'000
Total comprehensive income as stated in the Statement of Comprehensive Income	**11,440**
- Initial recognition of pension liability for County Durham Housing Group and Durham City Homes	13,885
Operational surplus excluding one off costs	**25,325**

Statement of Financial Position

The Statement of Financial Position reports a total net liabilities position of £9.220m at the 31 March 2016. The key balances within the Statement of Financial Position are the Group's fixed assets, pensions and loans which are commented on further below.

Fixed assets

All of the Group's fixed assets are stated at cost and at the 31 March 2016 are reported at a net book value of £134.011m which compares to a valuation for loan security purposes of £205m at the same date. This valuation was performed by Savills and is based on an existing use valuation for social housing purposes.

Pensions

The Statement of Financial Position incorporates the Group's pension liability for the Durham County Council Pension Fund ('the Pension Fund') of £31.581m.

This pension liability represents the actuarial estimation of the Association's total liability at the 31 March 2016 under for 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.

The latest triennial valuation of the Pension Fund is as at 31 March 2013; however a valuation is currently underway as at 31 March 2016 which will provide an update on the financial positon of the Pension Fund and will inform future changes in contributions that the Association will be required to make from April 2017.

Treasury

The Statement of Financial Position includes the Group's outstanding loans with Barclays and M&G. At the date of transfer £150m loan facility was agreed; £75m with M&G and £75m with Barclays.

The loans have been accounted for as basic financial instruments under FRS 102 and are 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 Group's Audit and Risk Committee and Parent Board. The judgement applied is in interpreting the guidance set out in FRS 102 in the context of the Group's 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 the Group. This judgement has been applied based on the following considerations:

- In the event of early repayment of the Group's 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 arrangements to manage its interest rate and is not considered to be or planned to be an instrument that could be traded separately from the loan agreement.

Interest rate risk

The Group manages its exposure to future movements in interest rates by entering into a fixed interest rate arrangement. All drawn down loans at 31 March 2016 were at fixed rates. Details of the terms and conditions of the Group's funding arrangements are set out in note 23.

Consolidated Statement of Cash Flows

At 31 March 2016 the Group reports a cash position of £9.090m. At the 13 April 2015, loans totalling £121m were drawn down to fund the cost of the assets transferred from Durham County Council which had a purchase price of £114.4m. During the period, a £6m revolving loan facility held with Barclays was repaid as the Group had sufficient cash in place to fund its operating activities.

Assets sales through right to buy transactions have contributed £3.298m of cash to the business.

Financial performance analysis

The following financial performance indicators have been calculated to assess the Group's performance when compared to benchmarks set out in the HCA's 2015 Global Accounts of Housing Providers ('the Global Accounts') published in February 2016.

Financial performance has been benchmarked with reference to our peers of a comparable size outside of London. Assessing our financial performance in this way links directly to our value for money objective to "ensure a common approach to understand cost and performance comparisons by all providers within the Group", showing where we are achieving this objective, as well as areas we need to work on to improve further. The following tables show a range of financial indicators for each member of the Group, demonstrating how we understand our performance in the context of our Group and the wider social housing sector (note- all figures below exclude one off pension liability recognition costs):

County Durham Housing Group	**2015-16**	**2014-15 Benchmark**
Operating Margin	39.1%	25.9%
Retained Surplus	37.5%	14.8%
Debt per Unit	£6,211	£16,192
Interest Cover (earnings before interest, tax, depreciation and amortisation, major repairs included (EBITDA MRI) as a proportion of interest costs)	107%	110%

The Group has reported an operating margin in excess of 39% and a retained surplus of over 37%. The peer group benchmark figures for these ratios are only 66% and 39% of the Group's figures respectively.

Debt per unit is £6,211, around £10,000 per unit lower than the benchmark figure, primarily due to the lower value of the Group's stock when compared to our peers. At 107%, the Group's interest cover is slightly lower than the peer group figure of 110%.

The Group has invested more in major repairs work in 2015-16 than it has incurred in depreciation charges and this has adversely impacted the interest cover figure.

	Dale and Valley Homes 2015-16	Durham City Homes	East Durham Homes	2014-15 Benchmark
Operating Margin	43.9%	43.1%	40.5%	27.9%
Retained Surplus	39.1%	40.2%	39.7%	14.8%
Debt per Unit	£6,206	£6,221	£6,209	£19,481
Interest Cover (EBITDA MRI as a proportion of interest costs)	161%	131%	153%	187%

All three subsidiaries report strong operating margins, varying between 12 and 16 percentage points above the sector benchmark figure. Driven by this underlying performance, retained surpluses across the Group are also strong, being more than twice the average reported by our peers in each case.

Debt per unit in the subsidiaries is around £6,200 per unit, only around a third of the average level of debt per unit reported by our peers, reflecting the comparatively low cost per unit paid by the subsidiaries for the stock.

For all organisations, interest cover is below the peer group benchmark level, having been impacted by our comparatively high spend on capital works during 2015-16 and also by a relatively low depreciation charge derived from the Group's low social housing property cost.

Performance

Key Performance Indicators

The Group's Performance Management Framework has been developed to assist the Group in achieving outstanding performance across its services. This framework sets the tone for effective performance recording, reporting and review which in turn supports the continuous improvement of services across the Group.

The Group is responsible for agreeing and monitoring a suite of Key Performance Indicators (KPIs) that correspond with the strategic objectives highlighted earlier. KPIs were set centrally by the Group and the performance scorecards were developed with the involvement of Board members from both the Parent Board and subsidiaries to ensure that they provide the appropriate mix to demonstrate assurance to the Boards that the organisation is running well, achieving objectives and meeting statutory requirements.

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 Boards:

KEY:

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

Indicator	**Collective Target**	**Tolerance**	**Actual Performance**	**Target Met**
Finance and Business				
Rent Collection & Arrears				
Rent collected as a % of annual rent owed	**99.70%**	**99.00%**	**99.52%**	😐
Current tenant rent arrears as a % of annual rent debit	**2.00%**	**2.40%**	**2.05%**	😐
Former tenant rent arrears as a % of annual rent debit (exc. HB adjustment)	**1.80%**	**2.20%**	**1.78%**	☺
Proportion of tenancies with more than 7 weeks rent arrears (%)	**4.00%**	**4.50%**	**4.15%**	😐
Proportion of rent collected through direct debit (%)	**21.00%**	**18.00%**	**18.51%**	😐
Proportion of tenancies evicted through rent arrears (%)	**0.30%**	**0.40%**	**0.25%**	☺
Costs				
Percentage of voids budget spent (%)	**n/a**	**<100**	**153%**	☹
Percentage of responsive repairs budget spent (%)	**n/a**	**<100**	**97%**	☺
Tenant and Stakeholders				
Proportion of dwellings untenanted (%) (overall)	**1.20%**	**1.40%**	**1.06%**	☺
Proportion of dwellings untenanted (%) (available to let)	**0.50%**	**0.80%**	**0.58%**	😐
Proportion of dwellings untenanted (%) (unavailable to let	**0.70%**	**0.80%**	**0.60%**	☺
Average re-let time for Dwellings (calendar days) (Standard Voids)	**28.00**	**32.00**	**26.35**	☺
Average re-let time for Dwellings (calendar days) (Major Works Voids)	**60.00**	**65.00**	**51.88**	☺
Proportion of Rent Lost through Dwellings being Vacant (%)	**1.40%**	**1.60%**	**1.07%**	☺

Indicator	Collective Target	Tolerance	Actual Performance	Target Met
Tenancy turnover rate (%)	**8.00%**	**10.00%**	**10.22%**	☹
Proportion of tenancies lasting less than 12 months (%)	**5.50%**	**6.00%**	**4.86%**	☺
Operational Excellence				
Proportion of responsive repairs appointments kept (%)	**99.60%**	**99.00%**	**99.80%**	☺
Proportion of emergency repairs completed within timescales (%)	**99.90%**	**99.50%**	**99.93%**	☺
Proportion of repairs complete in one visit (%)	**98.00%**	**96.00%**	**97.78%**	😐
Proportion of decent homes (%)	**100.00%**	**99.90%**	**100.00%**	**n/a**
Covenant compliance achieved	**Yes**	**n/a**	Yes	☺
Cashflow compared to budget	**n/a**	**n/a**	**£3,714,031**	**n/a**
Proportion of dwellings with a valid gas safety certificate (%)	**100.00%**	**99.90%**	**100%**	☺
Learning and Innovation				
Tenant satisfaction with the handling of their formal complaint (out of 10)	**7.00**	**6.50**	**6.68**	☺
Average time to respond to Stage 1 complaints (calendar days)	**14.00**	**15.00**	**10.06**	☺
Average days lost to sickness	**7.00**	**10.00**	**7.76**	😐

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

- Percentage of voids budget spent; and
- Tenancy turnover rate.

In 2016/17 a service review has been commissioned by the Group's EMT to look at voids as a result of the costs expended on void properties in 2015/16. The impact of this on the 2015/16 financial performance was offset by savings in other areas compared to the original budget set.

Understanding and benchmarking our costs

Following the publication of 'Delivering better value for money: Understanding differences in unit costs' (HCA, June 2016), we have used our 2015-16 financial statements to calculate the 'headline social housing cost per unit' for each subsidiary and across the group, in line with the HCA's definitions. This provides us with a consistent and robust general measure of costs across providers.

We also continue to benchmark headline performance indicators on a quarterly basis using the HouseMark Priority Benchmarking tool, which allows us to track our own performance against sector trends throughout the year.

We have agreed an appropriate peer group for comparing our costs with HouseMark considering a variety of factors such as stock size, region, organisation type and services provided. We understand that the more relevant our peer group the more assurance and challenge it will provide, and we will review our benchmarking arrangements over the coming year.

