# Financial Statements
# Plus Dane Housing Group Limited

**For the year ended 31 March 2015**

**Registered Society No: 29480R**
**Homes and Communities Agency No: L4355**

# Contents

# Association information

| | |
|---|---|
| **Board members** | Linda Minnis (Chair)<br>Catrina Hewitson (Deputy Chair) - resigned 18 September 2014<br>Anthony Barwise<br>Tom Murtha<br>Mervyn Jones<br>Sandra Palmer<br>Gerard Lane - resigned 31 March 2015<br>Lilian Hazell - resigned 31 March 2015<br>Anne Davies - resigned 31 March 2015<br>Brian Gowthorpe - appointed 1 April 2015<br>David Brown - appointed 1 April 2015<br>Gary Mason - appointed 1 April 2015<br>George Davies - appointed 1 April 2015<br>Robin Lalwer- appointed 1 April 2015 |
| **Secretary and registered office** | Alison Carey<br>Baltimore Buildings<br>13-15 Rodney Street<br>Liverpool<br>L1 9EF |
| **Executive officers** | Barbara Spicer (Chief Executive) – appointed 9 September 2014<br>Claire Griffiths (Executive Director - Property)<br>Madeleine Nelson (Executive Director – Neighbourhoods) – appointed 20 April 2015<br>Calum Mercer (Interim Executive Director – Corporate Services) – appointed 15 January 2015 |
| **Auditors** | Grant Thornton UK LLP<br>Registered Auditors<br>Chartered Accountants<br>4 Hardman Square<br>Spinningfields<br>Manchester<br>M3 3EB |
| **Bankers** | National Westminster Bank plc<br>Liverpool One Branch<br>49 South John Street<br>Liverpool One<br>L1 8BU |

# Chair's statement

I am pleased to report Plus Dane Group's performance during the 2014/15 financial year; a year in which the organisation has been through a significant period of change.

In May, Plus Dane's Chief Executive stood down and was replaced in September by the new Chief Executive, Barbara Spicer CBE.

One of the requirements of our Voluntary Undertaking (VU) with the Homes and Communities Agency (HCA) following the governance downgrade in 2013 was to carry out a Leadership Team review. The review was undertaken and completed this year with a new, simplified and fit for purpose leadership structure developed, eight Directors leaving the business and internal and external appointments made to the new structure.

As a further requirement of the VU, a governance review was also successfully completed ahead of schedule, with the organisation now having Board membership broadly in common overseeing the business of all six substantive legal entities; Plus Dane Housing Group, Plus Dane Merseyside, Plus Dane Cheshire, three60, INclude and Dane Partnership Homes.

During the year, the Board and new Leadership Team reviewed in detail the risks associated with the investments held by Three60 and discussed how these should move forward. These were discussed more fully with the HCA, and as a result, in July Plus Dane was placed on the "Gradings Under Review" list for viability.

Plus Dane has been negotiating with its lenders to restructure the funding of Three60 to remove these significant risks and agreement has now been reached that will achieve this. It is expected that the amended agreements will be signed shortly.

We have seen another successful year of performance delivering the Ellesmere Port and Neston housing management contract and are now well into the second half of our five year contract.

We have also had an excellent first year as the North-West Help to Buy agent processing 4,099 Help to Buy applications, achieving 3,566 completions and processing nearly 3,000 low cost home ownership applications.

In March we came to the end of the Affordable Homes Programme (AHP1) 2011-15. In our 2014/15 development programme we completed 332 new properties for rent and 94 for affordable home ownership. We were also successful in our application for AHP2 with an allocation of 319 funded homes and 16 with no grant.

Plus Dane has continued its important work to provide support to those tenants negatively impacted by welfare reform through the provision of access to education, training and job opportunities; advice on managing finances; help to get online and where applicable maximising benefits. We are committed to continuing this work and ensuring the right help and advice is available to support our tenants when they need it.

Our focus on voids has delivered significant improvements this year. In December we began a real drive to address 109 long term void properties we had in the business. By April 2015 we had successfully brought 105 of these homes back into management, successfully letting them. We have also significantly reduced our void rent loss and for new voids we are achieving upper quartile performance on re-let times. This is a continuous improvement journey but it is pleasing that we are making good progress.

