



Darlington Housing Association Limited

**Report of the Board and Financial Statements
Year Ended 31st March 2018**

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Board members, executive directors, advisors and bankers

| | |
|------------------------------|--|
| Board | Linda Bird Neil Bouch (resigned 22 nd February 2018) Pat Buckley Paul Craggs Adrian Hill (resigned 31 st March 2018) Jed Lester (Chair) Andrew Marshall (Chair of Audit Committee) Morgan McClintock (resigned as Deputy Chair 22 nd April 2018) Margaret Smith (appointed 1 st April 2017) Paul Stephens (resigned 4 th December 2017) Anna Urbanowicz (appointed 17 th July 2017) Peter Waugh (appointed as Deputy Chair 22 nd April 2018) |
| Group Chief Executive | Angela Lockwood |
| Executive Directors | Emma Speight, Executive Director of Assets and Growth Rachel Taylor, Executive Director of Finance and Business Support and Company Secretary Paul Common, Interim Executive Director of Customers (resigned 27 th December 2017) Graham Darby, Executive Director of Customers, (appointed 16 th July 2018) |
| Registered office | 72a St. Paul's Place Darlington Co. Durham DL1 2JG |
| Registered numbers | Co-operative & Community Benefit Societies Act 2014 – registered number 21751R Regulator for Social Housing registered number LH2346 |
| Auditor | Ernst & Young LLP Citygate St. James' Boulevard Newcastle upon Tyne NE1 4JD |
| Principle Bankers | Lloyds Corporate Markets Lloyds Banking Group 25 Gresham Street London EC2V 7HN |

Report of the Board

Results for the Year

The Board presents its report and the audited financial statements for the year ended 31st March 2018.

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 is 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).

The Group, as the Parent organisation, is charged with responsibility for exercising overall control of the Group in accordance with the principles of good governance. The Parent provides central services, such as Finance, ICT, HR and Development to its subsidiaries. The Association purchases these services directly from the Parent under the terms of an Intra-Group Agreement and Service Level Agreement. The Association is required to operate within the Group's overall governance framework.

Results for the Year

The Association had an operating surplus for the year of £397k (2017: £238k) and an overall surplus for the year of £315k (2017: £158k).

Review of the Year and Future Developments

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

The Association was formed in 1975 in Darlington and is known as "traditional" in that it has grown organically through development and acquisition. The housing association owns 263 units of accommodation dispersed throughout the inner areas of Darlington. We joined North Star Housing Group in October 2016 and have quickly become an important and integrated part of the Group.

We have operated in an economic environment of interest rates at historically low levels and inflation in excess of the Bank of England 2% target. The uncertainty around the United Kingdom leaving the European Union has influenced both these factors and will continue to do so for the foreseeable future. The inflationary pressures have been challenging in the second year of four years of annual rent reductions and welfare reform.

Our operating environment is challenging with strong demand for all types of housing, an ageing population and older housing stock that requires constant investment. Our approach of active risk management, prudent financial controls, regulatory adherence and strategic focus is essential to achieve business strength.

Towards the end of the financial year we worked closely with Homes England to purchase some high quality housing in Aycliffe Village, County Durham using grant and our own funding. Our strong focus on value for money will support us in achieving our ambitions to continue investing in communities, existing properties and to build new homes. Tees Valley Combined Authority has established itself in the region and is progressing the Devolution agenda in the locality. We have deepened our relationship with the Authority and look forward to working in partnership to deliver local priorities.

Our governance remains strong and governance arrangements are in accordance with best practice. Our financial strength can be attributed to our strong governance, focus on shared leadership, risk management, highly effective cash management and achieving value for money. Over the past five years the Group has been developing shared leadership. This has led to the involvement of more people in decision making, increasing levels of influence and having a more

leaderful and accountable workforce. It is expected that everyone engages in development and training in order to keep the Group strong and to create an agile, highly skilled and flexible organisation.