Headline social housing costs per unit

The 'headline social housing cost per unit' is made up of the main components of management, service charge costs, maintenance, major repairs and other social housing costs. The table below is based on the figures contained within these accounts, adjusted for the one off impact of the recognition of the Group's pension liability which impacts on both the Group and subsidiary costs.

	2015-16 CDHG	**2015-16 DVH**	**2015-16 DCH**	**2015-16 EDH**
Management	£17,980,144	£4,319,295	£5,559,863	£7,737,384
Service Charge Cost	£907,122	£81,198	£460,725	£365,199
Routine Maintenance	£13,996,662	£3,095,765	£4,435,206	£6,465,692
Planned Maintenance	£4,511,950	£999,913	£1,352,035	£2,160,002
Major Repairs Expenditure	£984,497	£0	£448,481	£536,016
Capitalised major repairs and re-improvements	£22,967,585	£5,644,872	£8,342,446	£8,980,267
Other social housing activities	£186,648	£10,249	£65,571	£110,828
	£61,534,609	£14,151,292	£20,664,327	£26,355,389
Social Housing Units	18,271	4,198	5,848	8,222
Social Housing Cost per Unit	**£3,368**	**£3,371**	**£3,534**	**£3,205**
2014-15 HCA Sector Mean (weighted)	£3,950			
2014-15 HCA Median by provider (unweighted)	£3,550			
2014-15 Benchmarking Peer Group Mean	£3,591			

From this analysis, it can be seen that Durham City Homes' social housing cost per unit is the highest of the three subsidiaries, with East Durham Homes the lowest. This is likely to reflect the economies of scale achieved through managing a larger number of properties within East Durham Homes. The social housing cost per unit for all three subsidiaries is below the weighted sector mean and the mean of our benchmarking peer group. The HCA's own analysis has shown that factors impacting the headline social housing cost per unit include variances in regional wages, which is, in part, likely to explain why the figures reported for the group's companies are below the weighted sector mean. Regroup will help us to maintain our below-average cost per unit in future years.

The HCA have also provided sector-wide benchmark figures for each cost category that makes up the headline social housing cost per unit which compare to the Group's costs as follows:

Cost per unit	**15-16 CDHG**	**15-16 DVH**	**15-16 DCH**	**15-16 EDH**	*14-15 HCA sector mean (weighted)*	*14-15 HCA median by provider (unweighted)*	*14-15 Benchmarking Peer Group Mean*
Management and service charge	£1,034	£1,048	£1,030	£985	*£1,540*	*£1,360*	*£1,271*
Maintenance	£1,013	£976	£990	£1,049	*£1,010*	*£980*	*£1,016*
Major repairs	£1,311	£1,345	£1,503	£1,157	*£930*	*£800*	*£963*
Other social housing activities	£10	£2	£11	£13	*£470*	*£200*	*£342*

The analysis above shows that, across the Group, management and service charge costs per unit are lower than the sector benchmark figures. The Group figure is 33% below the HCA sector mean, but only 19% below the benchmarking peer group mean, suggesting our costs are more closely aligned to other organisations with similar stock numbers. Our management costs are likely to be below average due to the group's location in the North East of England, where office costs, staffing costs and other overhead costs tend to be lower than in the rest of the country. The HCA's own analysis also indicates that supported housing can increase social housing cost per unit and the Group has no supported housing activities. Additionally, with 2015/16 being the Group's first period of operations, we have not operated for the whole year with a fully staffed structure in a number of the central functions such as Finance and Procurement.

Maintenance costs per unit are lower than the sector benchmarks for Dale & Valley Homes and Durham City Homes whilst slightly above average for East Durham Homes. The overall group position is between the sector mean and the peer group mean. We are currently reviewing how our assets and operations teams are structured and operate and this will see increased efficiency and consistency in future years, with a corresponding positive impact on service cost that should see it fall below the sector mean.

We have identified that our per unit major repairs costs across the group are higher than the sector benchmark figures, with the overall group position being around 41% higher than the sector mean and 36% above our benchmarking peer group mean. Independently from this analysis, during 2015/16 we identified that we were incurring high capital void costs across our stock and this is something we are currently assessing via a service review to understand both the reasons for the high costs and options for alternative approaches. It is likely that the high capital void costs we've identified are a significant driver behind our major repairs costs being higher than our peers.

Other social housing costs per unit are significantly lower, across the group, than the HCA benchmarks, with the group position being 98% lower than the sector mean. This is due to the fact the group does not manage any supported housing and, being a new organisation, has yet to diversify into any other significant social housing activities beyond its core offer. In the coming year we will also undertake a review of how our costs are classified to understand whether we have costs currently classified in another category which would be better reported under other social housing activities.

Benchmarking cost of services

In addition to the headline social housing cost per unit cost comparison, we also benchmark our performance and costs annually using the HouseMark CORE data tool. We use the dashboard to map service cost and performance, which enables us to the drill down to track progress and trends over a three year period.

We have identified differences and apparent inconsistencies between the results of the HouseMark benchmarking and the outputs of the headline social housing cost per unit comparison. We have carried out further work to understand the reasons for these differences and determined that, in most cases, they relate to variations in how specific costs are categorised and apportioned within the HouseMark analysis when compared to the social housing cost per unit analysis in particular in relation to the internal charges across the group. The disparity in the cost benchmarking results is something we will investigate further in 2016-17, with the aim of aligning our approach to both exercises to provide consistent, meaningful insight with regards our absolute and comparative costs.

Costs for the majority of service areas are relatively high when compared to HouseMark peers. This reflects the position of the Group in its first period of operation, where set up costs in excess of £2m have been incurred. New structures and ways of working are being developed to deliver an efficient and effective Group wide consistent approach to services, but in 2015/16 there has not been sufficient time to realise the cost efficiencies and economies of scale which the Regroup transformational change programme has been developed to deliver.

The transition of Dale & Valley Homes and East Durham Homes from Arms Length Management Organisations (ALMOs) to registered providers of social housing in their own right and Durham City Homes from the housing department of Durham County Council to a registered provider of social housing, has involved separating costs from Durham County Council and the apportionment of budgets. This means that cost comparisons for the subsidiaries between 2015/16 and the years before transfer are largely unhelpful. However, 2015/16 dashboards will provide a baseline for tracking the progress of the Group in delivering value for money in the future.

Further detail on the benchmarking of costs of services and the peer group used for all benchmarking is included within the Group's VFM self assessment which can be found at: www.countydurhamhousinggroup.co.uk/added-value.

Principal risks and uncertainties

The Shadow Parent Board approved the Risk Management Framework which established the Group's risk appetite and strategic risks prior to the stock transfer in April 2015. The Group's strategic risk register identified a number of key strategic risks relevant to the Group in the period up to the stock transfer in April 2015.

At the Board Away Day on the 21 July 2015 it was agreed that the original strategic risk register needed to be reviewed. A workshop was held on 15 September 2015, facilitated by a consultant from the Group's insurers Zurich Municipal. The workshop involved Parent Board Members working alongside the EMT and other officers, both from the parent company and the subsidiaries. This workshop reviewed the current risk register and began a process of reviewing risk appetite defined within the risk management strategy.

The updated Strategic Risk Register was presented to the Parent Board in December 2015 for approval. The table below maps out the changes from the original strategic risks to the updated strategic risk areas and descriptions:

Original Strategic Risks	**Reviewed Strategic Risk Areas and Descriptions**
Failure to prepare for the delivery of the new build promise Poor Asset Management	**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
Failure to manage change Poor service delivery and performance	**Agile Business:** CDHG 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 of CDHG

Original Strategic Risks	Reviewed Strategic Risk Areas and Descriptions
Inability to respond to changes in Government policy	**Political Uncertainty:** Failure to understand the impact of political uncertainty and future political decisions on the Business Plan and service delivery
Ineffective IT systems and management which fail to support the Group achieving its objectives	**IT Strategy:** Inappropriate IT strategy leads to poor value for money, poor customer services and ineffective business processes
Failure to adopt effective financial management leading to not achieving the projections within the financial plan CDHG fails to understand the implications of being an admitted body within the pension scheme, underestimating the on-going costs Failure to ensure effective treasury and cash flow management prevents CDHG meeting its objectives Ineffective financial management prevents CDHG meeting its business objectives	**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
Future planned welfare reform results in loss of income for CDHG, preventing CDHG meetings its financial obligations and achieving its objectives	**Welfare Reform:** Failure to model the financial impact on income streams through welfare reforms results in CDHG's inability to deliver the business plan and services

Original Strategic Risks	Reviewed Strategic Risk Areas and Descriptions
Ineffective governance arrangements prevents CDHG meeting its business objectives Failure to understand the regulatory environment CDHG operates within	**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 CDHG being unable to operate effectively **Data Quality**: Poor data quality results in CDHG being unable to determine accurate business performance and make properly informed business decisions
Ineffective procurement, management and/or monitoring of contracts prevents CDHG meeting its business objectives	**Procurement and Contract Management** : Ineffective procurement or contract management prevents CDHG meeting its business objectives

The Group have established a Risk Management Working Group which monitors and reviews the Group's strategic risks and reports to the EMT, Group Audit and Risk Committee and Parent Board each quarter on progress in implementing agreed plans and any changes proposed to the strategic risk register. The strategic risk register is supported by operational risk registers which are in place at each of the subsidiaries and monitored by their Boards.

Value for Money (VFM)

The Group's complete VFM self-assessment sets out in full details of the Group's approach to VFM, involvement in VFM from across the Group and its customers and details of examples of VFM throughout 2015/16. The following section provides a summary of this information, but the full details can be found using the link on page 17.

Our approach to VFM

What is VFM?

Value for money is not just about cutting costs but making sure we get the best return for every pound we spend. It measures costs, performance and satisfaction, and is often defined as achieving the right balance between economy, efficiency and effectiveness:

- **Economy**: minimising the cost of resources used or required (inputs) – **spending less**;
- **Efficiency**: the relationship between the output from goods or services and the resources to produce them – **spending well**; and
- **Effectiveness**: the relationship between the intended and actual results of public spending (outcomes) – **spending wisely**.

