

**Darlington Housing Association Limited**

**Report of the Board and Financial  
Statements**

**Year Ended 31 March 2017**

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## Board members, executive directors, advisors and bankers

|                            |  |
|----------------------------|--|
| <b>Board</b>               | Linda Bird (appointed 12 October 2016)<br>Neil Bouch (appointed 12 October 2016)<br>Pat Buckley (appointed 12 October 2016)<br>Paul Craggs (appointed 12 October 2016)<br>Trevor Drury (resigned 12 October 2016)<br>Adrian Hill (appointed 12 October 2016)<br>Thomas Hodgson (Treasurer, resigned 12 October 2016)<br>Dorothy Humphreys (resigned 12 October 2016)<br>Karen Lathan (Vice Chair, resigned 12 October 2016)<br>Jed Lester (Chair) (appointed 12 October 2016)<br>Andrew Marshall (appointed 12 October 2016)<br>Morgan McClintock (Deputy Chair, appointed 12 October 2016)<br>Iain Senior (Chair, resigned 12 October 2016)<br>Paul Stephens (Secretary, resigned 12 October, appointed 5 December 2016)<br>Linda Stephenson (resigned 12 October 2016)<br>Martin Waters (appointed 12 October 2016, resigned 5 December 2016)<br>Peter Waugh (appointed 12 October 2016) |
| <b>Chief Executive</b>     | Angela Lockwood  |
| <b>Executive Directors</b> | Emma Speight – Executive Director of Assets and Growth<br>Rachel Taylor – Executive Director of Finance and Business Support and Company Secretary<br>Paul Common – Interim Executive Director of Customers (appointed 12 December 2016)   |
| <b>Registered office</b>   | 72a St Paul’s Place<br>Darlington<br>Co. Durham<br>DL1 2JG   |
| <b>Registered number</b>   | A Registered Society (under the Co-operative and Community Benefit Societies Act 2014) No 21751R<br>Homes and Communities Agency Registered No. LH2346   |
| <b>Auditor</b>             | Ernst & Young LLP<br>Citygate<br>St James’ Boulevard<br>Newcastle upon Tyne<br>NE1 4JD   |
| <b>Principal Bankers</b>   | Lloyds<br>Corporate Markets<br>Lloyds Banking Group<br>25 Gresham Street<br>London<br>EC2V 7HN   |

## Report of the Board

The Board presents its report and the audited financial statements for the year ended 31 March 2017.

### Principal Activity

The principal activity of the Association is the provision of affordable rented accommodation for people with a diversity of needs and aspirations.

### Association Status

The Association is a charitable registered society under the Co-operative and Community Benefit Societies Act 2014 and became a subsidiary of North Star Housing Group Limited (the Group), a non-charitable registered society under the Co-operative and Community Benefit Societies Act 2014 (registered number 30011R) in October 2016.

North Star Housing Group Limited provides central services, such as Finance, ICT, HR and Development to its subsidiaries. The Association purchases these services directly from North Star Housing Group Limited under the terms of an Intra-Group Agreement and Service Level Agreement.

### Results for the Year

The Association had an operating surplus for the year of £238k (2016: £218k) and an overall surplus for the year of £158k (2016: £126k).

### Review of the Year and Future Developments

We are very pleased to report another year of strong performance for the Group.

We experienced economic factors of increasing inflation and a further reduction to interest rates, with the decision to leave the European Union having a significant influence on these factors. The Devolution agenda in Tees Valley has progressed with the establishment of Tees Valley Combined Authority and the election of a Mayor in May 2017. We welcome the opportunities this will bring. Government policy that has impacted or will impact includes annual rent reductions for four years from 1 April 2016, further Welfare Reform (including capping Housing Benefit to the Local Housing Allowance which would have a significant impact upon Supported Housing Income from 1 April 2019) and the rolling out of Universal Credit. The June 2017 General Election result of a minority government brings uncertainty around future policy.

We face many challenges. We work with increasing deprivation, an ageing population, reduced local authority spending and continuing pressures on the housing market. Unemployment in the North East has steadily declined. However, the increase in employment has generally been in part-time and low paid temporary employment. In this challenging operating environment, it is clear that our approach of active risk management, prudent financial controls, regulatory adherence and strategic focus is essential to achieve business strength. We have frontline staff that are trusted, empowered, respected and encouraged to make good decisions based on their knowledge and experience. Our customers have real influence over our services.

We will continue with a strong focus on value for money to support us in achieving our ambitions to assist with the housing crisis by continuing to build new homes.

During the year we continued delivering our Homes and Communities Agency funded development programme and successfully bid for funding through the Shared Ownership and Affordable Housing Programme (SOAHP).

Our strong financial performance is important because of reduced public sector investment and public services which means we have to be more self-reliant. Our financial strength can be attributed to our focus on risk management, highly effective cash management and achieving value for money as further detailed in our comprehensive VFM annual report. Our approach enabled us to save £1.8m during the year to mitigate the impact of the rent reduction.

Our corporate plan Leading and Growing North Star 2018 details our strategic vision that is ambitious, creative and stretching, and requires us to be bold and courageous. We have made excellent progress, including the delivery of 56 new homes, additional growth in managing properties and further inorganic growth with Darlington Housing Association joining the group in October 2016. There are many other achievements, including functional reviews that have led to more efficient ways of working, cultural change placing people at the heart of the business, process improvements, and continued stock and community investment.