# Chair's statement

Over the last year we have worked hard to ensure we have solid foundations on which to build and whilst our operating environment remains challenging, our strengthened leadership structures and a renewed focus on strong governance, excellent financial management and value for money, will better enable us to respond effectively to future challenges whilst delivering improved services for our tenants and customers.

Looking forward, following the Government's announced 1% reduction in the rent charging regime over the next three years, rather than the usual increase, will require greater focus on savings. Plus Dane has reviewed its plans to meet these targets and is already planning major efficiency gains as a consequence of these changes.

Linda Minnis
**Chair Plus Dane Housing Group**
**17 September 2015**

# Operating and Financial Review

### Overview of the business

The Group provides affordable homes for rent and shared ownership throughout Cheshire and Merseyside. It also provides support for vulnerable and elderly tenants and is involved in regeneration projects within the neighbourhoods and communities we serve.

### Business and financial review

The board is pleased to report a surplus for the year of £9.5m (2014: £4.8m) in what has been a challenging year. We have continued to invest in both our existing stock and undertake a series of new developments, for both sale and rent. The group continues to track progress against commitments under the 2011/15 Affordable Homes Programme, completing a further 417 affordable homes this year.

### Income and expenditure account

The following table provides a summary of the Group's results:

| **For the year ended 31 March** | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| Income from lettings | 58.5 | 55.8 | 52.8 | 48.3 | 43.7 |
| Group turnover | 101.1 | 87.0 | 73.6 | 57.4 | 55.2 |
| Operating surplus | 18.3 | 16.6 | 14.4 | 12.4 | 10.9 |
| Surplus on sale of property | 4.6 | 0.3 | 0.3 | 0.1 | 0.6 |
| Net interest payable | 13.5 | 11.3 | 11.3 | 9.5 | 9.2 |
| Surplus for the year | 9.5 | 4.8 | 3.3 | 3.1 | 2.7 |

Group turnover has increased by £14.1m in the year, of which £3.5m is in respect of the fee income for the Ellesmere Port and Neston contract on planned repairs. Social housing income has increased by £2.7m impacted by the CPI movement which was based on September 2013 CPI plus 1%. This gave rise to an increase of 3.7%. Further, additional developed properties have also increased turnover for the Group as well as a number of properties moving from target to affordable rent. The Rent to Homebuy contract generated turnover of £1.6m. The Group generated a surplus of £4m through the sale of property via a land swap with Tesco. Continued low interest rates mean that despite borrowing more, the Group minimised the impact on interest this year.

# Operating and Financial Review

**Balance Sheet**

| **As at 31 March** | **2015 £m** | **2014 £m** | **2013 £m** | **2012 £m** | **2011 £m** |
|---|---|---|---|---|---|
| Housing properties | 324.9 | 301.4 | 277.4 | 253.2 | 229.4 |
| Other fixed assets | 14.9 | 15.5 | 16.0 | 16.1 | 18.8 |
| Tangible fixed assets | 339.8 | 316.9 | 293.4 | 296.3 | 248.2 |
| Net current assets/(liabilities) | 2.7 | (0.2) | (0.2) | 3.8 | 3.4 |
| Total assets less current liabilities | 342.5 | 316.7 | 293.2 | 273.1 | 251.6 |
| Loans (due over one year) | 309.3 | 291.1 | 272.9 | 255.3 | 232.7 |
| Creditors due after one year | 309.8 | 292.2 | 273.8 | 256.2 | 234.9 |
| Pension provision | 13.6 | 8.6 | 11.9 | 9.3 | 6.7 |
| Reserves: | | | | | |
| Revenue reserve | 23.2 | 21.3 | 14.7 | 14.5 | 15.7 |
| Revaluation reserve | (5.5) | (6.7) | (8.4) | (8.1) | (6.8) |
| Designated reserves | 1.4 | 1.3 | 1.2 | 1.2 | 1.3 |
| Total | 342.5 | 316.7 | 293.2 | 256.2 | 251.6 |
| Housing stock, owned and managed (units) | 18,768 | 18,538 | 18,295 | 12,395 | 12,188 |

The Group is showing a position of £2.7m net current assets (2014: £0.2m liabilities) because a loan of £8.1m, held in three60, was due for renewal at 31 March 2014 and consequently disclosed within current liabilities. Renewal of the loan was completed in 2015.

