Dale & Valley Homes Limited

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

Co-operative and Community Benefits Society registered number: 7048

HCA registered number: 4575

Contents

Board Members, Executive Directors, Advisors and Bankers

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

Board members
Helen Campbell
Hazel Dale (appointed 22 September 2015)
Terry Dean
John Flynn (retired 22 September 2015)
Kenneth Goddard (retired 22 September 2015)
Olwyn Gunn (retired 22 September 2015)
Derek Beard
Dorothy Irvine
Charles Kay
John Lethbridge (resigned 22 July 2015)
Lesley Mellis
Douglas Ross (resigned 18 August 2015)
Colin Stockwell
Peter Studd (appointed 22 September 2015)
Fraser Tinsley (appointed 22 September 2015)
Christine Wilson
Samual Zair

Chief Executive	Bill Fullen
Executive Directors	Alan Smith, Group Director of Finance and Resources and Company Secretary Marie Roe, Group Director of Performance and Business Development Ged Walsh, Group Director of Assets and Regeneration
Managing Director	Peter Chaffer (retired 31 July 2016)

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 Dale & Valley Homes is pleased to present its Annual Report and Financial Statements for the period ended 31 March 2016.

This Annual Report and Financial Statements covers the period from 13 April 2015 to the 31 March 2016 and represents the first operating period of Dale & Valley Homes as a registered provider of social housing.

Strategic Report

Corporate structure and business model

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

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

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

- County Durham Housing Group, the parent of the Group, a charitable Co-operative and Community Benefit Society and registered provider;

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

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

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

The diagram on page 5 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	Durham City Homes	East Durham 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 Dale & Valley Homes as an organisation only. References in this Annual Report and Financial Statements to 'the Group' refer to County Durham Housing Group and its subsidiaries collectively.

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

Objectives and strategy

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

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

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

Our Values

The group wide values and beliefs are:

People first

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

Outstanding delivery

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

Proud communities

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

Our Objectives

In 2015/16, Dale & Valley Homes, along with its fellow subsidiaries, adopted the Group's 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 Parent Board in March 2016 and sets out the transformational vision for the Group. It reaffirms the commitment to the delivery of outstanding homes, neighbourhoods and services and to the belief in a life without barriers.

The Group corporate plan is underpinned by the local delivery plans developed by Dale & Valley Homes and its fellow subsidiaries which set out the details of how these objectives will be achieved:

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 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 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 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 the 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 the Group's reputation, assuring key stakeholders of the sound business and governance structures in place 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 entire 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 Association and the Group as a registered provider of social housing.

The reduction in rent by 1% for the next four years, together with wide reaching welfare changes, has major implications on the Association and 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 group wide by around £21m over the next four years. Over the course of our 30 year business plan, the effects equated to approximately £350m across the entire Group.

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 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 Association reports a surplus of £3.476m compared to an original budgeted surplus of £6.268m and total comprehensive income for the period of £3.746m.

There are a number of one-off costs recharged from the parent entity that are included within operating expenditure and are as a result of being a newly established Group, in particular the recognition of the pension liability at transfer.

This cost was not part of the Association's operating budget (as it was unknown) but has been charged to expenditure in the period. If this cost was removed from the reported total comprehensive income the position would be as follows:

	2016 £'000	**2015 £'000**
Total comprehensive income as stated in the Statement of Comprehensive Income	**3,746**	**(598)**
- Recharged parent company costs relating to initial recognition of the pension liability	2,362	-
Operational surplus / (deficit) excluding one off costs	**6,108**	**(598)**

Statement of Financial Position

The Statement of Financial Position reports a total net liabilities position of £54k at the 31 March 2016 (2015: £3.800m). The key components of the Statement of Financial position are the Association's social housing properties, the intra-group loans and the Association's pension liability which are explained in further detail below.

Fixed assets

All of the Association's housing properties are categorised as tangible fixed assets as their intended use is for the social benefit they provide. The Association's properties are stated at cost and at the 31 March 2016 are reported at a net book value of £32.393m.

Pensions

The Statement of Financial Position incorporates the Association's pension liability for the Durham County Council Pension Fund ('the Pension Fund') of £3.140m at 31 March 2016 (2015: £3.800m).

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 Association's outstanding loans with County Durham Housing Group under the Intra-Group Loan Agreement of £26.051m. At the date of transfer, a £150m loan facility was agreed by County Durham Housing Group; £75m with M&G Investment Management Limited ('M&G') and £75m with Barclays Bank PLC ('Barclays'). This facility is then lent on by County Durham Housing Group to Dale & Valley Homes under the Intra-Group Loan Agreement under the same terms and conditions as the original funding agreement.

The loans have been accounted for as basic financial instruments under FRS 102 and are 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 loan agreement, specifically in relation to the inclusion in the loan agreement of a two way breakage clause which allows for compensation in the event of early repayment of the loan to be paid either to the funder or back to the borrower. This judgement has been applied based on the following considerations:

- In the event of early repayment of the loans the amounts repaid to funders would be the principal and interest owed with a separate amount calculated relating to the compensation payable due to breaking the loan agreement early. This amount could either be payable by the Group to the funders or vice versa, however, it would be a separate calculation to the repayment of the principal loan amount and interest and is considered to be a separate cash flow.
- The guidance set out in FRS 102 is intended to have the same outcome when classifying loans with breakage costs and breakage gains, rather than different conclusions.
- The interest rate fixed within the loan agreement is part of the Group's overall arrangements to manage interest rate risk and is not considered to be or planned to be an instrument that could be traded separately from the loan agreement.