VFM is high when there is an optimum balance between all three – relatively low costs, high productivity and successful outcomes.

Value for money strategy

The social housing sector operates in a challenging environment. Grant funding for development has reduced and significant cuts in public sector budgets and spending means that registered providers must be able to support their customers in the face of significant changes in the welfare reform system. During such times, optimising resources to achieve better services for customers isn't just value for money but good business sense. Working together as a group, we are able to achieve greater value for money by having shared support services, increased purchasing power and sharing good practice on more effective ways of working. To help us achieve this, we have developed a Value for Money Strategy which sets out how we aim to deliver value for money across the Group. It contains the actions that we are undertaking to improve the value for money of the services that we deliver and how we are measuring progress in achieving our objectives.

The vision for the Group's VFM Strategy is:

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

The Group's VFM strategy sets out our five objectives for achieving value for money:

1. Manage our resources effectively to achieve the strategic priorities of the County Durham Housing Group.
2. Actively promote and embed a value for money culture.
3. Ensure a common approach to understanding cost and performance comparisons by all providers within the Group.
4. Use procurement to deliver value for money.
5. Achieve an optimum return on our assets.

Board assurance on value for money

The Parent Board ultimately has overall responsibility for ensuring the delivery of the Group's VFM strategy and objectives. The Parent Shadow Board approved the Group's VFM strategy in November 2014 and approved a revised VFM action plan in December 2015.

VFM actions were incorporated into local delivery plans for each member of the Group for 2015/16 and these documents were approved by the respective Boards in March 2015.

The VFM working group is overseen by the Parent Board and reports annually to the Board on progress against VFM objectives.

In addition, the Parent Board has oversight of a range of other information from both internal and external sources, which provides assurance of the Group's performance in respect of achieving 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 the Group's VFM position.

Establishing a value for money culture

We have implemented processes to ensure that VFM is considered throughout the organisation and forms part of the organisation's day-to-day operations and thinking, rather than representing an 'add-on' considered in isolation. VFM is 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 also incorporated into staff objectives and development plans, confirming that it is the responsibility of everyone throughout the organisation, not just senior staff and executives, to deliver value for money.

In January 2016, a VFM working group was established to support the delivery of the Group's VFM strategy and to monitor and report progress against objectives and targets. The working group's membership consists of senior members of staff from the parent and subsidiary landlords who have a role and influence in the development and delivery of services and is chaired by The Group Director of Finance and Resources with the Head of Finance as vice chair. Further details of the role of the VFM working group are set out in the VFM self-assessment (see page 17 for link).

Return on assets

Understanding our assets

As at 31 March 2016, County Durham Housing Group directly managed 18,271 homes, 3,133 garage blocks, 860 garage plots, 191 leasehold assets and 284 retail, community and other assets. Additionally, the Group leased 9 offices throughout its area of operation. Within the Group, East Durham Homes accounts for 45% of the housing stock which are mainly located in the Easington, Peterlee and Seaham areas of the County. Durham City Homes accounts for 32% of the housing stock and has properties located mainly in Durham City and the neighbouring villages. Dale and 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)

The vast majority (97%) of the Group's income is derived from our housing properties and, as such, this forms the focus of our current asset management strategy.

The AMS provides a framework for identifying the range and type of homes CDHG provides for the people of County Durham 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.

How we assess the performance of our properties

A key action within the AMS was to develop a sustainability matrix to ensure that any investment is primarily based on financially sustainable stock. To this end CDHG developed a financial appraisal tool entitled "Financial Assessment Tool and Asset Locator" – FATAL.

This tool uses, as far as practicable, real financial data to provide every individual property owned by the Group with a value representing its contribution to the Group's financial position. The model covers 30 years from 2015/16, aligning it with the Group's business plan, and makes use of the information held on the Group's asset register, housing management systems and stock condition database PIMSS. The output of the model is a net present value (NPV) which shows, in current values, whether a property will have a net positive or negative financial contribution to the Group over the 30 year term. This allows identification of those properties that represent a financial drain on the business and targeting of them for an options appraisal.

The FATAL model is part of a wider suite of information and tools used in options appraisals to arrive at a final decision with regards the future of a property or group of properties. Whilst the financial performance of a property is an important consideration, other factors such as the social and environmental impact are also considered.

Utilising the FATAL model, we can be smarter in determining where to focus investment in our stock, withholding investment where a property is loss-making until a final decision on that property's future, either to invest or to dispose, can be made. By having the data in the model held at a granular property level, we can implement a more sophisticated asset management strategy, which may involve different decisions and outcomes for properties on the same street.

A major factor in understanding our assets is to have a better understanding of their investment needs. As part of the AMS action plan the Group undertook a review of its stock condition database system (PIMSS) and made an early decision to consolidate the three subsidiary databases into one single group database. The information taken from PIMSS has allowed the Group to have confidence in the data it currently has and also to programme further stock condition surveys based on any gaps in data. This programme of stock condition surveys commenced in July 2016 and will improve the quality of the outputs from the FATAL model as property investment costs are one of the key inputs to the NPV calculation.

We are beginning to use our understanding of our assets to make decisions around whether to retain or dispose of void properties. Our AMS identified one of the key aims of the organisation, post transfer, as to "*dispose of stock that is no longer fit for purpose, releasing equity to best meet the needs and aspirations of the Group*". We are developing a process to appraise stock as it becomes void with the aim of identifying properties that are not financially viable and disposing of these properties. Disposal would generate funds for investment in improving our viable stock and in developing new properties that better meet the needs of current and potential future customers. The outputs from the FATAL model are one of key elements of this appraisal and we have determined that, when a property becomes void and has an NPV of -£5,000 or less, a detailed options appraisal will be carried out on the property to asses:

- The cost of the void works
- The NPV assessment from FATAL in more detail
- The likely long term demand for the property

Where this assessment determines the property is no longer viable for the group, we intend to dispose of the property, with the attachment of a covenant requiring the sale to an owner occupier in in line with the Group's aims of achieving strong sustainable communities. The Parent Board approved this planned approach in May 2016.

Further details on the output of the FATAL model and how it will be used are included in the Group's full VFM self-assessment, a link to which can be found on page 17.

Financial return on assets

In addition to FATAL, it is also possible to measure the financial return our assets are generating through figures taken from our financial statements, specifically looking at the surplus generated as a proportion of our housing stock net book value (NBV – this is the initial cost of the properties, plus the value of works subsequently undertaken on the properties, less the depreciation charged against each property).

Using figures from our financial statements allows us to compare our performance against our peers, both locally and nationally, using the HCA 2015 Global Accounts of Housing Providers, which are produced from the financial statements of regulated providers of social housing. The return on assets of CDHG, as well as each local landlord, for 2015-16 is as follows:

County Durham Housing Group (18,271 units)	**2015-16 Actual**	**2014-15 Benchmark**
Operating Surplus	**26,410**	**18,673**
Housing Property NBV	**133,229**	**355,469**
Return on Assets	**19.8%**	**5.3%**

County Durham Housing Group has reported an operating surplus in excess of £25m for 2015-16, a figure around 35% above the 2014-15 peer group benchmark figure.

The net book value of the Group's housing properties is just over £133m, only around 37% of the peer group figure. This lower net book value is due to valuing the properties based on the cost paid for them, rather than at their existing use value.

The cost of the properties reflected local rent levels and so, because social housing rents in the north east of England tend to be lower than in the rest of the country, the value of the properties is below the national benchmark level.

It is the low NBV of housing properties which drives a high return on assets ratio for the Group, with the reported figure being more than three and a half times the benchmarking figure.

The results suggest the Group is deriving significant value from its assets, generating a strong surplus to reinvest in future years.

	Dale & Valley Homes	**Durham City Homes**	**East Durham Homes**	**Benchmark**
	2015-16	**2015-16**	**2015-16**	**2014-15**
Number of units	4,198	5,848	8,222	
Operating Surplus (excluding one-off recognition of pension liability)	6,852	9,625	11,990	8,885
Housing Property NBV	32,393	44,809	55,733	164,069
Return on Assets	21.2%	21.5%	21.5%	5.4%

The organisations within the group have reported strong operating surpluses, with the Dale and Valley Homes figure around 23% lower than the sector benchmark, but Durham City Homes and East Durham Homes approximately 8% and 35% higher than the sector benchmark respectively. Despite varying operating surpluses, the subsidiaries have generated a return on assets between three and four times the sector benchmark figure. This is due to the significantly lower net book value of the housing properties across the group, when compared to our peers. The net book value of the subsidiaries properties is lower than the peer group average, in part, due to valuing the properties based on the cost paid for them, rather than at their existing use value. The cost of the properties to the subsidiaries reflected local rent levels and so, because social housing rents in the north east of England tend to be lower than in the rest of the country, the value of the properties is below the national benchmark level.