## Report of the Board *(continued)*

To enable us to achieve our success we have strong governance and have reviewed and updated governance arrangements in accordance with best practice.

The last twelve months have been challenging and rewarding in equal measure. Our strong performance is shown in the table below.

|   | Darlington Housing Association |         |         |         |                          |
|---|--------------------------------|---------|---------|---------|--------------------------|
|   | Our Target                     | 14/15   | 15/16   | 16/17   | Peer Group average 16/17 |
| Current arrears                                   | 1.75%                          | 0.81%   | 0.60%   | 0.37%   | 1.88%                    |
| Percentage of rent lost through homes being empty | 1%                             | 1.33%   | 1.27%   | 0.64%   | 1.27%                    |
| Average number of days taken to let a home        | 25 days                        | 22 days | 16 days | 13 days | 26.5 days                |

Source: Internal systems/HouseMark

We have achieved high tenant satisfaction, excellent financial results, ambitious development activity and delivery of real efficiencies. However, we continue to seek out areas for improvement as detailed in our comprehensive value for money annual report. A constant in the business has been the hard work and total engagement of North Star colleagues throughout the Group, which is our differentiator and an area that will continue to set us apart.

### Corporate Governance

The Group complies with the current HCA Governance and Financial Viability standard. The Group has an effective risk, governance and business planning framework, which includes:

- Maintaining a thorough, accurate and up to date record of its assets and liabilities, particularly those liabilities that may have a recourse to social housing assets
- Carrying out detailed and robust stress testing against identified strategic risks and combinations of risks across a range of scenarios, and putting appropriate mitigation strategies in place as a result.

In June 2017 a thorough self-assessment was completed, covering the period from 1 April 2016 to 30 June 2017, against all the consumer and economic standards.

The Board has adopted the National Housing Federation's (NHF) Code of Governance 2015 - Promoting board excellence for housing associations. This Code is considered by the Board to be most relevant to the nature of the Group's activities. A self-assessment against the Code has been completed, demonstrating the Board is compliant in all material respects with the requirements. The Board will continue to develop the governance framework to achieve best practice. The Board is committed to high standards of corporate governance, and has also adopted, and is compliant in all material respects with, the NHF's Code of Conduct 2012.

In March 2016 the Group Board fully adopted the National Housing Federation Mergers, Group Structures and Partnerships – a voluntary code for housing associations. DHA joined the Group in accordance with the code.

The Group took the opportunity to review and improve its governance arrangements when DHA joined. The co-terminus board structure was further streamlined, the 2015 NHF model rules were adopted for all the registered societies, share membership was closed, and the Intra Group Agreement was reviewed to ensure it reflected the new Group structure.

## Report of the Board *(continued)*

### Corporate Governance *(continued)*

When DHA joined North Star as a subsidiary, the North Star Board agreed to invite one DHA Board Member to join the Group Boards to facilitate integration and share knowledge of the area and contacts. The only DHA Board Member interested in taking up this position had already served nine years on the DHA Board. The NHF Code of Governance states:

*D2 Maximum tenure must be agreed for all non-executives which must in total be nine years or fewer, composed of two or more consecutive terms of office. This maximum tenure must apply to all board member service with an organisation or its predecessors or its subsidiaries.*

The Boards agreed that good integration was important to the success of the whole Group and, therefore, agreed to appoint this Board Member for a fixed term of 12 months commencing on 5<sup>th</sup> December 2016. North Star, therefore, does not fully comply with section D2 for a period of twelve months.

The Board is the Group's governing body and comprises up to 12 members. Members are drawn from a wide background, bringing professional, commercial, and local experience to their roles. There is in place a detailed Board succession plan, supported by an annual governance effectiveness review and an annual, externally facilitated, Board appraisal process. This review considers the performance of Board as a collective and also the performance of each Board member. In June 2017, the Board reviewed its size and considered it remains appropriate for the effective governance of the Group at the current time. However, moving forward they have agreed membership will be reduced to 10 board members with the reduction linked to a full skills appraisal. Board members are recruited on the basis of their skills. Where two candidates for Board membership have equal skills, Board will opt to recruit the candidate that will best improve the Board's diversity.

In June 2017 Group Board welcomed the outcome of the Regulator's stability check review of the Group's viability which reconfirmed the Group's "...Regulatory Judgement grades as G1/V1". The Group has retained the maximum regulatory ratings of G1 for Governance and V1 for Viability.

The members of the Board who served during the year are set out on page 1. Each member of the Board holds one North Star share of £1. None of the Group Senior Management Team (GSMT) holds any interest in the share capital of the Group. Board member remuneration levels are set with reference to National Housing Federation publications on Board pay with remuneration bands linked to organisations' financial turnover. These arrangements are reviewed at least every three years. They were last reviewed in 2014.

The Board is responsible for the Group's strategy and policy framework. It delegates the day-to-day management and implementation to the Group Chief Executive of North Star Housing Group Limited and the rest of GSMT. GSMT comprises the Group Chief Executive, the Group Executive Director of Customers, the Group Executive Director of Assets and Growth, the Group Executive Director of Finance and Business Support and the Assistant Director of People Services. GSMT meets regularly and members attend meetings of the Board.