Interest rate risk

Exposure to future movements in interest rates is managed by entering into a fixed interest rate arrangement. All loans drawn down as at 31 March 2016 were at fixed rates which apply to the intra-group loans held by Dale & Valley Homes. Details of the terms and conditions of the funding arrangements are set out in note 20 to the financial statements.

Financial performance analysis

The following financial performance indicators have been calculated to assess the Association'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 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 table shows a range of financial indicators demonstrating how we understand the Association's performance in the context of the other subsidiaries within the Group as well as the wider social housing sector (note – the figures below have been calculated excluding pension liability recognition costs associated with the establishment of the Group):

	Dale & Valley Homes 2015-16	**Durham City Homes 2015-16**	**East Durham Homes 2015-16**	**Benchmark 2014-15**
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 (earnings before interest, tax, depreciation and amortisation, major repairs included (EBITDA MRI) as a proportion of interest costs)	161%	131%	153%	187%

Dale & Valley Homes reports a strong operating margin which is 16% above the sector benchmark figure. Driven by this underlying performance, retained surplus is also strong, being more than twice the average reported by the peer group.

Debt per unit in Dale & Valley Homes is £6,206 per unit, only around a third of the average level of debt per unit reported by the peer group, reflecting the comparatively low cost per unit paid for the housing stock at transfer.

Interest cover is below the peer group benchmark level, having been impacted by the comparatively high spend on capital works during 2015/16 and also by a relatively low depreciation charge based on the low social housing property cost.

Performance

Key Performance Indicators

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

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

KEY:

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

Indicator	Collective Target	Tolerance	Actual performance	Target Met
<u>Finance and Business</u>				
Rent Collection & Arrears				
Rent collected as a % of annual rent owed (exc. arrears b/f)	**99.70%**	**99.00%**	**99.37%**	😐
Current tenant rent arrears as a % of annual rent debit (exc. HB adjustment)	**2.00%**	**2.40%**	**1.30%**	☺
Former tenant rent arrears as a % of annual rent debit (exc. HB adjustment)	**1.80%**	**2.20%**	**0.85%**	☺
Personal debt as a % of annual rent debit (exc. HB adjustment)	**n/a**	**n/a**	**0.12%**	**n/a**
Proportion of tenancies with more than 7 weeks rent arrears (%)	**4.00%**	**4.50%**	**2.17%**	☺
Proportion of rent collected through direct debit (%)	**21.00%**	**18.00%**	**15.56%**	☹
Proportion of tenancies evicted through rent arrears (%)	**0.30%**	**0.40%**	**0.07%**	☺
Costs				
Percentage of voids budget spent (%)	**n/a**	**<100**	**323.79%**	☹
Percentage of responsive repairs budget spent (%)	**n/a**	**<100**	**110.51%**	☹
Tenant and Stakeholders				
Proportion of dwellings untenanted (%) (overall)	**1.20%**	**1.40%**	**1.40%**	😐
Proportion of dwellings untenanted (%) (available to let)	**0.50%**	**0.60%**	**0.71%**	☹
Proportion of dwellings untenanted (%) (unavailable to let)	**0.70%**	**0.80%**	**0.69%**	☺
Average re-let time for Dwellings (calendar days) (Standard Voids)	**28.00**	**32.00**	**24.55**	☺
Average re-let time for Dwellings (calendar days) (Major Works Voids)	**60.00**	**65.00**	**43.79**	☺
Proportion of Rent Lost through Dwellings being Vacant (%)	**1.40%**	**1.60%**	**1.10%**	☺
Tenancy turnover rate (%)	**8.00%**	**10.00%**	**9.51%**	😐
Proportion of new tenancies lasting less than 12 months (%)	**5.50%**	**6.00%**	**4.02%**	☺
Operational Excellence				
Proportion of responsive repairs appointments kept (%)	**99.60%**	**99.00%**	**99.85%**	☺
Proportion of emergency repairs completed within timescales (%)	**99.90%**	**99.50%**	**99.98%**	☺

Proportion of repairs complete in one visit (%)	**98.00%**	**96.00%**	**95.67%**	☹
Proportion of decent homes (%)	**100.00%**	**99.90%**	**100.00%**	**n/a**
Proportion of dwellings with a valid gas safety certificate (%)	**100.00%**	**99.90%**	**100.00%**	☺
Learning and Innovation				
Tenant satisfaction with the handling of their formal complaint (out of 10)	**7.00**	**6.50**	n/a	n/a
Average time to respond to Stage 1 complaints (calendar days)	**14.00**	**15.00**	**9.64**	☺
Average days lost to sickness	**7.00**	**10.00**	**8.74**	😐

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

- Proportion of rent collected through direct debit;
- Percentage of voids budget spent;
- Percentage of responsive repairs budget spent;
- Proportion of dwelling untenanted (available to let); and
- Proportion of repairs completed in one visit.