Key VFM gains achieved in 2015-16

We have set out, throughout the narrative of our self-assessment, the key VFM gains and achievements realised during 2015-16. These are summarised in the table below:

Actions	Outcomes
Providing joint training to all involved tenants at the same time, rather than separately for each subsidiary landlord.	A saving of **£1,674** per subsidiary landlord.
Subscribing to benchmarking organisation HouseMark as one group, rather than three separate landlords.	An annual saving of **£10,221**.
Investing in iPads for Parent Board members to reduce printing and paper requirements for Parent Board meetings.	Estimated recurring annual savings of **£6,264**.
Durham City Homes converted Lansdowne Road Community Centre in Coxhoe into a four bedroom adapted bungalow.	A new revenue stream worth c**.£5,500** per year.
Dale and Valley Homes converted Millfield Community Centre in Crook into a four bedroom bungalow with disabled access.	A new revenue stream worth c**.£5,335** per year.
The Group's investment programme costs were reduced by 12% in 2015-16 in response to the 2015 Summer Budget.	A saving of **£2.5m** realised without any adverse impact on the programme's outcomes.
Renegotiating the lease terms on our commercial properties.	**£17,000** additional annual income, corresponding to **£565,000** extra income over the life of the leases.
Renegotiating the lease terms on East Durham Homes' office at Meridian Court in Peterlee.	An annual saving of **£100,000** compared to the previous lease. A saving of **£1m** over the life of the lease.
Consolidating and procuring a single multi-functional device contract for the whole Group.	Direct cost savings of **£33,000** over the life of the contract.
Dale and Valley Homes carried out a procurement exercise for their solid fuel servicing work.	A cost saving of **£10,000** per annum was realised.

Actions	Outcomes
Worked with Durham County Council to refine the service level agreement (SLA) in place regarding grounds maintenance.	A saving of **£76,500** in the cost of the SLA to the Group.
East Durham Homes developed an in-house customer training programme.	Cash saving of **£4,000** compared to using an external trading provider.
Developed the 'Time to get online' digital inclusion project.	Secured **£11,500** of external funding for the programme. Generated social value in tenants' improved knowledge of digital technology.
Dale and Valley Homes investing in the Colouring Pads scheme using apprentices to redecorate void properties.	An estimated **£45,000** in social value generated by the scheme.
Dale and Valley Homes secured external funding to extend the Mickle Grove **training** hub pilot scheme, providing a dedicated local training scheme in an area of high unemployment.	An estimated **£50,000** in social value generated in the first year of the pilot.

Governance arrangements

At transfer in April 2015, the Group implemented a governance structure that has proved to be inefficient.

Four Boards operate across the Group and 45 Board Members have been in position at various points across the first period of operation. The number of Board and Committee meetings held since transfer, across the Group was 63 to March, 2016. There has been duplication, a lot of demands placed upon board members, secretarial and governance support together with the expense in facilitating that volume of meetings.

The Group made good use of internal audit services focussed on governance during the summer of 2015 and this, together with Board and senior management awareness of duplication and inefficiency issues since transfer, has contributed to the positive HCA narrative and governance review mentioned below.

The HCA conducted an In-Depth assessment of the Group from November – March, 2016 which resulted in a G2/V2 grading which is compliant but requires improvement. Duplication and inefficiency were identified by the HCA as a consequence of the governance and operational structures control framework, which are not sustainable. However the positive narrative accompanying the grading highlighted the self-awareness of the Group in recognising the inefficiencies in the existing governance structures and the positive action taken in commissioning a governance review so early in the Group's life cycle.

In seeking to achieve the Group's objective to establish the County Durham Housing Group Brand, and in recognition that the current group structure does not represent value for money, a detailed governance review was commenced in January 2016. The review is being independently facilitated by consultants, Altair, and the initial findings, subject to consultation and final decision in August/September, 2016, were presented to Board in May 2016. The brief agreed across the Group was for Altair to identify areas where efficiency in governance structures could be achieved. Approved recommendations from that review will be consulted upon and implemented throughout 2016/17.

The Group has commenced a transition to electronic Board Papers at Parent Board level in an effort to reduce the administrative and cost implications of facilitating the current governance structures. The cost reduction programme incorporates the governance review and electronic solution mentioned and is anticipated to see a contribution from governance of around £45,000.

Future developments

Under the banner of Regroup, the following strategic projects are being focussed on over the next 12 months:

- Single housing management system – replacing the three different systems currently operating across the Group with a group-wide system. This will improve operational efficiency and rationalise processes across our landlords, help to deliver a more seamless service to our tenants and provide a tangible cost saving to the Group.

- Governance review – the Group's current governance structure is complex and inefficient. A review is underway to consider alternative approaches to streamline the governance structure and process to achieve a more efficient and effective oversight for the Group.

- Customer engagement review – a project to review the approach to customer involvement and engagement across the Group. The aim is to understand the most efficient and effective way to engage with our customers and to reassess our future plans and approach to community investment.

- People First – a project to develop the Group's culture and values systems and establish organisational structures and job roles which will ensure the business can meet current and future needs. The aim is to align existing employment systems to create one common set of people policies and procedures, to remove and duplication of activities within the Group and to design roles and team structures that are efficient and cost effective whilst also ensuring effective service delivery.

- Cost reduction and efficiency programme – monitoring the achievement of the £4m savings target set out as part of the Regroup programme.

The collective Regroup projects also provide the Group with an opportunity to consolidate and improve its data quality at the same time as introducing new systems and working practices. Improved data quality allows our operations to be smarter, targeting resources more efficiently to where they are most needed and where they will have the greatest impact, to provide better outcomes for our customers.

The Regroup programme, as a whole, directly aligns with, and contributes to, our corporate objectives and is a key part of the Group's Corporate Plan actions.

In addition to the Regroup programme of strategic projects, a new development strategy is being developed and plans are underway to review the Group's commercial property portfolio which transferred along with the social housing stock from Durham County Council.

New build development opportunities are being reviewed and assessed using the Group's financial appraisal tool. The tool enables a robust evaluation of all new development activities and provides key financial information in respect of total loan requirements, the net present value pay back within 30 years and cash flow assumptions against agreed appraisal criteria such as voids and bad debts, interest payments, and management and maintenance costs.

The strategic review of the Group's retail shops, community buildings and garage site portfolio this year. Once concluded these reviews will provide us with a clear position statement around the current performance of each asset as well as their current financial return to the organisation, including whether they are attaining current market rents and what their future return is expected to be in light of anticipated management and investment costs. The reviews will also provide us with an opportunity to consider options for any underperforming assets and how we ensure each continues to provide value for money for the long-term.

Internal controls assurance statement

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.

Boards cannot delegate ultimate responsibility for ensuring there are effective systems of control throughout however the Group's approach to strategic risk management is supported by the Group Audit and Risk Committee ('GARC') in accordance with the Delegated Authority Framework. The GARC provide formal and regular oversight of the outsourced Internal Audit service, internal control of the Group's activities and the risk management framework. 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:-

Governance, Management Structure & Accountability

- A governance framework comprising of the Governance Manual; Intra-Group Agreement; Constitutions and Rules; Standing Financial Instructions (including a Delegated Authority Framework); Code of Governance (NHF 2015 Code) and Board Member Code of Conduct;
- Clear responsibilities and delegation for the prevention, detection and investigation of any instances of suspected fraud or corruption in accordance with the Group's Fraud and Corruption Response Plan;
- Defined governance arrangements for all Boards and Committees including agreed terms of reference setting out key duties and powers; a forward plan of scheduled agenda items and the recent adoption of a consistent Group Board Member appraisal process;
- An annual conflicts of interest process and a procedure for the declaration / authorisation of invitations or offers of hospitality are in place for Board Members and employees;
- A compliance calendar ensuring all regulatory returns to the HCA and FCA are considered by the Board, as appropriate and submitted in line with agreed deadlines;
- 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;
- Defined senior management structures for key service areas and functions providing accountability for performance, initiatives and achievements;
- Alongside an In-Depth Assessment by the HCA (from November 2015 to March 2016) which resulted in a G2/V2 rating, a major strategic efficiency and cost reduction programme commenced under the banner of 'Regroup' to review the current Group governance structure, deliver an agreed savings target and introduce a single housing management system to improve operational efficiency at the Local Landlords.

Strategic Risk Management

- An approved RMF that 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;
- Strategic and operational risk registers have been developed and are regularly reviewed by the respective Boards and GARC;
- A Risk Management Working Group ('RMWG') has been formed to 'Champion' the risk management activity and review the implementation of the RMF. The RMWG meets quarterly, has a formal terms of reference and makes recommendations for decision to GARC and / or Board;

- The EMT take a lead role in the identification, review and management of the Group's key risks and monitor the adequacy of existing controls. Each member of the EMT signs an Annual Assurance Statement to certify compliance with the requirements of the RMF;

- A contractual agreement with an outsourced Internal Audit service provider to develop a Strategic Audit Needs Assessment in line with the Group's risk profile and to deliver the three-year risk based Internal Audit Plan, as approved by GARC;

- Development of a Business Continuity Management structure for the Group comprising of Business Impact Analyses and Strategic and Tactical Business Continuity Plans ('BCP'). The Board approved the BCPs in May 2016 and work is ongoing to prepare detailed Operational Response Plans for Category 1 business interruptions.

Financial Control & Performance Management

- The Business Plan has undergone a series of stress tests and a perfect storm was created to combine tests to 'break the plan' and develop a clear mitigation strategy as part of the recovery plan. 'Regroup', launched in January 2016, will build financial resilience into the Business Plan;

- Corporate planning is integrated with the financial planning cycle and is linked to key strategic risks. A framework of budget monitoring and financial reporting activities is in place to facilitate effective oversight of actual versus forecast spend at Board and EMT level;

- Corporate and local landlord delivery plans have been developed, approved at Board level and the progression of these objectives and targets is monitored collectively via regular EMT meetings and at an individual Director level via the Group appraisal process;

- A robust approach to treasury management with clear segregation of duties controls and the conduct of regular key account reconciliations for the Group's bank, rent and payroll accounts. This finance activity is subject to a periodic risk based internal audit as part of the approved Strategic Internal Audit Plan;

- Loan covenant performance is monitored internally on a monthly basis, any breach of agreed tolerance levels will trigger investigatory action and quarterly performance reports are prepared for the Board and funders and an annual report for the Group's External Auditors;

- An Assets and Liabilities Register (ALR) is in place together with a Board approved Policy and Manual and GARC have delegated authority to review any amendments proposed to the aforementioned documents;

- Development of a VFM Strategy, ratified by the Board that outlines how VFM will be delivered, the key actions to improve VFM and how success will be measured. A VFM self-assessment has been created which sets out the Group's approach to VFM and tangible efficiency examples during the 2015/16 financial period;

- A Balanced Scorecard framework to monitor and report actual performance against internal and regulatory KPIs. This process provides valuable assurance to the Board and EMT of performance in key areas across the Group;

- A suite of approved Group policies including but not exclusively – Treasury Management; Whistleblowing; Health and Safety; Recruitment; Employee Code of Conduct; Disciplinary and Grievance that are periodically reviewed to ensure their continued appropriateness.