Our customers have real influence over services and we proactively engage and listen to tenants. We have a strong track record in ensuring tenants' voices are heard and understood.

The Group corporate plan, **Leading and Growing North Star 2023**, was co-created throughout the year by the Board, staff and customers. It details the strategic vision and objectives for the next five years. It is an ambitious but achievable plan.

The overall Group performance is shown in the table below.

| | Darlington Housing Association | | | | |
|---|--------------------------------|----------------|------------------------|----------------|----------------------------|
| | 2015/16 Actual | 2016/17 Actual | Our Target for 2017/18 | 2017/18 Actual | Peer Group average 2017/18 |
| Current arrears | 0.60% | 0.37% | 1% | 0.79% | 2.88% |
| Percentage of rent lost through homes being empty | 1.27% | 0.64% | 1% | 0.66% | 1.31% |
| Average number of days taken to let a home | 16 days | 13 days | 16 days | 13.5 days | 32.9 days |

Source: Internal systems, HouseMark

The impact of our strong approach is demonstrated by:

- The delivery of four new homes and continued investment in the existing stock.
- The achievement of Investors in People Platinum accreditation.
- Customer satisfaction levels of 88.9%.

Corporate Governance

The Association complies with the current Regulator of Social Housing (RSH) Governance and Financial Viability standard. A self-assessment against the full Regulatory Standards has been completed and independently validated.

The Board has adopted the National Housing Federation (NHF) Code of Governance 2015. A self-assessment against the Code has been completed and independently validated which demonstrates that our governance arrangements are compliant with all aspects of the Code.

The Association 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.

The Association has adopted the NHF Code of Governance 2015, Promoting Board Excellence for Housing Associations as it is considered by the Board to be most relevant to the nature of the Group's activities. 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.

The Association has fully adopted the National Housing Federation Mergers, Group Structures and Partnerships – a voluntary code for housing associations.

The Group took the opportunity to review and improve its governance arrangements when we joined in October 2016. 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.

The Board is the Association'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 the Board as a collective and also the performance of each Board member. The Board has agreed membership will be reduced to 10 Board members by 2020 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, the Board will opt to recruit the candidate that will best improve the Board's diversity.

In June 2018 the 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 Darlington 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 and were reviewed in 2018.

The Board is responsible for the Association's operations, including housing management, property services and managing stock condition, new build and acquisitions. It delegates the day-to-day management and implementation to the Group Chief Executive and the rest of the GSMT. The 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 Group Director of People and Culture. The GSMT meets regularly and members attend meetings of the Board.

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

Employees

The Group 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 and achievement of the Investors in People Platinum accreditation. This includes increased surplus, strong key performance indicators, a reduction in sickness absence (now sector best), high levels of efficiency and strong external relations. Our people focus and relationships set us apart from many other housing providers and help to keep North Star strong.

Value for Money Statement

Value for Money (VFM) is reported on a Group basis. The information in this section refers to the performance of the Group. The Association manages 6.4% of the properties managed by the Group and contributes towards all the VFM achievements.

VFM is a strategic priority for North Star as it creates capacity to fund our ambitious house building plans and enhances the support we can provide for our tenants and their communities. The Board takes strategic responsibility for leading VFM by monitoring performance, overseeing delivery and ensuring VFM is embedded. We have a VFM strategy and one of the ways the North Star Board demonstrates its commitment to VFM is by having a VFM Board Champion.

The revised RSH VFM Standard published in March 2018 requires housing associations to publish their VFM performance in their financial statements, replacing the previous requirement to publish a separate VFM annual report. North Star published comprehensive VFM annual reports outlining our approach to VFM, our VFM performance and how this compared to other housing associations and our VFM targets. The 2017, 2016 and 2015 reports are available on our website www.northstarhg.co.uk.

We have carefully considered the revised standard and the implications. The Group is further developing its VFM strategy and 2018/19 VFM targets in accordance with best practice. The Group will also develop how it will report its VFM performance in future financial statements and in other ways.