The Group has insurance policies that indemnify members of the Board and senior officers against liability when acting for the Group.

### **Employees**

The Association highly values its employees and their continued health and well being. A cultural change process that has led to the organisation working with high levels of trust and accountability has been very successful, as evidenced in our business success. This includes increased surplus, strong key performance indicators, reduced sickness absence to sector best, high levels of efficiency and strong external relations. Our people focus and relationships sets us apart from many other housing providers and helps to keep the Association strong.

### **Value for Money Statement**

The North Star Value for Money Annual Report clearly demonstrates how all members of North Star Housing Group are delivering value for money and achieving the HCA Value for Money Standard. The Report is available on the North Star website – [www.northstarhg.co.uk](http://www.northstarhg.co.uk).

## Report of the Board *(continued)*

### Internal Controls Assurance

The Board acknowledges its overall responsibility for establishing and maintaining the whole system of internal control and for reviewing its effectiveness. This responsibility applies to all organisations within the Group.

The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and to provide reasonable, and not absolute, assurance against material misstatement or loss.

The Board has received the annual review of the effectiveness of the system of internal control for the Association and the Annual Report of the Internal Auditor.

The process for identifying, evaluating and managing the significant risks faced by the Association is ongoing and has been in place throughout the period commencing 1 April 2016 up to the date of approval of the report and financial statements.

Key elements of the control framework include:

- Mapping compliance with the Homes and Communities Agency Regulatory Standards.
- In accordance with the Regulatory Standard on Governance and Financial Viability the Board adopts and complies with the National Housing Federation 2015 Code of Governance 'Promoting board excellence for housing associations'.
- Board approved terms of reference and delegated authorities for Group Audit Committee and ad-hoc working Groups.
- Clearly defined management responsibilities for the identification, evaluation and control of significant risks.
- Robust strategic and business planning processes, with detailed financial budgets and forecasts.
- Formal recruitment, retention, training and development policies for staff.
- Established authorisation and appraisal procedures for all significant new initiatives and commitments.
- The annual review of the effectiveness of the systems of internal control considers risk management, internal audit arrangements, the approach to procurement and fraud. The 2016/17 review concluded that there is sufficient evidence to confirm that adequate systems of internal control existed and operated throughout the year and that those systems were aligned to an on-going process for the management of the significant risks facing the Group.
- An Internal Audit function which agrees an annual programme of work with Group Audit Committee, meets with the Committee (with and without management in attendance) and provides reports to the Committee detailing the levels of assurance for each area reviewed, as well as, an Annual Report. As in previous years the 2016/17 Annual Report concluded that *"...there is reasonable assurance that effective risk management, control and governance processes are in place to manage the achievement of its objectives"*.
- A comprehensive approach to treasury management which is subject to external review on an annual basis.
- Regular reporting to the appropriate body on key business objectives, targets and outcomes.
- Board approved whistle-blowing, anti-theft and corruption policies.
- A regular review of Internal and External Auditors and their periods of appointment.

### Financial Risk Management

The Association's operations expose it to a variety of financial risks including credit risk, interest rate risk and liquidity risk. The Association's principal financial instruments comprise cash and bank deposits, bank loans and overdrafts, other loans and obligations under operating leases, together with debtors and trade creditors that arise directly from its operations.

The main risks arising from the Association's financial instruments can be analysed as follows:

#### *Credit risk*

The Association's principal financial assets are bank balances, cash, and rent debtors, which represent the Association's maximum exposure to credit risk in relation to financial assets.

## Report of the Board *(continued)*

### Financial Risk *(continued)*

The Association's credit risk is primarily attributable to its rent debtors. A detailed arrears monitoring process is in place and the amounts shown in the balance sheet are net of a provision for doubtful debts estimated by the Association's management based on prior experience.

The credit risk on liquid assets is limited because the counterparties are banks that retain high credit ratings with international credit rating agencies.

### *Interest rate risk*

The Group's policy is to ensure that between 60% and 80% of its long term borrowings are held on fixed interest rate arrangements with a range of maturity dates to ensure that the Association's exposure to significant movements in interest rates is limited. The Board monitors the overall level of borrowing and interest costs to limit any adverse effects on the financial performance of the Association.

### *Liquidity risk*

The Association continues to ensure that its liabilities can always be met when due and that adequate liquidity is at all times available to meet unexpected expenditure requirements that may arise from time to time.

### Going Concern

The Association's business activities, together with the factors likely to affect its future development, performance and position are set out in this report and the financial statements.

The Association meets its day to day working capital requirements through the current account, which was cash positive throughout the year. The Association meets its development programme requirements through a combination of grant and debt funding. Note 14 of the financial statements highlights the current level of debt and repayment terms.

The Association's forecasts and projections show that it should be able to continue to operate within the level of its current facilities and no matters have been drawn to its attention to suggest that future funding may not be forthcoming on acceptable terms.

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

### Disclosure of Information to Auditor

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

### Auditor

A resolution to appoint EY LLP as auditor will be proposed at the Board Meeting on 11 September 2017.