In 2016/17, two group wide service reviews have been commissioned by the Group's Executive Management Team. The first is examining voids as a result of the costs expended on void properties in 2015/16 and the second is a review of the income processes and procedures, including arrears.

The outcome of these service reviews will be reported during 2016/17 along with a proposed action plan to help improve performance in these areas. The impact of overspends in voids and responsive repairs budgets in 2015/16 was offset by underspends in other areas.

Understanding and benchmarking our costs

Having a clear understanding of the costs and performance in delivering our key services is vital to be able to strategically manage resources in order to reshape and improve the efficiency and effectiveness of services delivered.

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 period.

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.

Understanding our costs

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 DVH	**2015-16 DCH**	**2015-16 EDH**
Management	**£4,319,295**	£5,559,863	£7,737,384
Service Charge Cost	**£81,198**	£460,725	£365,199
Routine Maintenance	**£3,095,765**	£4,435,206	£6,465,692
Planned Maintenance	**£999,913**	£1,352,035	£2,160,002
Major Repairs Expenditure	**£0**	£448,481	£536,016
Capitalised major repairs and re-improvements	**£5,644,872**	£8,342,446	£8,980,267
Other social housing activities	**£10,249**	£65,571	£110,828
	£14,151,292	£20,664,327	£26,355,389
Social Housing Units	**4,198**	5,848	8,222
Social Housing Cost per Unit	**£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 Dale & Valley Homes' social housing cost per unit is between that of the other two subsidiaries.

The social housing cost per unit for Dale & Valley Homes is below the weighted sector mean and the mean of the 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 are below the weighted sector mean. The HCA's analysis also highlights that supported housing costs can increase the social housing cost per unit in housing associations and there is no supported housing in Dale & Valley Homes which is also likely to impact the comparison with the sector mean.

The HCA have also provided sector-wide benchmark figures for each cost category that makes up the headline social housing cost per unit as follows:

Cost per unit	**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	**£1,048**	£1,030	£985	*£1,540*	*£1,360*	*£1,271*
Maintenance	**£976**	£990	£1,049	*£1,010*	*£980*	*£1,016*
Major repairs	**£1,345**	£1,503	£1,157	*£930*	*£800*	*£963*
Other social housing activities	**£2**	£11	£13	*£470*	*£200*	*£342*

The analysis shows that management and service charge costs per unit are lower than the sector benchmark figures. The Dale & Valley Homes figure is 32% below the HCA sector mean, but only 18% below the benchmarking peer group mean, suggesting costs are more closely aligned to other organisations with similar stock numbers. Management costs are likely to be below average partly due to location as office costs, staffing costs and other overhead costs tend to be lower in the North East of England compared to the rest of the country.

Maintenance costs per unit are also lower than the sector benchmarks – the Dale & Valley Homes position is around 3.5% below the sector mean. Whilst this partly reflects lower staffing costs and overheads related to maintenance, it also reflects the fact that major work to bring a significant number of the Association's properties up to Decent Homes Standard was only recently completed. As such, these properties remain in good condition and generally have reduced maintenance requirements.

The per unit major repairs costs are higher than the sector benchmark figures, with the Dale & Valley Homes position being 45% higher than the sector mean and 40% above the benchmarking peer group mean. Independently from this analysis we have identified that high capital void costs are being incurred by all three subsidiaries therefore this is now the subject of a group wide service review. It is likely that the high capital void costs identified are a significant driver behind our major repairs costs being higher than the peer group.

Other social housing costs per unit are significantly lower than the HCA benchmarks. This is due to the fact the Association 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 a review of how our costs are classified will be performed to understand whether there are 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 Association and the Group in its first year of operation, where set up costs in excess of £2million have been incurred by the Group. 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 from Arm's Length Management Organisations to a registered provider of social housing, has involved separating costs from Durham County Council and apportionment of budgets. This means that cost comparisons 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 Association and 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

Strategic risks are established at a Group level through the Risk Management Framework ('RMF'). The strategic risk register established prior to the stock transfer was reviewed through a workshop held on 15 September 2015. The workshop involved Board Members working alongside the Executive Management Team and other officers from across the Group. This workshop reviewed the current risk register and began a process of reviewing risk appetite defined within the Risk Management Framework.

The following strategic risks were identified as key risks:

- **Asset Management:** Inadequate asset management arrangements lead to poor investment decisions.
- **Health and Safety:** Inadequate health and safety arrangements lead to injuries or illness, reduced productivity, and poor staff morale.
- **Agile Business:** the Group does not adapt quickly to insight on the changing operational environment leading to potential financial risk, missed opportunities and timely decision making.
- **Workforce Management:** Poor management of workforce matters may result in poor employee relations, failure to retain key skills and experience and failure to deliver services effectively.
- **Reputation**: Lack of organisational commitment to effective Board and Management oversight, strong communication, and focus on quality and operational performance leads to poor reputation.
- **Political Uncertainty:** Failure to understand the impact of political uncertainty and future political decisions on the Business Plan and service delivery.
- **IT Strategy:** Inappropriate IT strategy leads to poor value for money, poor customer services and ineffective business processes.
- **Robust Financial Management:** Ineffective financial management leads to poor value for money, inability to ensure cash flow and covenant compliance, resulting in regulatory downgrading.
- **Fraud:** Internal or external fraud leads to financial loss and / or reputational damage.
- **Welfare Reform:** Failure to model the financial impact on income streams through welfare reforms results in an inability to deliver the business plan and services.
- **Governance and Compliance:** Insufficient skilled resource, technical infrastructure, and inappropriate governance arrangements leading to potential for data loss, financial loss, poor decision making, reputational damage or unsatisfactory regulatory grading.
- **Business Continuity Arrangements:** Business continuity arrangements are not sufficiently resilient resulting in the Group being unable to operate effectively.
- **Data Quality**: Poor data quality results in the Group being unable to determine accurate business performance and make properly informed business decisions.
- **Procurement and Contract Management**: Ineffective procurement or contract management prevents the Group meeting its business objectives.