Financial Targets

The Group VFM targets for 2017/18 included seven financial targets.

The Group has achieved its overall financial targets of £585k which includes savings, additional funding and social value. This exceeds the target by £220k, illustrating our commitment to achieving and demonstrating VFM.

The Group achievements for the financial targets are:

| Target | Actual |
|---|---|
| Savings | |
| Deliver at least £107k savings through effective procurement. | £112k procurement savings achieved. |
| Reduce maintenance expenditure by £72k. | Achieved £64k reduction. |
| Deliver savings of £58k from staff suggestions. | £58k achieved in areas such as professional fees, debt collection, subscriptions and publicity. |
| Deliver savings of £8k within supported housing. | £60k savings achieved. |
| Deliver £20k savings from the review of office accommodation. | Review of office accommodation was completed throughout the year. Offices at Hartlepool have been leased to a third party so the savings will be achieved from 1 st April 2018. |
| Total savings target: £265k | Total savings achieved: £294k |
| Additional Funding | |
| Secure £50k to deliver improvements to energy efficiency for tenants. | £45k achieved. |
| Total additional funding target: £50k | Total additional funding achieved: £45k |
| Social Value | |
| Deliver £50k of social value through our contractors/suppliers. | £246k of social value generated through our contractors/suppliers, including: <ul style="list-style-type: none"> • 19 full-time jobs. • 9 part-time jobs. • £2,600 of gifts in kind and donations. |
| Total social value target: £50k | Total social value achieved: £246k |
| Overall | |
| Overall financial target: £365k | Overall financial targets achieved: £585k |

VFM Corporate Plan Objectives

In addition to the seven financial targets, North Star established 17 VFM Corporate Plan Objectives for 2017/18. These objectives focused on growth, asset management, income and efficiency and we:

- Completed 10 objectives.
- Deferred five objectives to 2018/19.
- Partially completed two objectives.

The objectives we completed and partially completed included:

- A review of treasury management arrangements with options presented to the Board.
- A review of three schemes which had under-performing assets. Recommendations were made to the Board to either maximise asset performance and sustain future income or minimise future loss to the Group.
- A review of end-to-end voids processes which delivered resource efficiencies for the business and helped reduce void end-to-end time.
- Delivered 31 new homes.
- Started the review process of housing management.

Metrics

The Group measures its VFM performance using metrics (or measures) which enable it to understand how its performance compares with other housing associations. We use the 15 Sector Scorecard metrics which provide a rounded picture of our business in terms of efficiency and effectiveness. The RSH requires us to publish our performance against seven metrics which are all included in the Sector Scorecard.

The Group's 2016/17 and 2017/18 performance in the metrics is illustrated in the table below, with the RSH metrics highlighted in blue:

| Sector Scorecard Indicator | North Star Housing Group | |
|--|--------------------------|---------|
| | 2016/17 | 2017/18 |
| Business Health | | |
| Operating margin (total business)* | 35% | 31% |
| Operating margin (social housing lettings only)* | 48% | 46% |
| Interest cover | 228% | 213% |
| Development (Capacity and supply) | | |
| Units developed | 56 | 31 |
| Units developed as a % of units owned | 1.58% | 0.87% |
| Gearing | 42% | 42% |
| Outcomes Delivered | | |
| % of respondents very/fairly satisfied with service | 91.7% | 88.9% |
| Reinvestment in new and existing stock as % of total stock value | 7.48% | 4.01% |
| £'s invested in communities | £179k | £224k |
| Effective Asset Management | | |
| Return on Capital Employed | 4% | 3% |
| Occupancy rate | 98.80% | 98.98% |
| Ratio of responsive repairs to planned maintenance | 0.45 | 0.47 |
| Operating Efficiencies | | |
| Headline social housing cost per unit (CPU) | £2,542 | £2,663 |
| Rent collected % | 100.2% | 100.6% |
| Overheads as a % of adjusted turnover | 10.12% | 11.15% |

*RSH classify this as one metric

The Group is benchmarking its 2017/18 performance against other housing associations and this information will be published in future financial statements (as the comparative data is not yet available at the time of producing these financial statements).