### Approval

This report of the Board was approved on 11 September 2017 and signed on its behalf by:



**J Lester**  
*Chair*

Endeavour House  
St. Mark's Court  
Thornaby  
Stockton-on-Tees  
TS17 6QN



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

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

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

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

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

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

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

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

## **Independent auditor's report to the members of Darlington Housing Association Limited**

We have audited the financial statements of Darlington Housing Association Limited for the year ended 31 March 2017 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, Statement of Changes in Reserves and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

This report is made solely to the Association's members, as a body, in accordance with section 87 of 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 from April 2015. Our audit work has been undertaken so that we might state to the Association'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 Association and the Association's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of Board and auditor**

As explained more fully in the Statement of the Board's Responsibilities set out on page 7, the Board is responsible for the preparation of the financial statements and for being satisfied that they 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**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Association's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Association's affairs as at 31 March 2017 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland); and
- have been properly prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008, the Accounting Direction for Registered Providers of Social Housing 2015 and the 'Housing SORP 2014: Statement of Recommended Practice for Registered Social Housing Providers', issued in September 2014.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following:

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

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

Under the Housing and Regeneration Act 2008, we are required to report to you if, in our opinion:

- the Association has not kept proper accounting records of its transactions and its assets and liabilities in relation to its housing activities; and
- the Association has not maintained a satisfactory system of control of those records, its cash holdings and its receipts and remittances in relation to those activities.

*Ernst & Young LLP*

Statutory Auditor  
Newcastle upon Tyne

14th 11<sup>th</sup> September 2017

**Statement of Comprehensive Income**  
*for the year ended 31 March 2017*

|  | <i>Note</i> | <b>2017</b><br><b>£000</b> | 2016<br>£000 |
|--|-------------|----------------------------|--------------|
| Turnover                                       | 3           | 1,236                      | 1,239        |
| Operating expenditure                          | 3           | <b>(998)</b>               | (1,021)      |
| <b>Operating surplus</b>                       |             | <b>238</b>                 | 218          |
| Interest payable and similar charges           | 6           | <b>(87)</b>                | (92)         |
| Gift aid received from Parent                  |             | 7                          | -            |
| <b>Surplus for the year before taxation</b>    |             | <b>158</b>                 | 126          |
| Tax on surplus on ordinary activities          | 8           | -                          | -            |
| <b>Surplus for the financial year</b>          |             | <b>158</b>                 | 126          |
| <b>Other comprehensive income/(expense)</b>    |             |                            |              |
| <b>Total comprehensive income for the year</b> |             | <b>158</b>                 | 126          |

All results derive from continuing activities.


These financial statements were approved by the Board on 11 September 2017 and were signed on its behalf by:



**J Lester**  
*(Chair)*



**A Marshall**  
*(Board Member)*



**R Taylor**  
*(Secretary)*

**Statement of Financial Position**  
*at 31 March 2017*

|  | <i>Note</i> | <b>2017</b><br><b>£000</b> | 2016<br>£000   |
|--|-------------|----------------------------|----------------|
| <b>Fixed assets</b>  |             |                            |                |
| Housing properties   | <i>9</i>    | <b>8,332</b>               | 8,447          |
| Other tangible fixed assets                                    | <i>10</i>   | -                          | -              |
| <b>Total fixed assets</b>                                      |             | <b>8,332</b>               | 8,447          |
| <b>Current assets</b>  |             |                            |                |
| Debtors  | <i>11</i>   | <b>102</b>                 | 61             |
| Cash at bank and in hand                                       |             | <b>847</b>                 | 982            |
| <b>Creditors: amounts falling due within one year</b>          | <i>12</i>   | <b>949</b><br><b>(386)</b> | 1,043<br>(574) |
| <b>Net current assets</b>                                      |             | <b>563</b>                 | 469            |
| <b>Total assets less current liabilities</b>                   |             | <b>8,895</b>               | 8,916          |
| <b>Creditors: amounts falling due after more than one year</b> | <i>13</i>   | <b>(4,599)</b>             | (4,778)        |
| <b>Total net assets</b>  |             | <b>4,296</b>               | 4,138          |
| <b>Capital and reserves</b>                                    |             |                            |                |
| Share capital  |             | -                          | -              |
| Revenue reserves   |             | <b>4,296</b>               | 4,138          |
|  |             | <b>4,296</b>               | 4,138          |

These financial statements were approved by the Board on 11 September 2017 and were signed on its behalf by:



**J Lester**  
*(Chair)*



**A Marshall**  
*(Board Member)*



**R Taylor**  
*(Secretary)*

## Statement of Changes in Reserves

|  | <b>Share<br/>capital<br/>£000</b> | <b>Revenue<br/>reserves<br/>£000</b> | <b>Total<br/>reserves<br/>£000</b> |
|--|-----------------------------------|--------------------------------------|------------------------------------|
| Balance at 1 April 2016                                  | -                                 | 4,138                                | 4,138                              |
| <b>Total comprehensive income for the financial year</b> |                                   |                                      |                                    |
| Surplus for the year                                     | -                                 | 158                                  | 158                                |
| Other comprehensive income                               |                                   |                                      |                                    |
| <b>Balance at 31 March 2017</b>                          | <b>-</b>                          | <b>4,296</b>                         | <b>4,296</b>                       |

## Notes

### 1 Legal status

The Association is incorporated under the Co-operative and Community Benefit Societies Act 2014, registered number 21751R. The Association is registered with the Homes and Communities Agency as a Registered Provider under the terms of the Housing and Regeneration Act 2008, registered number LH2346. The Association is a public benefit entity. The Association also has charitable status with HM Revenue & Customs, reference number XR95030.