Dale & Valley Homes has an operational risk register which is based on the strategic risks highlighted above and is reviewed each quarter by the Board.

Value for Money (VFM)

The complete VFM self-assessment for the Group sets out in full details of the approach to VFM, involvement in VFM from different groups and stakeholders and provides detailed examples of VFM. The following section provides a summary of this information relevant to Dale & Valley Homes. For full details of the Group's self-assessment see the link on page 16.

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. In the face of such challenges, optimising resources to achieve better services for customers isn't just value for money, but also good business sense. With this at the forefront of our thinking, we have developed a VFM 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.

VFM actions were incorporated into Dale & Valley's local delivery plan which was approved by the Board in March 2015.

The VFM working group is overseen by the Parent Board and reports annually to the Parent 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 Board reports include a section covering the VFM implications of the report and this helps to ensure the Board maintain their oversight of VFM.

Establishing a value for money culture

Processes have been developed and implemented 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, 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 wide 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.

Return on assets

Understanding our assets

As at 31 March 2016 Dale & Valley Homes owns and manages 4,198 general needs social housing properties. These properties account for 23% of the Group's total housing stock and properties and is predominantly located in Bishop Auckland, Crook and rural west of County Durham.

Our asset management strategy (AMS)

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

The AMS provides a framework for identifying the range and type of homes provided 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 a financial appraisal tool entitled "Financial Assessment Tool and Asset Locator" – FATAL – has been developed during 2015/16.

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 assess:

- 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 16.

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 the 2015/16 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 2014/15 financial statements of registered providers of social housing. The return on assets for Dale & Valley Homes is as follows:

Dale & Valley Homes (4,198 units)	**2015-16 £'000**	**2014-15 Benchmark £'000**
Operating Surplus (excluding one-off recognition of pension liability)	6,852	8,885
Housing Property NBV	32,393	164,069
Return on Assets	21.2%	5.4%

Dale & Valley Homes has reported an operating surplus which is 23% lower than the sector benchmark; however it has generated a return on assets which is more than three times the sector benchmark figure. This is due to the significantly lower net book value of the housing properties, when compared to our peers. The NBV of the housing 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 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 our involved tenants at the same time, rather than separately for each subsidiary landlord.	A saving of £1,674 for Dale & Valley Homes.
Subscribing to benchmarking organisation Housemark as one Group, rather than three separate landlords.	An annual saving of £10,221.
Dale & 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.
Dale & Valley Homes carried out a procurement exercise for their solid fuel servicing work.	A cost saving of £10,000 per annum was realised.
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.
Investment programme costs were reduced by 12% in 2015-16 in response to the 2015 Summer Budget.	A group-wide saving of £2.5m realised without any adverse impact on the programme's outcomes.

Actions	Outcomes
Renegotiating the lease terms on our commercial properties.	£17,000 additional annual income for the Group, corresponding to £565,000 extra income over the life of the leases.
Dale & 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 & Valley Homes secured external funding to extend the Mickle Grove community 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.
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.
Securing £11,500 of external funding to provide the 'Time to get online' digital inclusion project.	Significant social value in improving the knowledge and confidence of tenants with regards digital technology and the internet.

Governance arrangements

The governance structure implemented across the Group at transfer in April 2015 has proved to be inefficient.

Four Boards operate across the Group, 45 Board Members have been in position at various points across the first year of operation and there have been 63 Board and Committee meetings held during the period. 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 HCA conducted an In-Depth assessment of the Group from November 2015 to March 2016 resulting in a G2/V2 grading – defined as 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, the positive action taken in commissioning a governance review so early in the Group's life cycle and the good use the Group has made of internal audit services to objectively assess governance arrangements.

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 initiated in January 2016. The review was 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 agreed brief was for Altair to identify a more efficient and effective governance structure for the Group. Approved recommendations from that review will be implemented throughout 2016/17.

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 ways 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 £4million savings target set out as part of the Regroup programme.

Internal controls assurance statement

The internal control framework is designed to manage and mitigate, as far as possible, the significant risks that may threaten its ability to meet strategic objectives. It can only provide reasonable, not absolute, assurance against material misstatement or loss.

The Board cannot delegate ultimate responsibility for ensuring there are effective systems of control throughout, however the Group wide 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 activities across the Group and the risk management framework. Assurance on the efficiency, economy and effectiveness of services and operations is obtained by placing reliance on the 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 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 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 governance structure of the Group, deliver an agreed savings target and introduce a single housing management system to improve operational efficiency.