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 Group and the Annual Report of the Internal Auditor.

The process for identifying, evaluating and managing the significant risks faced by the Group is ongoing and has been in place throughout the period commencing 1st April 2017 up to the date of approval of the report and financial statements.

Key elements of the control framework include:

- Mapping compliance with the Regulator for Social Housing 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 the 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, and the approach to procurement and fraud. The 2017/18 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 ongoing process for the management of the significant risks facing the Group.
- An Internal Audit function which agrees an annual programme of work with the 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 2017/18 Annual Report concluded that *"...from the areas reviewed during the year at North Star Housing Group, 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 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 roles/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 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 Group's maximum exposure to credit risk in relation to financial assets.

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 Group'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 Group'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 Group. We confirm the Group's compliance with this policy throughout 2017/18.

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 13 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 Ernst & Young LLP as auditor will be proposed at the Board meeting on 10th September 2018.

Approval

This report of the Board was approved on 10th September 2018 and signed on its behalf by:



J Lester
Chair

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 FRS102, *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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

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

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

The Board is responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Association and enables it 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

We have audited the financial statements of Darlington Housing Association Limited ('the Association') for the year ended 31st March 2018 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Reserves and the related Notes 1 to 19, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102, *The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice)*.

In our opinion, the financial statements:

- Give a true and fair view of the state of the Association's affairs as at 31st March 2018 and of its income and expenditure for the year then ended.
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- Have been properly prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions Relating to Going Concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- The Board's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- The Board have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Association's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other Information

The other information comprises the information included in the Report of the Board and Financial Statements, other than the financial statements and our auditor's report thereon. The Board is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to Report by Exception

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

- A satisfactory system of control over transactions has not been maintained; or
- The Association 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 require for our audit.

Responsibilities of Board

As explained more fully in the Statement of the Board's responsibilities in respect of the Board's annual report and the financial statements set out on page 10, the Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the Board is responsible for assessing the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board either intends to liquidate the Association or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our Report

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. 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.

Ernst & Young LLP

Statutory Auditor
Newcastle upon Tyne

21 September 2018

Statement of Comprehensive Income
for the year ended 31st March 2018

| | Note | Year ended 31 st March 2018 £000 | Year ended 31 st March 2017 £000 |
|--|------|--|--|
| Turnover | 3 | 1,162 | 1,236 |
| Operating expenditure | 3 | (765) | (998) |
| Operating surplus | | 397 | 238 |
| Interest payable and similar charges | 7 | (82) | (87) |
| Gift Aid received from Parent | | - | 7 |
| Surplus for the year before taxation | | 315 | 158 |
| Tax on surplus on ordinary activities | 9 | - | - |
| Surplus for the financial year | | 315 | 158 |
| Other comprehensive income/(expense) | | - | - |
| Total comprehensive income for the year | | 315 | 158 |

All results derive from continuing activities.

These financial statements were approved by the Board on 10th September 2018 and were signed on its behalf by:



J Lester
(Chair)



A Marshall
(Board member)




R Taylor
(Secretary)