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 GARC in June 2016 highlighting the results of the 2015/16 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 rated findings, and also identified areas of good practice. Based on the work completed, we believe that these are isolated to the specific systems and processes audited and when taken in aggregate are not considered pervasive to the system of internal control as a whole. We also note that management have been proactive in implementing our recommendations*.'

The Group has an ongoing process to identify, evaluate and manage key strategic risk exposures and this has been in place throughout the 2015/16 financial period. The Group Chief Executive and EMT have evaluated the adequacy of risk management and internal control arrangements, as certified in the Annual Assurance Statements, and a report has been made to the Boards on the effectiveness of control systems in place for the financial period ended 31 March 2016.

Boards have reviewed the effectiveness of the system of internal control for the accounting period commencing 13 April 2015 up to the date of approval of the Annual Report and Financial Statements. They have 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

The Group adopted the 2015 NHF Code of Governance at Parent Board in February 2016 and identified actions required to both ensure and enhance compliance. These actions are being monitored and completed. There are two areas of non-compliance remaining at the 31 March 2016 with actions planned to address them as follows:

Area of non compliance	**Action required**	**Action due date**
Board members who are executive staff must be in minority. Boards should have at least five members and no more than 12, including any co-optees and any executive board members.	Amendment of rules for all Boards required to explicitly prohibiting co-optees taking the Board makeup beyond 12 members. Amendment of rules for County Durham Housing Group only to reduce Board members to a maximum of 12.	September 2016
Boards must have a strategy for their own renewal which is based on an agreed statement of the skills, qualifications and attributes required, and balances the need for experienced members with that for new thinking and independent challenge. This statement should be reviewed regularly, and whenever the organisation is about to undertake new activities or become exposed to new risks.	Creation of skills, qualifications and attributes requirements within a renewal policy / strategy to be developed.	Completed in July 2016

Statement of compliance

The Group have reviewed the HCA's Governance and Financial Viability Standards and have identified one area of non compliance with the code of governance. As noted above the 2015 NHF Code of Governance has been adopted by the Group with two areas of non compliance identified. There is an action plan in place to address these two areas which will be completed by September 2016.

With this exception the Group have confirmed their compliance with the HCA's Governance and Financial Viability Standards.

Employee involvement

The Group is committed to employee involvement and keeping employees up to date with business developments. Employees are kept informed of key plans and strategies through a weekly group newsletter and regular staff briefings hosted by the Chief Executive and EMT. These communications are supplemented by a group magazine publication which is distributed to all employees which addresses key developments, for example progress in the Regroup programme.

The Group's intranet contains employee-focused content on all aspects of the organisation. The intranet's home page has a 'latest news' section and a homepage 'slider', both of which are used to draw employees' attention to important events, stories and information.

During 2015-16, the Group undertook a staff wellbeing survey which has identified the need for the organisation to consider the role of 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; training is being provided to employees on resilience and managing change; the occupational health SLA with Durham County Council has been reviewed and extended; employee representative forums and change advocate groups have been established across the Group; employee health plans are in development; and a manager's development programme is in development.

Equal opportunities

The Group is committed to an equal opportunities policy from recruitment and selection through to training and career development. The Group's 'Equality, Diversity and Inclusion Policy: Employment' is available for all staff on the Groups intranet. This 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 n 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. Recruitment and promotion are made purely on merit and based on fair and equitable job related criteria.

Employees with disabilities

The Group's policy is that people with disabilities should have full and fair consideration for all vacancies and where it is possible and reasonable adjustments will be made to accommodate 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.

The Co-operative and Community Benefit Societies Act 2014 and registered social housing legislation require the board to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the registered provider and of the surplus or deficit for that period. In preparing these financial statements, the board is required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards and the Statement of Recommended Practice for registered social 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 registered provider will continue in business.

The board is 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 is responsible for the maintenance and integrity of the society's 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 Group'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 Group's auditors are aware of that information.

Independent auditors

Following a competitive tender process, Grant Thornton UK LLP were appointed as Independent Auditors for County Durham Housing Group.

The Report of the Board, including the Strategic Report, Value for Money and Statement of Board members' responsibilities, was approved on the 15 September 2016 and signed on behalf of the Board by:

Chair of the Board

Independent auditor's report to the members of County Durham Housing Group Limited

We have audited the financial statements of County Durham Housing Group Limited for the period ended 31 March 2016 which comprise the Consolidated Statement of Comprehensive Income, the Association Statement of Comprehensive Income, the Consolidated Statement of Changes in Reserves, the Association Statement of Changes in Reserves, the Group and Association Statement of Financial Position, the Consolidated Statement of Cash Flows 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 Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ('FRS 102').

This report is made solely to the society's members, as a body, in accordance with regulations made under Sections 87 and 98(7) 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, the board is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group and Parent society's affairs as at 31 March 2016 and of the Group and Parent's income and expenditure for the period 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
21 September 2016

Consolidated Statement of Comprehensive Income

	Note	2016 £'000
Turnover	3	67,554
Operating expenditure	3	(41,144)
Operating surplus	6	26,410
Gain on disposal of property, plant and equipment (fixed assets)	7	1,422
Interest receivable	8	46
Interest payable and finance costs	9	(5,856)
Recognition of opening pension liability	25	(13,885)
Surplus on ordinary activities before taxation		8,137
Tax on surplus on ordinary activities	13	-
Surplus for the period		8,137
Remeasurement loss in respect of pension scheme	25	3,303
Total comprehensive income for the period		11,440

The consolidated results relate wholly to continuing activities.

The accompanying notes form part of these financial statements.

The financial statements on pages 39 to 84 were approved and authorised for issue by the Board on 15 September 2016 and signed on its behalf by:

Chair Vice Chair Company Secretary

Association Statement of Comprehensive Income

	Note	2016 £'000
Turnover	3	18,945
Operating expenditure	3	(11,864)
Operating surplus	6	7,081
Interest receivable	8	5,991
Interest and finance costs	9	(4,801)
Recognition of opening pension liability	25	(9,138)
Deficit on ordinary activities before taxation		(867)
Tax on surplus on ordinary activities	13	-
Deficit for the period		(867)
Remeasurement gain in respect of pension scheme	25	867
Total comprehensive income for the period		-

The association's results relate wholly to continuing activities.

The accompanying notes form part of these financial statements.

The financial statements on pages 39 to 84 were approved and authorised for issue by the Board on 15 September 2016 and signed on its behalf by:

Chair Vice Chair Company Secretary

Consolidated Statement of Changes in Reserves

	Income and Expenditure Reserve £’000
Opening balance	-
Subsidiaries opening balances at date of transfer	(20,660)
Surplus for the period	8,137
Other comprehensive income for the period	3,303
Balance as at 31 March 2016	**(9,220)**

Association Statement of Changes in Reserves

	Income and Expenditure Reserve £'000
Opening balance	-
Deficit for the period	(867)
Other comprehensive income for the period	867
Balance as at 31 March 2016	**-**

Group and Association Statement of Financial Position

	Note	Group 2016 £'000	Association 2016 £'000
Fixed assets			
Tangible fixed assets – housing properties at cost	14	133,229	295
Tangible fixed assets - other	15	782	782
Loans receivable	16	-	115,000
Total fixed assets		134,011	116,077
Current assets			
Stock	18	27	27
Debtors (due within one year)	19	6,012	11,505
Cash at bank and in hand		9,090	8,993
		15,129	20,525
Creditors: amounts falling due within one year	20	(10,775)	(12,420)
Net current assets		4,354	8,105
Total assets less current liabilities		138,365	124,182
Creditors: amounts falling due after more than one year	21	(113,484)	(113,484)
Provision for liabilities			
Pension provision	25	(31,581)	(8,614)
Other provisions	22	(2,520)	(2,084)
Total net (liabilities) / assets		(9,220)	-
Reserves			
Income and expenditure reserve		(9,220)	-
Total reserves		(9,220)	-

The accompanying notes form part of these financial statements.

The financial statements on pages 39 to 84 were approved and authorised for issue by the Board on 15 September 2016 and signed on its behalf by:

Chair Vice Chair Company Secretary

Consolidated Statement of Cash Flows

	Note	2016 £'000
Net cash generated from operating activities	27	33,798
Cash flow from investing activities		
Purchase of tangible fixed assets		(138,644)
Proceeds from sale of tangible fixed assets		3,298
Interest received		46
		(135,300)
Cash flow from financing activities		
Interest paid		(4,803)
New secured loans		119,484
Repayments of borrowings		(6,000)
		7,179
Net change in cash and cash equivalents		7,179
Cash and cash equivalents at beginning of the period		-
Subsidiaries cash and cash equivalents at date of transfer		1,911
Cash and cash equivalents at end of the period		9,090

The accompanying notes form part of these financial statements.

Notes to the financial statements

1. Legal status

County Durham Housing Group and its subsidiary entities, Dale and Valley Homes, Durham City Homes and East Durham Homes, are registered under the Cooperative and Community Benefit Society Act 2014 and are registered providers of social housing.

2. Accounting policies

Basis of accounting

The financial statements of the group and association are prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including Financial Reporting Standard 102 (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 (£).

Going concern

The group’s business activities, its current financial position and factors likely to affect its future development are set out within the Strategic Report. The group has in place long-term debt facilities which provide adequate resources to finance committed reinvestment and development programmes, along with the group’s day to day operations. 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.