The Group has recorded a deficit of £0.5 million in respect of the investment properties held by three60 which has arisen as a consequence of the year end valuation. The four freehold commercial investment properties were subject to a directors valuation as at 31 March 2015 and a downward movement of £0.5m arising from the revaluation has been debited as an impairment charge to the revaluation reserve as the movement is deemed to be temporary. A review undertaken by the directors at the year end concluded that the property projections indicated a total permanent diminution of £1.7m as a result of agreeing the sale of one property after the year end. The cumulative revaluation deficit now stands at £5.5 million. Further details on this matter are included in note 13 to the financial statements.

During the year 426 new homes were completed (2014: 428) and 323 homes were in development at the year end (2014: 522).

# Operating and Financial Review

The Group's five year Accommodation figures and Statistics are summarised below:

**Group Highlights – Summary**

| | 2015 | 2014 | 2013 | 2012 | 2011 Restated* |
|---|---|---|---|---|---|
| **Accommodation figures** | | | | | |
| Total housing stock owned and managed (number of dwellings): | **18,768** | **18,538** | **18,295** | **12,395** | **12,188** |
| Social housing | 18,676 | 18,447 | 18,201 | 12,200 | 11,993 |
| Non-social housing | 92 | 91 | 94 | 195 | 195 |
| **Statistics** | | | | | |
| Surplus/(deficit) for the year as % of turnover | 9.4% | 5.5% | 4.4% | 5.3% | 4.6% |
| Surplus/(deficit) for the year as % of income from lettings | 16.2% | 8.6% | 6.2% | 6.3% | 6.1% |
| Rent losses (voids and bad debts as % of rent and service charges receivable) | 4.5% | 2.8% | 2.1% | 2.1% | 2.1% |
| Rent arrears (gross arrears as % of rent and service charges receivable) | 5.7% | 8.3% | 8.4% | 8.4% | 8.6% |
| Liquidity (current assets divided by current liabilities) | 102% | 99% | 99% | 121% | 119% |
| Interest cover (surplus before interest payable divided by interest payable) | 1.35 | 1.47 | 1.27 | 1.31 | 1.18 |
| Total reserves/(deficit) per home owned and managed (excluding Ellesmere Port and Neston) | £1,750 | £1,643 | £1,154 | £1,167 | £1,269 |

**Objectives and strategy**

The objectives and strategy of the Group are set out in the Group's business plan. This updated business plan for the period 2014-2019 has an emphasis on the first two years and details the Group's mission and plans for the future. It is supported by a range of key strategies and operational plans that are updated annually and monitored by Board, tenants and customers.

The 2014/19 Business Plan emphasised the activities essential to support the intention to place resilience at the core of everything it does so that it is able to provide quality homes and to serve our people and neighbourhoods better.

Our updated mission is to be a resilient organisation providing resilient homes and serving resilient neighbourhoods and people. The achievement of this mission is underpinned by the following six key strategic objectives;

1. Embed a comprehensive risk management culture within the organisation based on clear assessment and control of strategic risk and strong management of operational risk in all areas.
2. Successfully embed the financial strategy and achieve stretching targets within the golden rules.
3. Maximise the quality and financial return of our asset base contributing to our financial resilience and supporting property based growth.

# Operating and Financial Review

4. Implement a growth strategy that builds on current organisational competence and capacity, to grow existing products and services in places we already operate, within current debt facilities.
5. Embed a new robust, strategic Governance structure which will ensure clear group decision making, monitoring and control of the organisation.
6. Develop organisational capability that adds value to our customers, enables success through the talent of our people and creates the environment for continuous improvement and systematic innovation.

The business plan contains a suite of key milestones and performance indicators against which Senior Management and the Board will monitor the Group's performance against these objectives. Performance against these milestones is reported to Board on a quarterly basis, this approach ensures that Board has a holistic view of the organisation in terms of performance, programme delivery and strategic risk management; the scorecard has particular reference to the financial position, customer feedback, effectiveness and efficiency of operational delivery and people performance.

**Operating performance in the period**

In 2014/15 a new method of performance reporting was introduced in the form of a Balanced Scorecard; with input from Board and Executive Team the scorecard presents a strategic overview of performance that enables deep-dive analysis into areas of concern. For the year ended 31 March 2015 performance reporting for the group has covered nineteen performance measures which have been reported to the Board on a quarterly basis and which cover financial, customer, business effectiveness and people. Of the nineteen measures twelve have achieved or exceeded targets, one was near target and six were on red indicating improvement required with corrective action already underway.