Strategic Risk Management

- An approved RMF that sets out a high level Board statement of risk attitude and tolerance, together with a Group wide 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 year;

- 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; and

- 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*.'

There is an ongoing process to identify, evaluate and manage key strategic risk exposures and this has been in place throughout the 2015/16 financial year. 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 Board on the effectiveness of control systems in place for the financial year ended 31 March 2016.

The Board has 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. It has not identified any weaknesses which resulted in material losses or contingencies or other uncertainties which require disclosure in the financial statements.

National Housing Federation Code of Governance

The 2015 NHF Code of Governance was adopted across the Group 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 review of the HCA's Governance and Financial Viability Standards has identified one area of non-compliance with the code of governance which is explained further above.

With this exception the Board confirms compliance with the HCA's Governance and Financial Viability Standards.

Employee involvement

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

The Group is committed to 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 Executive Management Team. 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 service level agreement 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 approach to equal opportunities is set at a Group level and is summarised below.

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 on the grounds of age, sex, race / ethnicity / origin, disability, religion, sexual orientation, marital status or familial / caring responsibilities will not be tolerated. The Group aims to ensure that prospective and current employees are afforded equal and fair treatment in relation to recruitment, selection, terms and conditions or employment, training and promotion. Recruitment and promotion are made purely on merit and based on fair and equitable job related criteria.

Employees with disabilities

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

The Group's policy is that people with disabilities should have full and fair consideration for all vacancies and, where it is possible 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 year 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 Association's auditors are unaware; and

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

Independent auditors
Following a competitive tender process, Grant Thornton UK LLP were appointed as Independent Auditors for Dale & Valley Homes.

The Report of the Board, including the Strategic Report, Value for Money and the Statement of Board members' responsibilities, was approved on the 13 September 2016 and signed on behalf of the Board by:

Chair of the Board

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

We have audited the financial statements of Dale & Valley Homes Limited for the period ended 31 March 2016 which comprises the Statement of Comprehensive Income, the Statement of Changes in Reserves, the Statement of Financial Position and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including 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 Section 87 of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the society and the society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the board and the auditor

As explained more fully in the Statement of Board Member's Responsibilities 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 Association's affairs as at 31 March 2016 and of its income and expenditure for the period then ended;
- 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 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

Statement of Comprehensive Income

	Note	2016 £'000	2015 £'000
Turnover	3	15,609	6,153
Operating expenditure	3	(11,119)	(6,735)
Operating surplus / (deficit)	6	4,490	(582)
Gain/(loss) on disposal of property, plant and equipment (fixed assets)	7	176	-
Interest receivable	8	-	4
Interest payable and finance costs	9	(1,190)	(110)
Surplus / (deficit) on ordinary activities before taxation		3,476	(688)
Tax on surplus on ordinary activities	13	-	-
Surplus / (deficit) for the period		3,476	(688)
Remeasurement gain/(loss) in respect of pension scheme	22	270	(1,040)
Total comprehensive income for the period		3,746	(1,728)

The reported results relate wholly to continuing activities.

The accompanying notes form part of these financial statements.

The financial statements on pages 34 to 66 were approved and authorised for issue by the Board on 13 September 2016 and signed on its behalf by:

Chair of the Board Board Member Company Secretary

Statement of Changes in Reserves

	Income and Expenditure Reserve £'000
Balance as at 13 April 2015	(3,800)
Surplus for the period	3,476
Other comprehensive income for the period	270
Balance as at 31 March 2016	**(54)**

Statement of Financial Position

	Note	2016 £'000	2015 £'000
Fixed assets			
Tangible fixed assets- housing properties at cost	14	32,393	-
Tangible fixed assets- other	15	-	50
Total fixed assets		32,393	50
Current assets			
Debtors	16	10,011	-
Cash at bank and in hand		36	-
		10,047	-
Creditors: amounts falling due within one year	17	(13,125)	(50)
Net current liabilities		(3,078)	-
Total assets less current liabilities		29,315	-
Creditors: amounts falling due after more than one year	18	(26,051)	-
Provision for liabilities			
Pension provision	22	(3,140)	(3,800)
Other provisions	19	(178)	-
Total net assets		(54)	(3,800)
Reserves			
Income and expenditure		(54)	(3,800)
Total reserves		(54)	(3,800)

The accompanying notes form part of these financial statements.

The financial statements on pages 34 to 66 were approved and authorised for issue by the Board on 13 September 2016 and signed on its behalf by:

Chair of the Board   Board Member   Company Secretary

Notes to the financial statements

1. Legal status

Dale & Valley Homes is registered under the Cooperative and Community Benefit Society Act 2014 and is a registered provider of social housing.

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 Association's business activities, its current financial position and factors likely to affect its future development are set out within the Strategic Report. The Association is a subsidiary of County Durham Housing Group which has in place long-term external debt facilities to provide adequate resources to finance committed reinvestment and development programmes, along with the day to day operations to the subsidiaries. The Group also has a long-term business plan which shows that it is able to service these debt facilities whilst continuing to comply with lenders' financial covenant requirements.