### 2 Accounting policies

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

The Association's parent undertaking, North Star Housing Group Limited has included the Association in its consolidated financial statements from the 12<sup>th</sup> October 2016, when the Association joined the group. The consolidated financial statements of North Star Housing Group Limited, within which the Association is included, can be obtained from the address shown on page 1. In these financial statements, the Association is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the Cash Flow Statement and related notes.

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

Judgements made by the directors in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 19.

#### Basis of Accounting

The accounts are prepared on the historical cost basis of accounting.

#### Turnover

Turnover represents rental and service charge income receivable (net of void losses), other income receivable from properties owned or managed by the Association, and amortisation of Social Housing Grant (SHG) under the accrual method.

#### Taxation

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

**Notes (continued)**

**2 Accounting policies (continued)**

**Housing properties**

Housing properties are stated at their historical cost less depreciation and any provision for impairment. Costs include the costs of acquisition, construction, a fair proportion of direct and incremental internal staff time engaged on the development of the housing properties, interest which is capitalised up to practical completion and expenditure incurred in respect of improvements.

Properties are transferred from schemes under construction to completed schemes on practical completion.

Housing properties within the low-cost home-ownership (LCHO) programme are separately disclosed from housing properties for rent in the accounts.

Improvements are works which result in an enhancement of the economic benefits of the asset to the Association arising from an increase in the net rental income over the life of the asset, such as a reduction in future maintenance costs, or which result in a significant extension of the useful economic life of the property in the business.

The Association operates a component accounting policy in relation to the capitalisation and depreciation of its completed housing property stock. All housing properties are split between their land, structure costs and a set of major components which require periodic replacement. Refurbishment or replacement expenditure on such major components is capitalised and depreciated over the estimated useful economic lives of the components. These useful economic lives are as follows:

| Component       | Useful Economic Life |
|-----------------|----------------------|
| Structure       | 50                   |
| Roof            | 60                   |
| Windows         | 25                   |
| Kitchen         | 25                   |
| Bathroom        | 25                   |
| Boiler          | 15                   |
| Electric system | 25                   |
| Heating         | 30                   |

The estimated useful economic life for each component has been based on the Association's current experience of component replacement. The Association will continue to monitor and review the useful economic lives of all components and make revisions where sustained material changes arise.

**Depreciation of housing properties**

Depreciation is provided so as to write down the cost of housing properties, other than freehold land, to their estimated residual value on a straight line basis over their expected useful economic life.

Freehold land is not depreciated.

**Stock Swaps**

Purchases from other Housing Associations and Local Borough Councils are included at fair value, measured as the purchase price. Social housing grant relating to the properties purchased is disclosed as a contingent liability within property plant and equipment.



## Notes (continued)

### 2 Accounting policies (continued)

#### First tranche shared ownership sales

The costs of shared ownership properties are split between fixed and current assets. The value taken to current assets is the total costs to date of unsold shared ownership properties multiplied by the estimated proportion of the properties that will be sold in the first tranche sales. The remaining costs are included in fixed assets so that any subsequent sale is treated as a disposal or part disposal of a fixed asset.

For shared ownership properties that have been sold in the year, the sales proceeds are shown in turnover and the cost of sales is the total costs multiplied by the actual proportion sold in the first tranche sales, plus any anticipated losses on the sale of the shared ownership property that remains in fixed assets.

#### Capitalisation of finance costs

Finance costs relating to the development of housing properties are capitalised from the start of development activity up to the date of practical completion. Finance costs are capitalised at an appropriate rate that is reviewed periodically. No finance costs are capitalised during this period if active development is suspended.

#### Social housing grant

Social housing grant (SHG) is utilised to reduce the capital costs of housing properties. The amount of SHG receivable is calculated on a fixed basis depending on the size, location and type of housing property. The majority of SHG received by the Association is to assist with the cost of development of their housing properties, and therefore there is an ongoing linkage between the cost of constructing housing properties and government grant.

SHG is initially recognized at fair value as a long term liability, specifically as deferred grant income and released through the income and expenditure as turnover income over the life of the structure of housing properties in accordance with the accrual method applicable to social landlords holding housing properties at cost.

On the disposal of properties, all associated SHG is transferred to either the Recycled Capital Grant Fund (RCGF) or the Disposal Proceeds Fund (DPF) until the grant is recycled or repaid to reflect the existing obligation under the social housing grant funding regime.

#### Impairment

##### *Financial assets (including trade and other debtors)*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in profit or loss, and when a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit and loss.

## Notes (continued)

### 2 Accounting policies (continued)

#### Non-financial assets

The carrying amounts of the Association's non-financial assets are also reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing is allocated to cash-generating units (CGU's) that are expected to benefit from the synergies of the combination.