In 2014/15 both Merseyside and Cheshire continued to deliver against the seven promises as follows:

- Increased investment in existing properties
- Ensure neighbourhoods enjoy good wellbeing
- Increased community safety measures
- Further supporting vulnerable customers
- Working in partnership with residents
- Increased creation of local jobs
- Increased supply and choice of homes

**Merseyside performance**

During the year ended 31 March 2015 performance against these promises has been measured against a series of 30 key performance indicators (KPIs). The performance reporting covers 30 operating and financial reporting measures and is reported to board on a quarterly basis. Of the 30 measures 16 (53%) were on or near target compared with 73% in 2013/14 while 14 (2013: 8) were on red indicating improvement requirement with corrective action already underway. Performance in all the red indicators has been investigated and reported to Board. Five of these key measures are considered below:

# Operating and Financial Review

- The percentage of properties with a valid gas safety certificate stands at 100% (2014: 100%) maintaining the performance of previous year.
- Customer satisfaction with repairs ended the year at 90.3% (compared to 93.1% in the previous year) and 4 percentage points below target,
- The percentage of antisocial behaviour cases that were contacted within target was 100%.
- The percentage of complaints resolved at the first stage of the process stands at 98% (2014: 91%) against a target of 95% which shows a significant improvement on previous year.
- Income management was slightly worse than expected with current arrears (in respect of general needs and housing for older people) at 4.6% against a target of 4.5% and 2013/14 performance of 4.4%.

**Cheshire performance**

During the year ended 31 March 2015 performance against these promises has been measured against a series of 30 key performance indicators (KPI's). The performance reporting covers 30 operating and financial reporting measures and is reported to board on a quarterly basis. Of the 30 measures 16 (53%) were on or near target compared with 73% in 2013/14 while 14 (2014: 6) were on red indicating improvement requirement with corrective action already underway. Performance in all the red indicators has been investigated and reported to Board. Four of the key measures for Plus Dane Cheshire (excluding Ellesmere Port and Neston) are considered below:

- The percentage of properties with a valid gas safety certificate stands at 99.98% (2014: 100%) against a target of 100%.
- At the end of the year customer satisfaction with repairs is 94% (2014: 94.9 %) against a target of 94%.
- The percentage of complaints resolved at the first stage of the process stands at 98.2% (2014: 99.3%) against a target of 95% (2014: 95%) which shows a slight dip year on year albeit still a strong performance.
- Income management was slightly worse than expected with current arrears (in respect of general needs and housing for older people) at 2.8% against a target of 2.5% and 2013/14 performance of 2.3%.

These only represent a snapshot of performance and a much broader range of activities are measured. We continue to develop our performance management framework which is central to the way we do business.

**Value for Money (VfM)**

**Introduction**
The value for money statement is prepared on a group basis. A full statement is available on our website.

As well as seeking to deliver excellent services and direct efficiency savings, we are also committed to achieving social value and a social return on investment although assessing performance on this is at a very early stage.

# Operating and Financial Review

We see the setting, managing and control of the business plan as key contributors to achieving value for money; our Value for Money framework includes the following activities:

- Board Away Days that take deep dives into the operating environment and the capacity and capability of the organisation to respond effectively to any impact on the business.
- Board visibility of performance across the organisation based on 4 strategic elements in a Balanced Scorecard (shown in the section titled performance: financial performance, customer feedback, service delivery and human resources).
- An annual business planning cycle that includes budget approval and 30 year business plan that allows long term projections of financial performance.
- Customer feedback through independent monitoring.
- Benchmarking our services using Housemark and our own analysis of performance against other providers using global accounts data
- Programme of service reviews based on the Regulatory Framework, cost of provision and quality of service
- Stringent approach to procurement, capital and routine expenditure.
- Resident Engagement - an area we are currently working to strengthen considerably. The better we understand our residents and their needs, the easier it is to focus on the services and tenures that make the greatest impact and so deliver better value for money; we can also better target our efforts to reduce dependency.
- Performance Management and reporting – annual key performance indicators are cascaded down through the organisation to individual team members through annual appraisal and target setting procedures.