On this basis, the Board has a reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future, being a period of at least twelve months after the date on which the 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:

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.

2. Accounting policies (continued)

Significant management judgements (continued)

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 period end are allocated to the subsidiary companies based on its funding purpose which was the purchase of the housing stock at transfer.

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

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

- 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.

2. Accounting policies (continued)

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 Association has obligations to pay pension benefits to employees. The cost of these benefits and the present value of the obligation depend on a number of factors including: life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends.

Recoverability of debtors: the Association makes an estimate of the recoverable value of rental, trade and other debtors. When assessing the recoverability of these balances, management considers factors including the ageing profile of debtors, performance information and historical experience of recovering outstanding balance. See note 16 for the net carrying amount of debtors and the associated bad and doubtful debt provision.

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

Turnover and revenue recognition

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

2. Accounting policies (continued)

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.

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

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

Financial liabilities

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

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

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.

2. Accounting policies (continued)

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.

Pensions

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

Scheme assets are measured at their fair values. Scheme liabilities are measured on an actuarial basis using the projected unit credit method and are discounted at appropriate high quality corporate bond rates. The net surplus or deficit is presented separately from other net assets on the Statement of Financial Position. A net surplus is only recognised to the extent that it is recoverable by the Association through reduced contributions or through refunds from the plan.

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

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 13 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.

2. Accounting policies (continued)

Housing properties (continued)

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

Depreciation of housing properties

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

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

Freehold land is not depreciated.

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

Impairment

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

Where the carrying amount of the asset is deemed to exceed its recoverable amount, an impairment charge is recognised within 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 Association, the recoverable amount will be its fair value less costs to sell.

2. Accounting policies (continued)

Leases

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

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

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

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

Provisions for liabilities

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

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

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

Cash and cash equivalents

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

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

	2016			
	Turnover £'000	Cost of sales £'000	Operating costs £'000	Operating Surplus/ (deficit) £'000
Social housing lettings	15,479	-	(11,013)	4,466
Other social housing activities	-	-	-	-
Activities other than social housing activities				
Lettings	24	-	-	24
Other	106	-	(106)	-
	130	-	(106)	24
	15,609	-	(11,119)	4,490

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

	2015			
	Turnover £'000	Cost of sales £'000	Operating costs £'000	Operating surplus/ (deficit) £'000
Social housing lettings	-	-	-	-
Other social housing activities				
Management services	6,153	-	(6,735)	(582)
	6,153	-	(6,735)	(582)
Activities other than social housing activities	-	-	-	-
	6,153	-	(6,735)	(582)

The turnover balance of £6,153k includes an exceptional item of £737k reported in the prior year financial statements. This related to the surplus on reserves that was payable back to Durham County Council on transfer of Dale & Valley Homes from an arms length management organisation to a registered provider of social housing and has been deducted from the turnover figure in the note above.

4. Particulars of income and expenditure from social housing lettings

	General needs housing £'000	Supported housing and housing for older people £'000	Low cost home ownership £'000	2016 Total £'000	2015 Total £'000
Rent receivable net of identifiable service charges	15,212	-	-	15,212	-
Service charges receivable	267	-	-	267	-
Turnover from social housing lettings	15,479	-	-	15,479	-
Management	(6,682)	-	-	(6,682)	-
Service charge costs	(81)	-	-	(81)	-
Routine maintenance	(3,156)	-	-	(3,156)	-
Planned maintenance	(586)	-	-	(586)	-
Major repairs expenditure	-	-	-	-	-
Bad debts	105	-	-	105	-
Depreciation of housing properties	(613)	-	-	(613)	-
Operating costs on social housing lettings	(11,013)	-	-	(11,013)	-
Operating surplus on social housing lettings	4,466	-	-	4,466	-
Void losses	(190)	-	-	(190)	-

Particulars of turnover from non-social housing lettings

	2016 £'000	2015 £'000
Non-social housing		
Commercial units	24	-
	24	-

5. Accommodation in management and development

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

	2016 No. of properties	2015 No. of properties
Social housing		
General housing		
- social rent	4,198	-
Total owned	4,198	-
General housing managed for others	3	4,220
Total owned and managed	4,201	4,220
Leasehold properties	13	-
Other property types		
Commercial units	33	-

The Association does not own or lease any supported housing units.

In 2014/15 the Association managed 4,220 properties in its role as an arm's length management organisation for Durham County Council. These properties were owned by Durham County Council until they were stock transferred on 13 April 2015.

6. Operating surplus

	2016 £'000	2015 £'000
This is arrived after charging :		
Depreciation of social housing properties	616	-
Depreciation of other tangible fixed assets	93	67
Operating lease rentals		
- land and buildings	86	65
- other	-	8
Auditors' remuneration (excluding VAT)	9	16

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

	2016 £'000	2015 £'000
Housing properties		
Disposal proceeds	471	-
Carrying value of fixed assets	(295)	-
	176	-

8. Interest receivable and other income

	2016 £'000	2015 £'000
Bank interest receivable and similar income	-	4
	-	4

9. Interest payable

	2016 £'000	2015 £'000
Loans and bank overdrafts	63	-
Amortisation of borrowing costs	1,017	-
Net finance costs for pensions (see note 22)	110	110
	1,190	110

10. Employees

Average monthly number of employees:	**2016 Number**	**2015 Number**
Administration	18	18
Housing, support and care	63	62
	81	80
Expressed as full time equivalents:		
Administration	18	17
Housing, support and care	58	58
	76	75
Employee costs:	**£'000**	**£'000**
Wages and salaries	1,772	2,302
Social security costs	133	176
Other pension costs	200	330
	2,105	2,808

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 22.