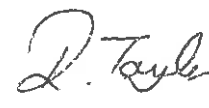
Statement of Financial Position
 at 31st March 2018

| | Note | Year ended 31 st March 2018 £000 | Year ended 31 st March 2017 £000 |
|--|------|--|--|
| Fixed assets | | | |
| Housing properties | 10 | 9,011 | 8,332 |
| Total fixed assets | | <u>9,011</u> | <u>8,332</u> |
| Current assets | | | |
| Debtors | 11 | 104 | 102 |
| Cash at bank and in hand | | 375 | 847 |
| Creditors: amounts falling due within one year | 12 | 479 (331) | 949 (386) |
| Net current assets | | <u>148</u> | <u>563</u> |
| Total assets less current liabilities | | <u>9,159</u> | <u>8,895</u> |
| Creditors: amounts falling due after more than one year | 13 | (4,548) | (4,599) |
| Total net assets | | <u>4,611</u> | <u>4,296</u> |
| Capital and reserves | | | |
| Share capital | | - | - |
| Revenue reserves | | 4,611 | 4,296 |
| | | <u>4,611</u> | <u>4,296</u> |

These financial statements were approved by the Board on 10th September 2018 and were signed on its behalf by:


J Lester
 (Chair)


A Marshall
 (Board member)


R Taylor
 (Secretary)

Statement of Changes in Reserves

| | Share capital £000 | Revenue reserves £000 | Total reserves £000 |
|--|--------------------------|-----------------------------|---------------------------|
| Balance at 1 st April 2017 | - | 4,296 | 4,296 |
| Total comprehensive income for the financial year Surplus/(Deficit) for the year | - | 315 | 315 |
| Other comprehensive income | - | - | - |
| Balance at 31st March 2018 | - | 4,611 | 4,611 |

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 Regulators for Social Housing 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 ("FRS102"). 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, includes the Association in its consolidated financial statements. 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 FRS) and has applied the exemptions available under FRS102 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 of the Group represents rental and service charge income (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 charitable companies 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.

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.

2. Accounting Policies (continued)

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 (Years) |
|-----------------|------------------------------|
| Structure | 100 |
| Roof | 60 |
| Windows | 25 |
| Kitchen | 20 |
| 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 less Social Housing Grant 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.

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.

2. Accounting Policies (*continued*)

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 Group is to assist with the cost of development of its 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 SHG 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.

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 CGU's 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.

2. Accounting Policies (*continued*)

Other Fixed Assets and Depreciation

Other fixed assets are stated at cost less accumulated depreciation. 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 and 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 FRS102 the financial instruments of the Association have been classified as Basic Financial Instruments:

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 recognised 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/(Deficit)

| | 2018 | | | 2017 | | |
|---|------------------|----------------------------|--|---------------------------------------|--------------------------------|--|
| | Turnover £000 | Operating costs £000 | Operating surplus/ (deficit) £000 | Turnover £000 | Operating costs £000 | Operating surplus/ (deficit) £000 |
| Social housing lettings | 1,162 | (765) | 397 | 1,236 | (998) | 238 |
| Total | 1,162 | (765) | 397 | 1,236 | (998) | 238 |
| | | | General Housing £000 | Supported Housing £000 | Total 2018 £000 | Total 2017 £000 |
| Turnover from social housing lettings | | | | | | |
| Rent receivable net of identifiable service charges | | | 815 | 133 | 948 | 956 |
| Service income | | | 50 | 75 | 125 | 124 |
| Net rental income | | | 865 | 208 | 1,073 | 1,080 |
| Other income from lettings | | | - | 45 | 45 | 45 |
| Amortised Government grants | | | 33 | 11 | 44 | 111 |
| Turnover from social housing lettings | | | 898 | 264 | 1,162 | 1,236 |
| Expenditure on social housing lettings | | | | | | |
| Management | | | 221 | 50 | 271 | 353 |
| Services | | | 30 | 66 | 96 | 100 |
| Routine maintenance | | | 89 | 29 | 118 | 105 |
| Planned maintenance | | | 81 | 36 | 117 | 115 |
| Major repairs expenditure | | | 13 | - | 13 | 66 |
| Bad debts | | | (8) | (5) | (13) | 6 |
| Depreciation of housing properties | | | 132 | 31 | 163 | 253 |
| Operating costs on social housing lettings | | | 558 | 207 | 765 | 998 |
| Operating surplus/(deficit) on social housing lettings | | | 340 | 57 | 397 | 238 |
| Void losses | | | (8) | - | (8) | (7) |