**Our Results**

**Performance**

Following a review of the key indicators relevant to stakeholders (and in many aspects built on from Housemark's VFM scorecard), in 2014 we developed a new performance scorecard shown in the sections below:

| | | 2012/13 | 2013/14 | 2014/15 | Target | Benchmark (median) [1] |
|---|---|---|---|---|---|---|
| **Financial** | **Surplus** | £3.3m | £4.8m | £9.5m | £2.5m | N/A |
| | **Income** | £73.9m | £87.2m | £101.5m | £78.0m | N/A |
| | **Bad Debt** | £0.3m | £0.5m | £1.1m | £0.7m | N/A |
| | **Operating Surplus** | £14.4m | £16.6m | £18.4m | £16.9m | N/A |
| | **Social Housing Operating Margin** | 22.4% | 24.1% | 25.6% | 19.3% | 30% |

# Operating and Financial Review

1 HCA Global Accounts 2014

| | | 2012/13 | 2013/14 | 2014/15 | Target | Benchmark (median)[2] |
|---|---|---|---|---|---|---|
| **Customer** | Satisfaction with neighbourhoods | 78.2% | 85.4% | 89.9% | 84% | 85.1% |
| | Satisfaction with landlord services | 87.7% | 92.6% | 92.7% | 90% | 86.8% |
| | Satisfaction with homes | 87.8% | 92.3% | 91.8% | 85% | 85.4% |
| | Stock utilisation | 96.3% | 96.2% | 96.8% | 95% | N/A |
| | Tenancy Turnover | 8.4% | 9.2% | 8.8% | 10% | N/A |

2 Housemark STAR survey all associations 14/15

*Satisfaction*
Resident satisfaction is fundamental to us proving value for money and to ensure integrity we use a third party provider to collate satisfaction across a number of service areas.

Overall satisfaction with Landlord Services was 92.7% at the end of 2014/15 which shows a steady improvement over the last three years.

Satisfaction with Neighbourhoods and the Home both exceeded target in 2014/15 achieving 89.8% and 91.9% respectively.

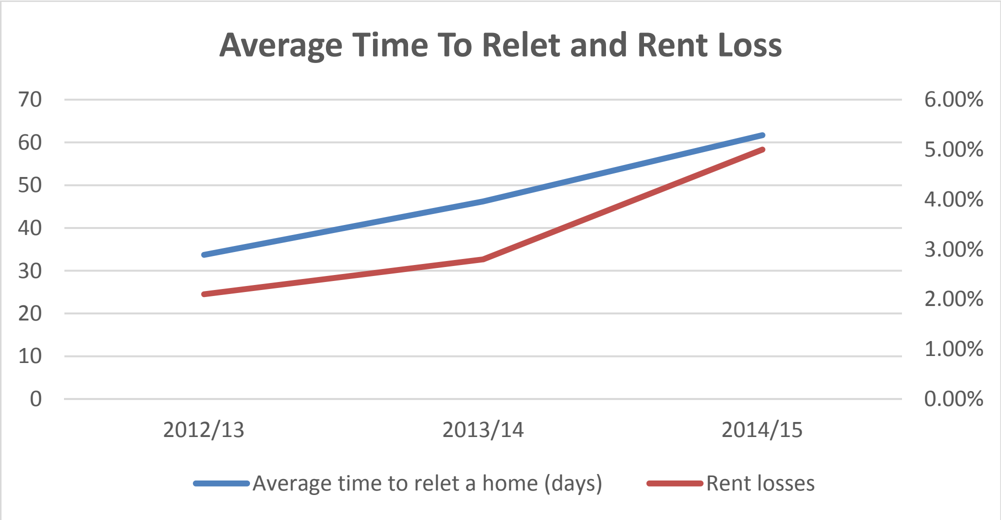
| | | 2012/13 | 2013/14 | 2014/15 | Target | Benchmark (median)[3] |
|---|---|---|---|---|---|---|
| **Business Process Effectiveness** | **Tenancies ending in the first 12 months** | 15.9% | 12.0% | 14.8% | 15% | N/A |
| | **% of homes with valid gas safety certificate** | 99.96% | 99.97% | 99.98% | 100% | 100% |
| | **rent collected as percentage of rent roll** | 99.6% | 99.1% | 97.1% | 100% | 99.4% |
| | **Average relet times in days** | 33.7 | 46.2 | 61.7 | 32 | 32.9 |
| | **Former tenant arrears collected as percentage of debt** | 7.2% | 7.1% | 36.7% | 10% | N/A |
| | **Average days to let a new build** | | 36.6 | 23.2 | 20 | N/A |