An impairment loss in respect of a non-financial asset is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in the profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of other assets in the unit on a pro rata basis. An impairment loss is reversed if and only if the reasons for the impairment have ceased to apply.

#### Other fixed assets and depreciation

Other fixed assets are stated at cost less accumulated depreciation and any provision for impairment. Depreciation is charged on a straight line basis over the estimated useful lives of the assets. The following annual rates are used:

|  |            |
|--|------------|
| Office furniture, fittings & equipment | 10% to 33% |
| Vehicles                               | 20%        |

#### Provisions

A provision is recognised in the Statement of Financial Position when the Association has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

#### Leased assets

Rentals payable under operating leases are charged to the Statement of Comprehensive Income (SCI) on a straight line basis over the lease term.

#### VAT

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 & Customs. The balance of VAT payable or recoverable at the year end is included as a current liability or asset.

#### Financial Instruments

Under FRS 102 guidelines the financial instruments of the Association have been classified as Basic Financial Instruments:

**Notes (continued)**

**2 Accounting policies (continued)**

**a) Tenant Arrears, Trade and Other Debtors**

Tenant Arrears, Trade and Other Debtors are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of interest for a similar debt instrument.

**b) Trade and other creditors**

Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method. If the arrangement constitutes a financing transaction, for example payment is deferred beyond normal business terms, then it is measured at present value of future payments discounted at market rate of interest for a similar debt instrument.

**c) Interest bearing borrowings classified as basic financial instruments**

Interest bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

**d) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits.

**3 Turnover, operating costs and operating surplus**

|                         | 2017             |                            |  | 2016             |                            |  |
|-------------------------|------------------|----------------------------|--|------------------|----------------------------|--|
|                         | Turnover<br>£000 | Operating<br>costs<br>£000 | Operating<br>surplus/<br>(deficit)<br>£000 | Turnover<br>£000 | Operating<br>costs<br>£000 | Operating<br>surplus/<br>(deficit)<br>£000 |
| Social housing lettings | 1,236            | (998)                      | 238  | 1,239            | (1,021)                    | 218  |
| <b>Total</b>            | <b>1,236</b>     | <b>(998)</b>               | <b>238</b>                                 | <b>1,239</b>     | <b>1,021</b>               | <b>218</b>                                 |

**Notes (continued)**

**3 Turnover, operating costs and operating surplus (continued)**

|   | <b>General<br/>Housing</b> | <b>Supported<br/>Housing and<br/>Housing of<br/>older people</b> | <b>Total<br/>Housing</b> | <b>Total<br/>Housing</b> |
|---|----------------------------|--|--------------------------|--------------------------|
|   | <b>2017<br/>£000</b>       | <b>2017<br/>£000</b>   | <b>2017<br/>£000</b>     | <b>2016<br/>£000</b>     |
| <b>Turnover from social housing lettings</b>        |                            |  |                          |                          |
| Rent receivable net of identifiable service charges | 956                        | -  | 956                      | 956                      |
| Service charge income                               | 124                        | -  | 124                      | 126                      |
| <b>Net rental income</b>                            | <b>1,080</b>               | <b>-</b>   | <b>1,080</b>             | <b>1,082</b>             |
| Other income from lettings                          | -                          | 45   | 45                       | 46                       |
| Amortised government grants                         | 83                         | 28   | 111                      | 111                      |
| <b>Turnover from social housing lettings</b>        | <b>1,163</b>               | <b>73</b>  | <b>1,236</b>             | <b>1,239</b>             |
| <b>Expenditure on social housing lettings</b>       |                            |  |                          |                          |
| Management  | 347                        | 6  | 353                      | 334                      |
| Services  | 99                         | 1  | 100                      | 102                      |
| Routine maintenance                                 | 93                         | 12   | 105                      | 154                      |
| Planned maintenance                                 | 102                        | 13   | 115                      | 157                      |
| Major repairs expenditure                           | 66                         | -  | 66                       | 25                       |
| Bad debts   | 6                          | -  | 6                        | 4                        |
| Depreciation of housing properties                  | 232                        | 21   | 253                      | 245                      |
| <b>Operating costs on social housing lettings</b>   | <b>945</b>                 | <b>53</b>  | <b>998</b>               | <b>1,021</b>             |
| <b>Operating surplus on social housing lettings</b> | <b>218</b>                 | <b>20</b>  | <b>238</b>               | <b>218</b>               |
| <b>Void losses</b>                                  | <b>(7)</b>                 | <b>-</b>   | <b>(7)</b>               | <b>(14)</b>              |

**4 Accommodation in management**

The number of units of accommodation managed by the Association as at 31 March was as follows:

|   | <b>2017<br/>Number</b> | <b>2016<br/>Number</b> |
|---|------------------------|------------------------|
| General needs housing accommodation owned and managed - social rent | 216                    | 216                    |
| Supported housing and housing for older people owned and managed    | 31                     | 31                     |
| Supported housing owned managed by others                           | 16                     | 16                     |
|   | <b>263</b>             | <b>263</b>             |