4. Accommodation in Management

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

| | 2018 £000 | 2017 £000 |
|---|--------------|--------------|
| General needs housing accommodation owned and managed by others - social rent | 216 | 216 |
| Supported housing and housing for older people owned and managed by others | 31 | 31 |
| Supported housing owned managed by others | 16 | 16 |
| | 263 | 263 |

5. Accommodation in Development

The number of units in development by the Association as at 31st March was as follows:

| | 2018 £000 | 2017 £000 |
|---|----------------------------|----------------------------|
| General needs housing accommodation owned and managed – social rent | 4 | - |
| | <u>4</u> | <u>-</u> |

6. Operating Surplus

This is arrived at after charging:

| | 2018 £000 | 2017 £000 |
|---|----------------------------|----------------------------|
| External auditor's remuneration in their capacity as auditors | 5 | 11 |
| Depreciation of housing properties | 164 | 253 |
| Deficit on sale of fixed assets | - | - |
| | <u>-</u> | <u>-</u> |

7. Interest Payable and other Similar Charges

| | 2018 £000 | 2017 £000 |
|------------|----------------------------|----------------------------|
| Bank loans | 82 | 87 |
| | <u>82</u> | <u>87</u> |

8. Employees

Average monthly number of employees expressed in full time equivalent:

| | 2018 Number | 2017 Number |
|---------------------|------------------------------|------------------------------|
| Housing and support | - | 1 |
| Administration | - | 2 |
| | <u>-</u> | <u>3</u> |

Employee costs:

| | 2018 £000 | 2017 £000 |
|--|----------------------------|----------------------------|
| Wages and salaries | - | 85 |
| Social security costs | - | 4 |
| Pension costs: Social Housing Pension Scheme | - | - |
| | <u>-</u> | <u>89</u> |

Directors and key management personnel are remunerated via the parent Association. Relevant disclosures are included in Note 12 to those accounts. All other employees were TUPE over to North Star Housing Group Limited, another Group company with effect from midnight 12th October 2016.

9. Tax on surplus on Ordinary Activities

| | 2018 £000 | 2017 £000 |
|--|--------------|--------------|
| Current tax | | |
| UK corporation tax on surplus for the year | - | - |
| Current tax reconciliation | | |
| Surplus on ordinary activities before taxation | 315 | 158 |
| Theoretical tax at UK corporation rate 19% | 60 | 32 |
| Effects of: | | |
| Charitable income not taxable | (60) | (32) |
| | - | - |

10. Tangible Fixed Assets - Housing Properties

| | Completed properties for rent £000 | Under construction £000 | Total £000 |
|---|---|----------------------------|---------------|
| Cost | | | |
| At 1 st April 2017 | 11,677 | - | 11,677 |
| Improvements | 130 | - | 130 |
| Additions | - | 724 | 724 |
| Disposals | (34) | - | (34) |
| Schemes Completed | 724 | (724) | - |
| At 31st March 2018 | 12,497 | - | 12,497 |
| Depreciation | | | |
| At 1 st April 2017 | 3,345 | - | 3,345 |
| Charge for year | 164 | - | 164 |
| Disposals | (23) | - | (23) |
| At 31st March 2018 | 3,486 | - | 3,486 |
| Net book value | | | |
| At 31 st March 2018 | 9,011 | - | 9,011 |
| At 1 st April 2017 | 8,332 | - | 8,332 |
| | | 2018 £000 | 2017 £000 |
| Housing properties cost comprises: | | | |
| Freehold | | 9,205 | 8,461 |
| Long leasehold | | 3,292 | 3,216 |
| | | 12,497 | 11,677 |