On this basis, the Board has a reasonable expectation that the group 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 Annual Report and financial statements are signed. For this reason, it continues to adopt the going concern basis in the financial statements.

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:

2. Accounting policies (continued)

Significant management judgements

Accounting for the stock transfer: the accounting for the stock transfer can be either as the acquisition of a business or the acquisition of assets and liabilities. Management have considered factors such as the extent to which employees, administration and other assets transferred in making this judgement. Management consider that the transfer of housing stock is the acquisition of assets and liabilities which are accounted for at cost.

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 is a matter of judgement.

Management have considered the nature and type of housing property and allocated components using the National Housing Federation matrix developed to assist registered providers with component accounting as a basis for this allocation.

Allocation of parent company recharges: the allocation of charges incurred by the parent company to the subsidiary companies 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 subsidiary companies 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 end of the reporting period are allocated to the subsidiary companies based on its funding purpose.

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)

Significant management judgements (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 notes 14 and 15 for the carrying amount of the property, plant and equipment.

Defined benefit obligations: the Group 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 balance sheet. The assumptions reflect historical experience and current trends.

Recoverability of debtors: the Group 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 19 for the net carrying amount of debtors and the associated bad and doubtful debt provision.

Impairment reviews: the Group 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.

Basis of consolidation

The group accounts consolidate the accounts of the association and all of its subsidiaries at 31 March.

The consolidated financial statements incorporate the financial statements of the association and entities controlled by the group. Control is achieved where the group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

2. Accounting policies (continued)

The results of the subsidiaries are included in total comprehensive income from the effective date of the formation of the group, 13 April 2015, which was the date the housing property stock transferred from Durham County Council to County Durham Housing Group. The subsidiary entities all apply accounting policies that are consistent with the group accounting policies. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Investment in subsidiaries

Investments in subsidiaries are accounted for at cost less impairment in the individual financial statements.

Turnover and revenue recognition

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

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

Value Added Tax

The group 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 group and not recoverable from HM Revenue and Customs. The balance of VAT payable or recoverable at the end of the reporting period is included as a current liability or asset.

Interest payable

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

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.

2. Accounting policies (continued)

Financial assets (continued)
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 Consolidated 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 Consolidated 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.

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.

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.

2. Accounting policies (continued)

Pensions

The group participates in the Durham County Council Pension Fund (DCCPF) 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 Group 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.

Housing properties

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

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.

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.

2. Accounting policies (continued)

Depreciation of housing properties

The group 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 group 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.

Impairment

Annually assets, including housing properties are assessed 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 expenditure 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 group, the recoverable amount will be its fair value less costs to sell.

Other tangible fixed assets

Other tangible fixed assets are measured at cost. Depreciation is provided on a straight line basis to write down the cost of the asset to its estimated residual value over its expected useful life.

2. Accounting policies (continued)

Other tangible fixed assets (continued)

Depreciation is provided as follows:

- Freehold buildings	50 years
- Long leasehold property	Over life of lease
- Furniture, fixtures and fittings	10 years
- Computers and office equipment	5 years
- Motor vehicles	5 years

No depreciation is charged on freehold land.

Donated land and other assets

Donated land or other donated assets are recognised on donation and measured at their market value, taking into account any restriction on the use of that asset.

Where the asset is donated by a government source, the market value of the asset donated is accounted for as a government grant and recognised to income over the life of the asset.

Where the asset is donated by a private, non-government organisation, the market value of the asset donated is recognised as income once any associated performance-related conditions have been met.

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 group. 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 Consolidated 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 group recognises the annual rent expense equal to amounts owed to the lessor as expenditure.

2. Accounting policies (continued)

Leases (continued)

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

Provisions for liabilities

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that the group 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

Group – continuing activities

	2016			
	Turnover £'000	**Cost of sales £'000**	**Operating costs £'000**	**Operating surplus/ (deficit) £'000**
Social housing lettings	66,975	-	(40,689)	26,286
Other social housing activities	-	-	-	-
Activities other than social housing activities				
Lettings	153	-	-	153
Other	426	-	(455)	(29)
	579	-	(455)	124
	67,554	-	(41,144)	26,410

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

Association – continuing activities

	2016			
	Turnover	**Cost of sales**	**Operating costs**	**Operating surplus/ (deficit)**
	£'000	**£'000**	**£'000**	**£'000**
Social housing lettings	6	-	(1,540)	(1,534)
Other social housing activities				
Management services	18,921	-	(10,149)	8,772
	18,927	-	(11,689)	7,238
Activities other than social housing activities				
Other	18	-	(175)	(157)
	18	-	(175)	(157)
	18,945	-	(11,864)	7,081

4. Particulars of income and expenditure from social housing lettings

Group

	General needs housing £'000	Supported housing and housing for older people £'000	Low cost home ownership £'000	2016 Total £'000
Rent receivable net of identifiable service charges	65,394	-	-	65,394
Service charges receivable	1,581	-	-	1,581
Turnover from social housing lettings	66,975	-	-	66,975
Management	(17,980)	-	-	(17,980)
Service charge costs	(907)	-	-	(907)
Routine maintenance	(13,997)	-	-	(13,997)
Planned maintenance	(4,512)	-	-	(4,512)
Major repairs expenditure	(984)	-	-	(984)
Bad debts	231	-	-	231
Depreciation of housing properties	(2,540)	-	-	(2,540)
Operating costs on social housing lettings	(40,689)	-	-	(40,689)
Operating surplus on social housing lettings	26,286	-	-	26,286
Void losses	(985)	-	-	(985)

Particulars of turnover from non-social housing lettings

Group	**2016 £'000**
Non-social housing	
Commercial units	155
	155

4. Particulars of income and expenditure from social housing lettings

Association

	General needs housing £'000	Supported housing and housing for older people £'000	Low cost home ownership £'000	2016 Total £'000
Rent receivable net of identifiable service charges	6	-	-	6
Turnover from social housing lettings	6	-	-	6
Routine maintenance	260	-	-	260
Planned maintenance	(1,800)	-	-	(1,800)
Operating costs on social housing lettings	1,540	-	-	1,540
Operating deficit on social housing lettings	(1,534)	-	-	(1,534)
Void losses	-	-	-	-

Particulars of turnover from non-social housing lettings

The Association has no turnover from non-social housing lettings.

5. Accommodation in management and development

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

	Group 2016 No. of properties	Association 2016 No. of properties
Social housing		
General housing		
- social rent	18,268	-
Low cost home ownership	3	3
Total owned	18,271	3
Leasehold properties	195	-
Total owned and managed	18,466	3
Other property types		
Commercial units	151	-

Neither the Group nor the Association own or lease any supported housing units.

6. Operating surplus

	Group 2016 £'000	Association 2016 £'000
This is arrived after charging :		
Depreciation of social housing properties	2,540	-
Operating lease payments		
- land and buildings	96	-
- other	12	-
Depreciation of other tangible fixed assets	267	175
Auditors' remuneration (excluding VAT)	38	-
- non-audit services (tax advice)	12	12

7. Gain on disposal of property, plant and equipment (fixed assets)

Group and Association	**Group 2016 £'000**	**Association 2016 £'000**
Housing properties		
Disposal proceeds	3,298	-
Carrying value of fixed assets	(1,876)	-
	1,422	-

8. Interest receivable and other income

	Group 2016 £'000	**Association 2016 £'000**
Bank interest receivable and similar income	46	45
Loan interest receivable	-	4,149
Amortisation of interest	-	1,797
	46	5,991

9. Interest payable and finance costs

	Group 2016 £'000	**Association 2016 £'000**
Loans and bank overdrafts	374	97
Amortisation of borrowing costs	4,429	4,429
Net finance costs for pensions	1,053	276
	5,856	4,801

10. Employees

Average monthly number of employees:	Group 2016 Number	Association 2016 Number
Administration	89	45
Housing, support and care	348	98
	437	143

Expressed as full time equivalents:		
Administration	87	43
Housing, support and care	333	98
	420	141

Employee costs:		
Wages and salaries	11,233	4,606
Social security costs	850	383
Other pension costs	1,437	605
	13,520	5,594

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 24.

11. Board members remuneration

The board members' aggregate remuneration in respect of qualifying services across the Group was £46,455.

In addition board members claimed expenses incurred in attending meetings totalling £5,211.

12. Directors and higher paid staff

Group

Executive directors and Managing directors – key management personnel

	Basic salary £'000	Benefits in kind £'000	2016 Pension contributions £'000	National Insurance £'000	Total £'000
B Fullen	136	7	19	17	179
A Smith	116	7	16	15	154
G Walsh	86	7	12	11	116
M Roe	92	7	13	11	123
S Bartlett	80	1	11	8	100
P Chaffer	88	1	12	10	111
M Doyle	94	-	13	11	118
	692	30	96	83	901

The full time equivalent number of staff who received emoluments:

	2016 Number
£60,001 to £70,000	7
£70,001 to £80,000	1
£80,001 to £90,000	1
£90,001 to £100,000	-
£100,001 to £110,000	1
£110,001 to £120,000	3
£120,001 to £130,000	1
£130,001 to £140,000	-
£140,001 to £150,000	-
£150,001 to £160,000	1
£160,001 to £170,000	-
£170,001 to £180,000	1
	16

12. Directors and higher paid staff (continued)

Association

Executive directors – key management personnel

	2016				
	Basic salary £'000	**Benefits in kind £'000**	**Pension contributions £'000**	**National Insurance £'000**	**Total £'000**
B Fullen	136	7	19	17	179
A Smith	116	7	16	15	154
G Walsh	86	7	12	11	116
M Roe	92	7	13	11	123
	430	28	60	54	572

The full time equivalent number of staff who received emoluments:

	2016 Number
£60,001 to £70,000	2
£70,001 to £80,000	1
£80,001 to £90,000	-
£90,001 to £100,000	-
£100,001 to £110,000	-
£110,001 to £120,000	1
£120,001 to £130,000	1
£130,001 to £140,000	-
£140,001 to £150,000	-
£150,001 to £160,000	1
£160,001 to £170,000	-
£170,001 to £180,000	1
	7

13. Tax on surplus on ordinary activities

	Group 2016 £'000	Association 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 year

On the basis that current income and gains are applied for charitable purposes, the Group and 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:

	Group 2016 £'000	Association 2016 £'000
Surplus on ordinary activities before taxation	8,137	(867)
Tax on profit at standard UK tax rate of 20%	1,627	-
Effects of:		
Non-taxable income	(1,627)	-
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 Group and Association should fall within the tax exemptions available to charitable entities.