**Notes (continued)**

**5 Operating surplus**

This is arrived at after charging:

|   | 2017<br>£000 | 2016<br>£000 |
|---|--------------|--------------|
| External auditor's remuneration in their capacity as auditors | 11           | 5            |
| Depreciation of housing properties                            | 253          | 246          |
| Deficit on sale of fixed assets                               | -            | 20           |
|   | -----        | -----        |

**6 Interest payable and similar charges**

|            | 2017<br>£000 | 2016<br>£000 |
|------------|--------------|--------------|
| Bank loans | 87           | 92           |
|            | -----        | -----        |

**7 Employees**

Average monthly number of employees expressed in full time equivalents:

|                     | 2017<br>Number | 2016<br>Number |
|---------------------|----------------|----------------|
| Housing and support | 1              | 1              |
| Administration      | 2              | 3              |
|                     | -----          | -----          |
|                     | 3              | 4              |

Employee costs:

|  | 2017<br>£000 | 2016<br>£000 |
|--|--------------|--------------|
| Wages and salaries                           | 85           | 73           |
| Social security costs                        | 4            | 4            |
| Pension costs: Social Housing Pension Scheme | -            | 1            |
|  | -----        | -----        |
|  | 89           | 78           |

Directors and key management personnel are remunerated via the parent Association. Relevant disclosures are included in note 12 of those accounts.

**Notes** *(continued)*

**8 Tax on surplus on ordinary activities**

|   | <b>2017</b>       | 2016              |
|---|-------------------|-------------------|
|   | <b>£'000</b>      | £'000             |
| <b>Current tax</b>                                |                   |                   |
| UK corporation tax on surplus for the year        | -                 | -                 |
|   | <u>          </u> | <u>          </u> |
| <b>Current tax reconciliation</b>                 |                   |                   |
| Surplus on ordinary activities before taxation    | <b>158</b>        | 126               |
|   | <u>          </u> | <u>          </u> |
| Theoretical tax at UK corporation 20% (2016: 20%) | <b>32</b>         | 25                |
| Effects of:                                       |                   |                   |
| Charitable income not taxable                     | <b>(32)</b>       | (25)              |
|   | <u>          </u> | <u>          </u> |
|   | <u>          </u> | <u>          </u> |

**Notes (continued)**

**9 Tangible fixed assets -- housing properties**

|   | <b>Completed<br/>properties<br/>For rent<br/>£'000</b> | <b>Total<br/>£'000</b> |
|---|--|------------------------|
| <b>Cost</b>                               |  |                        |
| At 1 April 2016                           | 11,582   | 11,582                 |
| Improvements                              | 160  | 160                    |
| Disposals                                 | (65)   | (65)                   |
|   | <hr/>  | <hr/>                  |
| <b>At 31 March 2017</b>                   | <b>11,677</b>  | <b>11,677</b>          |
|   | <hr/>  | <hr/>                  |
| <b>Depreciation</b>                       |  |                        |
| At 1 April 2016                           | 3,135  | 3,135                  |
| Charge for the year                       | 253  | 253                    |
| Disposals                                 | (43)   | (43)                   |
|   | <hr/>  | <hr/>                  |
| <b>At 31 March 2017</b>                   | <b>3,345</b>   | <b>3,345</b>           |
|   | <hr/>  | <hr/>                  |
| <b>Net book value</b>                     |  |                        |
| At 31 March 2017                          | 8,332  | 8,332                  |
|   | <hr/>  | <hr/>                  |
| At 1 April 2016                           | 8,447  | 8,447                  |
|   | <hr/>  | <hr/>                  |
| <b>Housing properties cost comprises:</b> |  |                        |
|   | <b>2017<br/>£'000</b>                                  | <b>2016<br/>£'000</b>  |
| Freehold                                  | 8,461  | 8,366                  |
| Long leasehold                            | 3,216  | 3,216                  |
|   | <hr/>  | <hr/>                  |
|   | <b>11,677</b>  | <b>11,582</b>          |
|   | <hr/>  | <hr/>                  |

**Notes** *(continued)*

**9 Tangible fixed assets – housing properties** *(continued)*

Expenditure on works to housing properties:

|  | <b>2017</b>  | 2016  |
|--|--------------|-------|
|  | <b>£'000</b> | £'000 |
| Amount capitalised                               | 160          | 172   |
| Amount charged to Income and Expenditure account | 286          | 138   |
|  | <hr/>        | <hr/> |
| Total  | <b>446</b>   | 310   |
|  | <hr/>        | <hr/> |

**10 Other tangible fixed assets**

|                         | <b>Office<br/>furniture,<br/>fittings and<br/>equipment<br/>£'000</b> | <b>Total<br/>£'000</b> |
|-------------------------|---|------------------------|
| <b>Cost</b>             |   |                        |
| At 1 April 2016         | 26  | 26                     |
| Disposals               | -   | -                      |
|                         | <hr/>   | <hr/>                  |
| <b>At 31 March 2017</b> | <b>26</b>   | <b>26</b>              |
|                         | <hr/>   | <hr/>                  |
| <b>Depreciation</b>     |   |                        |
| At 1 April 2016         | 26  | 26                     |
| Charge for year         | -   | -                      |
| Disposals               | -   | -                      |
|                         | <hr/>   | <hr/>                  |
| <b>At 31 March 2017</b> | <b>26</b>   | <b>26</b>              |
|                         | <hr/>   | <hr/>                  |
| <b>Net book value</b>   |   |                        |
| At 31 March 2017        | -   | -                      |
|                         | <hr/>   | <hr/>                  |
| At 31 March 2016        | -   | -                      |
|                         | <hr/>   | <hr/>                  |