10. Tangible Fixed Assets - Housing Properties (continued)

| | 2018 | 2017 |
|--|--------------|-------------|
| | £000 | £000 |
| Expenditure on works to housing properties: | | |
| Amount capitalised | 854 | 160 |
| Amount charged to Income and Expenditure account | 248 | 286 |
| | <u>1,102</u> | <u>446</u> |

11. Debtors

| | 2018 | 2017 |
|------------------------------------|-------------|-------------|
| | £000 | £000 |
| Due within one year | | |
| Arrears of rent and service charge | 55 | 51 |
| Less: provision for doubtful debts | (5) | (11) |
| | <u>50</u> | <u>40</u> |
| Other debtors | | |
| Prepayments and accrued income | 9 | 55 |
| Due from other Group companies | - | 7 |
| | <u>45</u> | <u>-</u> |
| | <u>104</u> | <u>102</u> |

12. Creditors: amounts falling due within one year

| | 2018 | 2017 |
|------------------------------|-------------|-------------|
| | £000 | £000 |
| Housing loans | 73 | 68 |
| Trade creditors | 35 | - |
| Due to other Group companies | 53 | 34 |
| Other creditors | 39 | 52 |
| Accruals and deferred income | 87 | 121 |
| Deferred income - grant | 44 | 111 |
| | <u>331</u> | <u>386</u> |

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

| | 2018 | 2017 |
|--|--------------|--------------|
| | £000 | £000 |
| Loans outstanding due in more than 5 years | 931 | 1,004 |
| Deferred Income grant | 3,617 | 3,595 |
| | <u>4,548</u> | <u>4,599</u> |

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

Deferred income: summary of grant

| | 2018 | 2017 |
|---|--------------|--------------|
| | £000 | £000 |
| | 5,560 | 5,560 |
| Cost at 1 st April | - | - |
| Additions in the year | - | - |
| At 31st March | 5,560 | 5,560 |
| Amortisation at 1 st April | 1,854 | 1,743 |
| Charge in the year | 44 | 111 |
| At 31st March | 1,898 | 1,854 |
| Deferred income total at 31st March | 3,662 | 3,706 |

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:

| | 2018 | 2017 |
|---|--------------|--------------|
| | £000 | £000 |
| Recognised in the Statement of Comprehensive Income | 44 | 111 |
| Held as deferred income | 3,662 | 3,706 |
| | 3,706 | 3,817 |

14. Debt Analysis

Housing Loans are secured by specific charges on the Association's housing properties and are repayable at varying rates of interest from 5.70% to 15.88% and expiring dates from 31st December 2020 to 31st October 2050.

| | 2018 | 2017 |
|----------------------------|--------------|--------------|
| | £'000 | £'000 |
| Within one year | 73 | 68 |
| Between one and two years | 77 | 72 |
| Between two and five years | 258 | 244 |
| In five years or more | 596 | 688 |
| Closing balance | 1,004 | 1,072 |

15. Share Capital

| | 2018 £ | 2017 £ |
|--|-----------|-----------|
| Shares of £1 each issued and fully paid | | |
| At 1 st April | 10 | 16 |
| Shares issued during the year | 2 | - |
| Shares surrendered during the year | (2) | (6) |
| At 31st March | <u>10</u> | <u>10</u> |

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

16. Capital Commitments

| | 2018 £000 | 2017 £000 |
|--|--------------|--------------|
| Capital expenditure that has been contracted for but has not been provided in the financial statements | 5 | - |
| Capital expenditure that has been authorised by the Board but has not yet been contracted for | 137 | 137 |
| | <u>137</u> | <u>137</u> |

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 Benefits Societies Act 2015) 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 £nil (2017: £34k) to Endeavour Housing Association, another Group subsidiary, £3k (2017: nil) to Teesdale Housing Association, another Group Subsidiary and £7k (2017: £1k) to North Star Housing Group, the parent. The association is owed £17k (2017: nil) from Endeavour Housing Association, another Group subsidiary.

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 (CGU's).

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.