14. Tangible fixed assets – housing properties

Group

	Social housing properties held for letting £'000	Non-social housing properties held for letting £'000	Housing properties for letting under construction £'000	Completed shared ownership housing properties £'000	Total housing properties £'000
Cost					
At 24 November 2014	-	-	-	-	-
Transferred	110,942	3,440	-	18	114,400
Additions	-	-	277	-	277
Works to existing properties	22,656	312	-	-	22,968
Disposals	(1,901)	-	-	-	(1,901)
At 31 March 2016	131,697	3,752	277	18	135,744
Depreciation and impairment					
At 24 November 2014	-	-	-	-	-
Depreciation charged in the period	(2,528)	(12)	-	-	(2,540)
Depreciation released on disposal	25	-	-	-	25
At 31 March 2016	(2,503)	(12)	-	-	(2,515)
Net book value					
At 31 March 2016	129,194	3,740	277	18	133,229
At 24 November 2014	-	-	-	-	-

14. Tangible fixed assets - housing properties (continued)

Association

	Housing properties for letting under construction £'000	Completed shared ownership housing properties £'000	Total housing properties £'000
Cost			
At 24 November 2014	-	-	-
Transferred	-	18	18
Additions	277	-	277
At 31 March 2016	277	18	295
Depreciation and impairment			
At 24 November 2014	-	-	-
Depreciation charged in the period	-	-	-
At 31 March 2016	-	-	-
Net book value			
At 31 March 2016	277	18	295
At 24 November 2014	-	-	-

Financial assistance and other government grant receivable

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

14. Tangible fixed assets - housing properties (continued)

Housing properties book value, net of depreciation

	Group 2016 £'000	Association 2016 £'000
Freehold land and buildings	133,229	295

Expenditure on works to existing properties

	Group 2016 £'000	Association 2016 £'000
Components capitalised	22,968	-
Amounts charged to income and expenditure	18,509	1,540
	41,477	1,540

Impairment

The group 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 2015/16.

15. Tangible fixed assets - other

Group

	Furniture fixtures and ICT/office equipment £'000	Total £'000
Cost		
At 24 November 2014	1,020	1,020
Transferred	988	988
Additions	11	11
At 31 March 2016	2,019	2,019
Accumulated depreciation		
At 24 November 2014	(970)	(970)
Charged in the period	(267)	(267)
At 31 March 2016	(1,237)	(1,237)
Net book value		
At 31 March 2016	782	782
At 24 November 2014	50	50

Association

	Furniture fixtures and ICT/office equipment £'000	Total £'000
Cost		
At 24 November 2014	-	-
Transferred	946	946
Additions	11	11
At 31 March 2016	957	957
Accumulated depreciation		
At 24 November 2014	-	-
Charged in the period	(175)	(175)
At 31 March 2016	(175)	(175)
Net book value		
At 31 March 2016	782	782
At 24 November 2014	-	-

16. Loans receivable

	Group 2016 £'000	Association 2016 £'000
Loans owed by group undertakings	-	115,000
	-	115,000

County Durham Housing Group has a funding agreement with Barclays Bank plc and M&G Investments. Further information on this funding agreement is included in note 22.

This funding is lent on by County Durham Housing Group to the subsidiary organisations via an Intra-Group Loan Agreement.

Funding of £115m was drawn down by County Durham Housing Group to purchase the housing stock and associated assets from Durham County Council and is therefore an amount owed to County Durham Housing Group.

The terms of the loan are as set out in note 23.

The loans are accounted for as concessionary loans under FRS 102 and measured at the transaction value of £115m.

17. Investments in subsidiaries

The financial statements consolidate the results of County Durham Housing Group as an individual entity and registered provider, and those of its subsidiaries, East Durham Homes Limited, Durham City Homes Limited and Dale & Valley Homes Limited. The subsidiaries are treated as wholly owned subsidiaries for consolidation purposes as County Durham Housing group has the right to appoint and remove members to the boards of the subsidiaries and thereby exercises control over them.

Dale & Valley Homes Limited is a Co-operative and Community Benefit Society and registered provider of social housing, incorporated in England and Wales. Its registration number is 4575.

Durham City Homes Limited is a Co-operative and Community Benefit Society and registered provider of social housing, incorporated in England and Wales. Its HCA registration number is 4806.

East Durham Homes Limited is a Co-operative and Community Benefit Society and registered provider of social housing, incorporated in England and Wales. Its HCA registration number is 4578.

17. Investments in subsidiaries (continued)

The financial statements represent the first reported results of County Durham Housing Group following the transfer of social housing stock from Durham County Council on 13 April 2015 to the Group. The accounting period of the individual group entities covers the period from stock transfer on 13 April 2015 to the period end date of 31 March 2016.

For County Durham Housing Group and Durham City Homes, the legal entities were registered with the FCA on 24 November 2014 and therefore the first accounting period is from this date to 31 March 2016. There was no activity in either County Durham Housing Group or Durham City Homes during the period from 24 November 2014 to the 12 April 2015 and therefore the trading period for all of the Group entities is the same period, 13 April 2015 to 31 March 2016.

18. Stock

	Group 2016 £'000	Association 2016 £'000
Raw materials and consumables	27	27

19. Debtors

	Group 2016 £'000	Association 2016 £'000
Due within one year		
Rent and service charges receivable	6,606	-
Less: provision for bad and doubtful debts	(2,264)	-
Net rental debtors	4,342	-
Trade debtors	62	1
Prepayments and accrued income	732	530
Other debtors	876	-
Amounts owed by group undertakings	-	10,974
	6,012	11,505

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.

20. Creditors: amounts falling due within one year

	Group 2016 £'000	Association 2016 £'000
Trade creditors	2,347	2,347
Rent and service charges received in advance	569	-
Pension creditor	226	86
Other taxation and social security	279	136
Other creditors	212	207
Accruals and deferred income	7,142	2,883
Amounts owed to group undertakings	-	6,761
	10,775	12,420

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

	Group 2016 £'000	Association 2016 £'000
Debt (note 23)	115,000	115,000
Borrowing costs unamortised	(1,516)	(1,516)
	113,484	113,484

22. Provisions for liabilities and charges

Group

	2016			
	Transfer commitments £'000	**Regroup provision £'000**	**Legal provision £'000**	**Total £'000**
Opening provision	-	-	-	-
Provision made in the period	1,800	284	436	2,520
At 31 March 2016	**1,800**	**284**	**436**	**2,520**

Association

	2016			
	Transfer commitments £'000	**Regroup provision £'000**	**Legal provision £'000**	**Total £'000**
Opening provision	-	-	-	-
Provision made in the period	1,800	284	-	2,084
At 31 March 2016	**1,800**	**284**	**-**	**2,084**

Transfer commitments provision

The transfer commitments provision relates to agreed financial commitments for unadopted footpaths which are set out in the transfer agreement between Durham County Council and the Group. This balance is expected to be paid over the next six years.

Regroup provision

The Regroup provision is for early retirement and voluntary redundancy scheme commitment at the year end based on applications received and approved at 31 March 2016. The provision is based on the estimated costs of the scheme, including associated pension costs. It is expected that cost outflows will be in the next 12 months.

Legal provision

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

23. Debt analysis

Group and Association

	2016 £'000
Debt profile	
Bank and building society loans at fixed rates of interest	115,000
	115,000

Terms of repayment and interest rates

County Durham Housing Group is funded through a £150m loan facility provided by Barclays Bank plc and M&G Investments which was agreed on 13 April 2015. The facility was put in place to fund the purchase of approximately 18,400 homes from Durham County Council and the repairs and improvement works required to bring and maintain those properties up to the County Durham standard.

There are four elements to the £150m loan facility;

- Tranche A, a sterling note facility of £75m (currently fully drawn);
- Tranche B1, a 5 year 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 7 year 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 12 year 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 31 March 2040.

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%

23. Debt analysis (continued)

The outstanding loan facility is repayable as follows:

	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
Five years or more	105,000
	115,000

All loans are secured by fixed charges over the Group's properties.

As at 31 March 2016 the Group and Association had undrawn loan facilities of £35m.

24. Non-equity share capital

Shares of £1 each issued and fully paid

	Group	**Association**
	2016	**2016**
	No	**No**
At 24 November 2014	-	-
Shares issued during the financial period	34	5
As at 31 March 2016	34	5

The shares provide members with the right to vote at general meetings but do not provide any rights to dividends or distributions on winding-up.

25. Pensions

The Group and Association are admitted bodies of the Durham County Council Local Government Pension Scheme. The disclosures below relate to the funded liabilities within the Durham County Council Pension Fund (the '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 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 Fund's Funding Strategy Statement.

The last actuarial valuation was at 31 March 2013 and the contributions to be paid until 31 March 2017 resulting from the valuation are set out in the Fund's Rates and Adjustment Certificate. An actuarial valuation of the Fund will be carried out at 31 March 2016 and as part of that valuation a new Rates and Adjustment Certificate will be produced for the three year period from 1 April 2017.