3 Housemark Priority Performance associations 15,000 to 20,000 homes

# Operating and Financial Review

*Business Process Effectiveness*

Throughout 2014/15 we have reported to Board and our Tenants Together Forum deteriorating performance in arrears management, re-let times and void rent loss. At the end of 2014/15 current rent arrears were 4.62%, average time taken to re-let a home was 61.5 days and void rent loss was £118 per home, up from £93 in the previous year - all of these indicators place us in the bottom 25% of housing associations. Following a full analysis of relets performance including process review, resource planning, market demand, competitor behaviour and option appraisals, a dedicated and multi-disciplined empty property team was established in the autumn of 2014. The team began to have a positive impact in spring 2015, however the legacy of past management decisions meant that whilst occupancy levels and void rent loss improved the average re-let time continued to increase as historic voids became let.



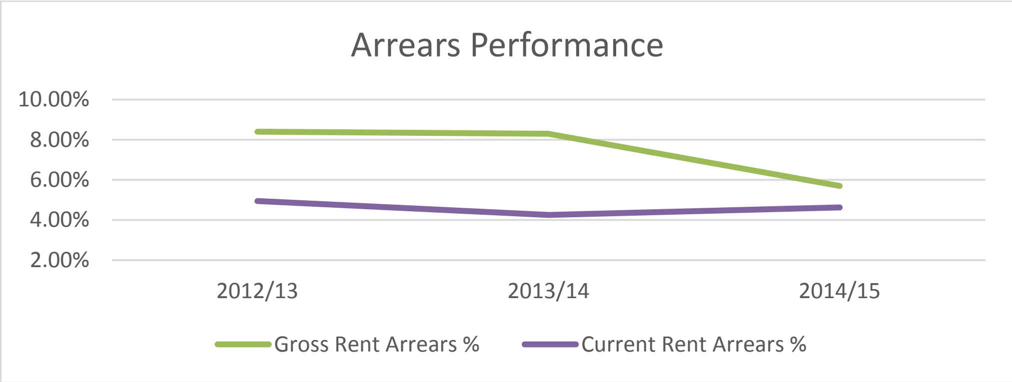

First-time lets have been reduced by 21.2 days (September 2013 – March 2014) from an average 36 days to 14.8 days (a 59% reduction) delivering revenue savings of £36,803 over this six-month period. Looking forward to anticipated new build completions for 2014-15 and 2015-18, this reduction in first lets has the potential to deliver further significant revenue savings.

Creating an in-house Project Inspector post has removed the need for an external Clerk of Works on some Cheshire schemes, resulting in a saving of £53,960. A further 450 completions are projected to be managed in this way, delivering an estimated saving of £366K over the next three years.

Bringing the management of the First Adapt system in-house has delivered a saving of £2K.

Overall our arrears management performance sits within the bottom quartile when compared to others. The Income management team was restructured with two philosophies the first aim to prevent arrears and to action early intervention; the second aim is a firm but fair approach to enforcement. In July 2014 we reviewed our resources specifically around former tenant arrears (FTAs) collection and recruited additional staff to support in the short term. This measure resulted in £205k of FTAs recovered by year end. The improvement in gross arrears is due in the main to a write off of historic debt in quarter four of 2014/15 so FTAs remain a concern and therefore a key focus for the organisation.

# Operating and Financial Review




**Overall Revenue and Cost Structure**

To understand the cost and revenue base, the key metrics that we use are:

- Revenue per unit
- Social Housing Operating Margin
- Management and Maintenance Costs per Home
- Cost of funds
- Efficiency gains
- Returns on investments

In 2014/15 the total revenue per unit was £5.6k compared to the sector average of £5.1k. Overall cost per property is £3.9k, an increase of 9% year on year and places us with some of the most expensive providers.

Staff cost per number of staff employed was £27.6k (2014: £27.2k).