11. Board members remuneration

The board members' aggregate remuneration in respect of qualifying services was £22,752 (2015: £25,894). In addition, board members claimed expenses incurred in attending meetings totalling £3,986 (2015: £1,693).

12. Directors and higher paid staff

Executive Directors – key management personnel

2016

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

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

Executive Directors – key management personnel

2015

	Basic salary £'000	Benefits in kind £'000	Pension contributions £'000	National Insurance £'000	Total £'000
P Chaffer	80	1	8	11	100

The full time equivalent number of staff who received emoluments:

	2016 Number	2015 Number
£60,001 to £70,000	1	1
£70,001 to £80,000	-	-
£80,001 to £90,000	2	2
£90,001 to £100,000	-	1
£100,001 to £110,000	-	-
£110,001 to £120,000	1	-
	4	4

13. Tax on surplus on ordinary activities

	2016 £'000	2015 £'000
Current tax		
UK corporation tax on surplus for the period	-	-
Tax on surplus on ordinary activities	-	-

Factors affecting tax charge for the current period

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

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

	2016 £'000	2015 £'000
Surplus / (deficit) on ordinary activities before taxation	3,476	(688)
Tax on profit at standard UK tax rate of 20% (2015: 20%)	695	(138)
Effects of:		
Non taxable expenditure / (income)	(695)	138
Current tax charge for the period	-	-

Factors that may affect future tax charges

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

14. Tangible fixed assets - housing properties

	Social housing properties held for letting £'000	Non-social housing properties held for letting £'000	Total housing properties £'000
Cost			
At 13 April 2015	-	-	-
Transferred	26,402	1,257	27,659
Works to existing properties	5,425	220	5,645
Disposals	(298)	-	(298)
At 31 March 2016	31,529	1,477	33,006
Depreciation and impairment			
At 13 April 2015	-	-	-
Depreciation charged in the period	(611)	(5)	(616)
Depreciation released on disposal	3	-	3
At 31 March 2016	(608)	(5)	(613)
Net book value			
At 31 March 2016	30,921	1,472	32,393
At 12 April 2015	-	-	-

14. Tangible fixed assets - housing properties (continued)

Financial assistance and other government grant receivable

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

Housing properties book value, net of depreciation

	2016 £'000	2015 £'000
Freehold land and buildings	32,393	-
	32,393	-

Expenditure on works to existing properties

	2016 £'000	2015 £'000
Components capitalised	5,645	-
Amounts charged to income and expenditure	3,742	-
	9,387	-

Impairment

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

There is no impairment provision made in 2015/16.

15. Tangible fixed assets - other

	Furniture fixtures and ICT/office equipment £'000	Total £'000
Cost		
At 13 April 2015	686	686
Transferred	42	42
At 31 March 2016	728	728
Accumulated depreciation		
At 13 April 2015	(636)	(636)
Charged in the period	(92)	(92)
At 31 March 2016	(728)	(728)
Net book value		
At 31 March 2016	-	-
At 12 April 2015	50	50

16. Debtors

	2016 £'000	2015 £'000
Due within one year		
Rent and service charges receivable	1,151	-
Less: provision for bad and doubtful debts	(166)	-
Net rental debtors	985	-
Trade debtors	8	-
Prepayments and accrued income	31	-
Other debtors	587	-
Amounts owed by group undertakings	8,400	-
	10,011	-

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

17. Creditors: amounts falling due within one year

	2016 £'000	2015 £'000
Trade creditors	-	50
Rent and service charges received in advance	132	
Pension creditor	58	-
Other taxation and social security	39	-
Other creditors	3	-
Accruals and deferred income	1,651	-
Amounts owed to group undertakings	11,242	-
	13,125	50

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

	2016 £'000	2015 £'000
Debt	26,399	-
Borrowing costs unamortised	(348)	-
	26,051	-

19. Provisions for liabilities and charges

	£'000
At 13 April 2015	-
Provision made in the period	178
At 31 March 2016	**178**

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

20. Debt analysis

	2016 £'000	2015 £'000
Debt profile		
Bank and building society loans at fixed rates of interest	26,051	-
	26,051	-

Terms of repayment and interest rates

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

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

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

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

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

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

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

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

20. Debt analysis (continued)

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

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

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

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

	2016 £'000	2015 £'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	-

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

	2016 £'000	2015 £'000
Within one year or on demand	-	-
One year or more but less than two years	-	-
Two years or more but less than five years	2,265	-
Five years or more	23,786	-
	26,051	-

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

As at 31 March 2016 the Group had undrawn loan facilities of £35m which is available to all of the Group's subsidiaries through the Intra-Group Loan Agreement.