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

25. Pensions (continued)

Group

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

	2016
	£'000
Amounts credited / (charged) to operating expenditure:	
Current service cost	(2,505)
Employer contributions paid	1,849
Disposals and acquisitions	1,370
Total operating credit / (debit)	714
Amounts included in interest payable:	
Interest on net defined benefit liability	(1,053)
Remeasurement gain / (loss) recognised on defined benefit pension scheme	3,303
Opening pension scheme liability as at 13 April 2015 charged to the Consolidated Statement of Comprehensive Income	(13,885)
Total credit / (debit) to the Consolidated Statement of Comprehensive Income	(10,921)

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

Present values of provision

	2016
	£'000
Present value of funded obligations	(75,252)
Fair value of scheme assets	43,811
	(31,441)
Present value of unfunded obligations	(140)
Net pension liability	(31,581)

25. Pensions (continued)

Reconciliation of opening and closing provisions

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

	2016 £'000
Opening defined benefit obligation	(80,718)
Current service cost	(2,505)
Acquisitions / disposals on liabilities	3,860
Interest on scheme liabilities	(2,489)
Actuarial gain / (loss)	5,206
Contributions by scheme participants	(727)
Benefits paid	1,981
Closing defined benefit obligation	(75,392)

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

	2016 £'000
Funded	(75,252)
Unfunded	(140)
Closing defined benefit obligation	(75,392)

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

	2016 £'000
Opening fair value of scheme assets	46,173
Interest on scheme assets	1,436
Remeasurement gains / (losses) on assets	(1,903)
Contributions by employer	1,849
Contributions by scheme participants	727
Benefits paid	(1,981)
Acquisitions and disposals on assets	(2,490)
Closing fair value of scheme assets	43,811

25. Pensions (continued)

Association

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

	2016 £'000
Amounts credited / (charged) to operating expenditure:	
Current service cost	(1,015)
Employer contributions paid	948
Total operating credit / (debit)	(67)
Amounts included in interest payable:	
Interest on net defined benefit liability	(276)
Remeasurement gain / (loss) recognised on defined benefit pension scheme	867
Opening pension scheme liability as at 13 April 2015 charged to the Consolidated Statement of Comprehensive Income	(9,138)
Total credit / (debit) to the Consolidated Statement of Comprehensive Income	(8,614)

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

Present values of provision

	2016 £'000
Present value of funded obligations	(18,224)
Fair value of scheme assets	9,610
Net pension liability	(8,614)

25. Pensions (continued)

Reconciliation of opening and closing provisions

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

	2016
	£'000
Opening defined benefit obligation	(17,742)
Current service cost	(1,015)
Interest on scheme liabilities	(569)
Actuarial gain / (loss)	1,376
Contributions by scheme participants	(300)
Benefits paid	26
Closing defined benefit obligation	(18,224)

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

	2016
	£'000
Funded	(18,224)
Closing defined benefit obligation	(18,224)

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

	2016
	£'000
Opening fair value of scheme assets	8,604
Interest on scheme assets	293
Remeasurement gains / (losses) on assets	(509)
Contributions by employer	948
Contributions by scheme participants	300
Benefits paid	(26)
Closing fair value of scheme assets	9,610

25. Pensions (continued)

The following information applies to both the Group and the Association:

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

	2016
	%
Equities	40.8
Property	8.0
Cash	32.0
Government bonds	9.0
Corporate bonds	10.2

The principal actuarial assumptions as at the reporting date were:

	2016
	%
Discount rate	3.5
Rate of increase in salaries	3.0
Rate of increase in pensions in payment	1.9
Rate of increase in deferred pensions	1.9
Inflation (consumer price index)	1.9
Salary increase	3.4

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:

	2016
Males	
Future lifetime from age 65 (aged 65 at accounting date)	22.6
Future lifetime from age 65 (aged 45 at accounting date)	24.8
Females	
Future lifetime from age 65 (aged 65 at accounting date)	25.1
Future lifetime from age 65 (aged 45 at accounting date)	27.4

26. Capital commitments

	Group 2016 £'000	Association 2016 £'000
Capital expenditure		
Expenditure contracted for, but not provided for in the in the financial statements	3,148	1,578
Expenditure authorised by the board, but not contracted	-	-
	3,148	1,578

The above commitments will be financed primarily through borrowings (£115.0m), additional drawdown available of (£35.0m) and cash balances (£7.9m).

27. Net cash inflow from operating activities

Group	**2016 £'000**
Surplus for the period	11,440
Adjustments for non-cash items:	
Pension adjustment	10,921
Depreciation of tangible fixed assets	2,807
Surplus on sale of housing properties	(1,422)
Interest payable charged to other activities	-
(Increase) in properties for sale	-
(Increase) in stock	(27)
(Increase) in debtors	(5,392)
(Decrease) in creditors	10,714
Adjustments for investing or financing activities:	
Interest payable	4,803
Interest received	(46)
Net cash flow from operating activities	33,798

28. Operating leases

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

	Group 2016 £'000	Association 2016 £'000
Land and buildings		
Payments due:		
Not later than one year	249	88
Later than one year and not later than five years	845	265
Later than five years	330	-
	1,424	353

29. Related party transactions

Group

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

The 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 the following tenant board members during the financial period:

- County Durham Housing Group Board: 2 tenant Board members
- Dale & Valley Homes Board: 4 tenant Board members
- Durham City Homes Board: 4 tenant Board members
- East Durham Homes Board: 2 tenant Board members

Their tenancies are on normal commercial terms and they are not able to use their position to their advantage.

Aggregate rent charges relating to tenant board members were £50,068, payments received were £51,219. There were no amounts owing at 31 March 2016 from tenant board members.

David Boyes, a member of the County Durham Housing Group Board, is Vice-Chair of East Durham College. During the period £1,175 was paid to East Durham College by the Group for training services. There was no balance outstanding at 31 March 2016. This was incurred on a normal commercial basis and David Boyes is not able to use his position to the advantage of either party.

29. Related party transactions (continued)

Patrick Conway, a member of the Durham City Homes Board, is Chairman of the County Durham Citizen's Advice Bureau. During the period £52,248 was paid to the Citizen's Advice Bureau for debt advice services provided to Dale & Valley Homes. At the 31 March 2016 £14,490 was included within creditors as payable to the County Durham Citizen's Advice. This contract was agreed on normal commercial terms and Patrick Conway is not able to use his position to the advantage of either party.

The following Board members are councillors at Durham County Council:

- Eddie Tomlinson
- David Boyes
- John Turnbull
- Mark Wilkes
- Patrick Conway
- Christine Wilson
- Fraser Tinsley
- Samual Zair
- Geraldine Bleasdale
- June Clark
- Kevin Shaw

There are a number of contractual arrangements between the Group and Durham County Council including various service level agreements and transfer commitments. During the period the Group incurred £9,703,217 of expenditure with Durham County Council. At 31 March 2016, £43,217 was owed by the Group to Durham County Council and included within creditors.

The Group also receives income from Durham County Council for specific services and arrangements provided by the Group. During the period the Group received income of £613,985. At the 31 March 2016 £4,555 was owed by Durham County Council to the Group and is included within debtors.

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.

Association

The Association is the social landlord for three shared ownership properties. None of the tenants of these three properties were Board members in the financial period.

The Parent Board had two councillors as Board members in the period, Eddie Tomlinson and David Boyes. Related party transactions are disclosed above as part of the Group disclosure.

30. Financial assets and liabilities

	Group 2016 £'000	Association 2016 £'000
Categories of financial assets and liabilities		
Financial assets that are debt instruments measured at amortised cost	-	-
Financial assets that are equity instruments measured at cost less impairment	-	-
Financial liabilities measured at amortised cost	113,484	113,484
	113,484	113,484

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 19.

Financial liabilities held at amortised cost are the Group's debt and creditors. Details behind the debt instrument conditions, interest charges and repayment terms can be found in Note 23.

31. Contingent liabilities

As part of the transfer of stock from Durham County Council, the Group took ownership of 95 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 £5.034m. 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 Group 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 end of the reporting period, a provision will be recognised in the Group's financial statements for the full value of the repayment to be made to the Homes and Communities Agency.

32. VAT Shelter arrangement

The transfer agreement between Durham County Council and County Durham Housing Group includes a VAT sharing arrangement from the established VAT shelter agreed with HMRC. At transfer the Group contracted with Durham County Council to acquire the benefit of the agreed qualifying works (£318.689m) plus the housing properties at a price equal to the agreed value of the properties in their existing condition (£114.4m).

This arrangement has enabled the Group to recover VAT on qualifying works relating to repair and improvement costs that would otherwise have been expensed.

At 13 April 2015 County Durham Housing Group paid over to Durham County Council a net cash amount of £114.4m which represented the value of the properties transferred in their current condition, plus the value of the qualifying works of £318.689m, less the amount due to be incurred by County Durham Housing Group under the Development Agreement in relation to the anticipated cost of the qualifying works.

The impact of these two transactions is that whilst Durham County Council has a legal obligation to the Group to complete the improvement works; this work has been contracted back to the Group who are also legally obligated. The underlying substance of the transaction is therefore that the Group acquired the housing properties in their existing condition at their agreed value, and will complete certain qualifying works in repairing and improving properties as necessary and in line with commitments to tenants which will be accounted for when incurred or committed to.

At the 31 March 2016 £3.1m has been received by the Group under the VAT shelter scheme, of which 50% has been paid to Durham County Council.

33. Transition to FRS102

Group and Association

This report represents the first period of accounts for County Durham Housing Group. The financial statements have been prepared in accordance with FRS 102 and the Housing SORP 2014. There are no adjustments or restatements of balances required as no comparative information is reported.

34. Ultimate parent undertakings and controlling party

The ultimate parent undertaking and controlling party is County Durham Housing Group Limited, a Co-operative and Community Benefit Society and a registered provider incorporated in the UK.