**Notes (continued)**

**11 Debtors**

|                                    | 2017<br>£'000 | 2016<br>£'000 |
|------------------------------------|---------------|---------------|
| <b>Due within one year</b>         |               |               |
| Arrears of rent and service charge | 51            | 42            |
| Less: provision for doubtful debts | (11)          | (11)          |
|                                    | 40            | 31            |
| <b>Other debtors</b>               | 55            | 23            |
| Prepayments and accrued income     | 7             | 7             |
|                                    | 102           | 61            |

**12 Creditors: amounts falling due within one year**

|                              | 2017<br>£'000 | 2016<br>£'000 |
|------------------------------|---------------|---------------|
| Housing Loans                | 68            | 69            |
| Trade creditors              | -             | 131           |
| Due to other Group companies | 34            | -             |
| Other creditors              | 52            | 79            |
| Accruals and deferred income | 121           | 184           |
| Deferred Income – Grant      | 111           | 111           |
|                              | 386           | 574           |

**Notes** *(continued)*

**13 Creditors: amounts falling due after more than one year**

|   | <b>2017</b>         | 2016         |
|---|---------------------|--------------|
|   | <b>£'000</b>        | £'000        |
| Loans outstanding due in more than 1 year | <b>1,004</b>        | 1,073        |
| Deferred Income - Grant                   | <b>3,595</b>        | 3,705        |
|   | <u><b>4,599</b></u> | <u>4,778</u> |

**Deferred income: summary of grant**

|  | <b>2017</b>  | 2016         |
|--|--------------|--------------|
|  | <b>£'000</b> | £'000        |
| Cost at 1 April                          |              |              |
| Additions in the year                    | <b>5,560</b> | 5,560        |
|  | <u>-</u>     | <u>-</u>     |
| <b>At 31 March</b>                       | <b>5,560</b> | 5,560        |
| <b>Amortisation</b>                      |              |              |
| At 1 April                               | <b>1,743</b> | 1,632        |
| Charge in the year                       | <b>111</b>   | 111          |
|  | <u>1,854</u> | <u>1,743</u> |
| <b>At 31 March</b>                       | <b>1,854</b> | 1,743        |
| <b>Deferred income total at 31 March</b> | <b>3,706</b> | 3,817        |

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

|   | <b>2017</b>         | 2016         |
|---|---------------------|--------------|
|   | <b>£000</b>         | £000         |
| Recognised in the Statement of Comprehensive Income | <b>111</b>          | 111          |
| Held as deferred income                             | <b>3,706</b>        | 3,817        |
|   | <u><b>3,817</b></u> | <u>3,928</u> |

**Notes (continued)**

**14 Debt Analysis**

Housing Loans are secured by specific charges on the Associations housing properties and are repayable at varying rates of interest from 5.95% to 15.88% and expiring dates from 31 December 2020 to 31 October 2050.

|                            | <b>2017</b>  | <b>2016</b>  |
|----------------------------|--------------|--------------|
|                            | <b>£'000</b> | <b>£'000</b> |
| Within one year            | 68           | 69           |
| Between one and two years  | 72           | 70           |
| Between two and five years | 244          | 236          |
| In five years or more      | 688          | 766          |
|                            | <u>1,072</u> | <u>1,141</u> |

**15 Share capital**

|  | <b>2017</b> | <b>2016</b> |
|--|-------------|-------------|
|  | <b>£</b>    | <b>£</b>    |
| <b>Shares of £1 each issued and fully paid</b> |             |             |
| At 1 April                                     | 16          | 16          |
| Shares surrendered during the year             | (6)         | -           |
|  | <u>10</u>   | <u>16</u>   |
| <b>At 31 March</b>                             | <u>10</u>   | <u>16</u>   |

The shares do not provide members with any rights to dividends or distribution on winding up.

**Notes (continued)**

**16 Capital commitments**

|   | 2017<br>£'000 | 2016<br>£'000 |
|---|---------------|---------------|
| Capital expenditure that has been authorised by the Board but has not yet been contracted for | 137           | -             |

This expenditure will be funded from the Association's available cash.

**17 Parent**

The Association's Parent is North Star Housing Group Limited, a Registered Society (under the Co-operative and Community Benefit Societies Act 2014) and Registered Provider incorporated in the UK.

The consolidated financial statements of North Star Housing Group Limited are available to the public and may be obtained from Endeavour House, St Mark's Court, Thornaby, Stockton-on-Tees, TS17 6QN.

**18 Related party transactions**

The Association owes £34k (2016:nil) to Endeavour Housing Association, another Group subsidiary and £1k (2016:nil) to North Star Housing Group, the parent Association.

**19 Accounting estimates and judgements**

**Impairment of tangible assets**

The Association considers whether tangible assets are impaired. For the purpose of impairment assessments, where an indication of impairment is identified management estimates the recoverable value and the depreciated replacement cost of the cash generating units (CGUs).

**Impairment of debtors**

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