21. Non-equity share capital

Shares of £1 each issued and fully paid	2016 No	2015 No
At 13 April 2015	-	-
Shares issued during the period	10	-
At 31 March	10	-

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.

22. Pensions

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

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

Funding/Governance Arrangements of the LGPS

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

22. Pensions (continued)

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

	2016 £'000	2015 £'000
Amounts credited / (charged) to operating expenditure:		
Current service cost	(340)	(290)
Employer contribution paid	220	230
Disposals / acquisitions	620	-
Total operating credit / (debit)	500	(60)
Amounts included in interest payable:		
Interest on net defined benefit liability	(110)	(110)
Remeasurement gain / (loss) recognised on defined benefit pension scheme	270	(1,040)
Total credit / (debit) to the Statement of Comprehensive Income	660	(1,210)

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

Present values of provision

	2016 £'000	2015 £'000
Present value of funded obligations	(9,560)	(11,490)
Fair value of scheme assets	6,420	7,690
Net pension liability	(3,140)	(3,800)

22. Pensions (continued)

Reconciliation of opening and closing provisions

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

	2016 £000	2015 £'000
Opening defined benefit obligation	(11,490)	(9,270)
Current service cost	(340)	(280)
Acquisitions / disposals on liabilities	1,920	-
Interest on scheme liabilities	(320)	(420)
Remeasurement gains / (losses) on obligations	500	(1,470)
Contributions by scheme participants	(110)	60
Benefits paid	280	(110)
Closing defined benefit obligation	(9,560)	(11,490)

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

	2016 £000	2015 £'000
Funded	(9,560)	(11,490)
Closing defined benefit obligation	(9,560)	(11,490)

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

	2016 £000	2015 £'000
Opening fair value of scheme assets	7,690	6,680
Interest on scheme assets	210	390
Remeasurement gains / (losses) on assets	(230)	340
Contributions by employer	220	230
Contributions by scheme participants	110	110
Benefits paid	(280)	(60)
Acquisitions and disposals on assets	(1,300)	-
Closing fair value of scheme assets	6,420	7,690

22. Pensions (continued)

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

	2016 %	2015 %
Equities	40.8	43.7
Property	8.0	6.1
Government bonds	32.0	31.3
Corporate bonds	9.0	9.3
Cash	10.2	9.6

The principal actuarial assumptions as at the reporting date were:

	2016 %	2015 %
Discount rate	3.5	3.3
Retail price index inflation	3.0	3.0
Consumer price index inflation	1.9	1.9
Pension increases	1.9	1.9
Pension accounts revaluation rate	1.9	1.9
Salary increases	3.4	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	2015
Males		
Future lifetime from age 65 (aged 65 at accounting date)	22.6	22.6
Future lifetime from age 65 (aged 45 at accounting date)	24.8	24.8
Females		
Future lifetime from age 65 (aged 65 at accounting date)	25.1	25.1
Future lifetime from age 65 (aged 45 at accounting date)	27.4	27.4

23. Capital commitments

	2016 £'000	2015 £'000
Capital expenditure		
Expenditure contracted for, but not provided for in the in the financial statements	170	-
Expenditure authorised by the board, but not contracted	-	-
	170	-

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

24. Operating leases

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

	2016 £'000	2015 £'000
Land and buildings		
Payments due:		
Not later than one year	68	-
Later than one year and not later than five years	272	-
Later than five years	-	-
	340	-

25. Related party transactions

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

County Durham Housing Group consists of the following entities:

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

There were four tenant board members during the period. Their tenancies are on normal commercial terms and they are not able to use their position to their advantage. Aggregate rent charges relating to tenant board members were £18,102, payments received were £18,324. There were no amounts owing at 31 March 2016 (2015: £0) from tenant board members.

The following Board members are councillors at Durham County Council:

- Christine Wilson
- Fraser Tinsley
- Samual Zair

There are a number of contractual arrangements between County Durham Housing Group and its subsidiary organisations and Durham County Council including various service level agreements and transfer commitments. Across the Group expenditure of £9,703,217 was incurred 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.

26. Financial assets and liabilities

	2016 £'000	2015 £'000
Categories of financial assets and liabilities		
Financial liabilities measured at amortised cost	26,051	-
	26,051	-

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 16.

Financial liabilities held at amortised cost are the Association's debt and creditors. Details behind the debt instrument conditions, interest charges and repayment terms can be found in Note 20.

27. Contingent liabilities

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

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

28. Transition to FRS102

The financial statements have been prepared in accordance with FRS 102 and the Housing SORP 2014.

There has been no remeasurement of balances included within the 2015 comparative figures as a result of the transition to FRS 102 and the Housing SORP 2014.

The following presentational changes have been made which have necessitated the inclusion of a restated Statement of Comprehensive Income and Pensions note:

Balance	Original presentation	Change applied	Explanation
Actuarial gain/(loss) on pension scheme	Included within the Statement of Total Recognised Gains and Losses as a separate statement from the Income and Expenditure Account.	Included within the single Statement of Comprehensive Income which is required by paragraph 3.8 of the Housing SORP 2014.	The presentation of the actuarial gain/(loss) has been amended to ensure it is consistent with the requirements of FRS 102 and the Housing SORP 2014. There is no impact on the final reported position.

29. 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.