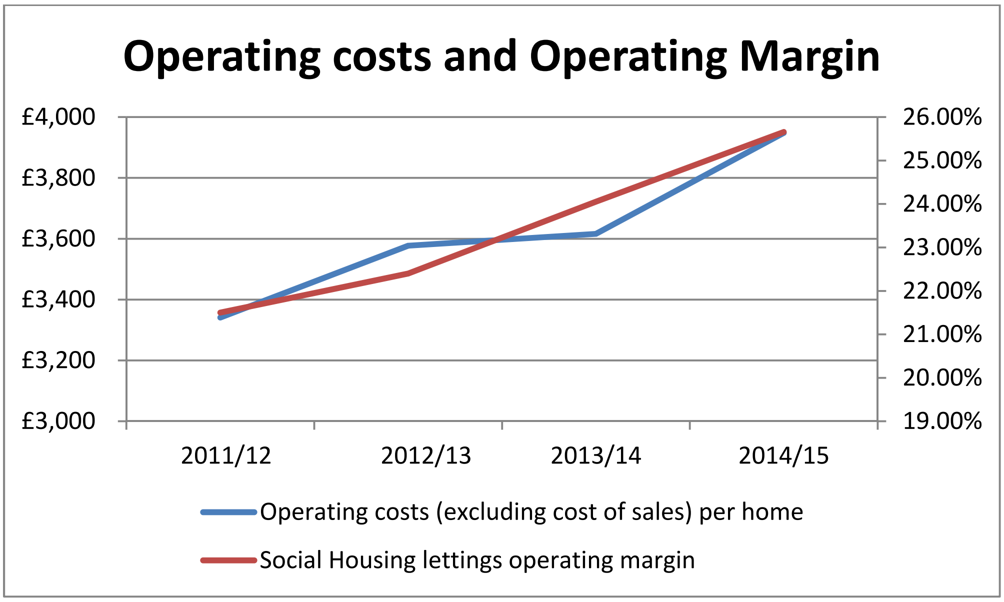
Plus Dane is planning to develop a new People Plan during 2015/16, part of which would be to undertake a review of terms and conditions to ensure they reflect more appropriately the strategic direction of the organisation and represent value for money.

<u>Social Housing Operating Margin</u>

Delivering a good operating margin is fundamental to ensuring the organisation is generating sufficient funds to resist external shocks or to invest in future operations/developments. The chart below shows Operating costs per home and Operating Margin over the last 4 years.

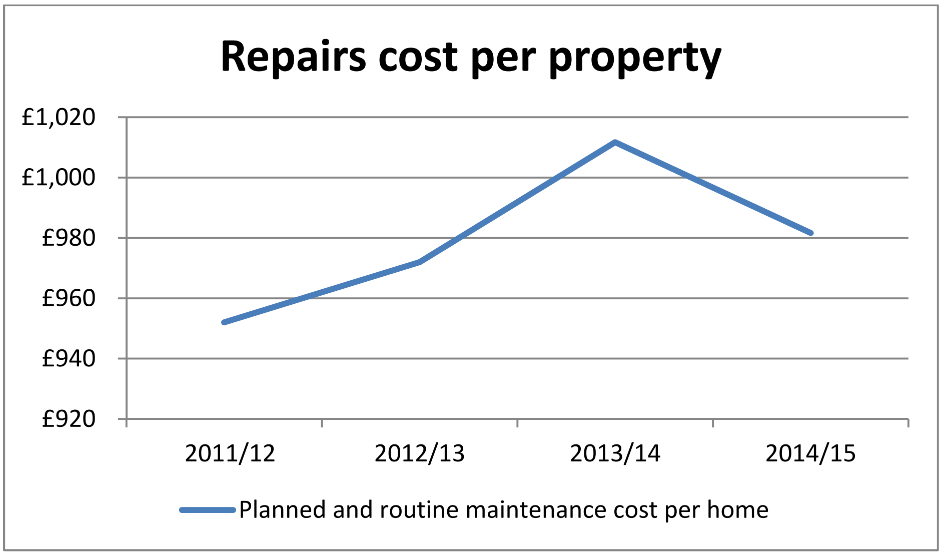
Plus Dane's operating margin is 25.6%; this compares to a median of 30% in the global accounts benchmark group. Whilst the figure is in line with budget and improving due to growth in rental income; it is lower than our peers' and our business plan reflects the need to continue to improve this position over the next three years by clearly understanding our cost base, the drivers and areas for major efficiency gains. The importance of this is emphasised by the announcement that rents will be cut by 1% a year for the 4 years from 2016/17.

# Operating and Financial Review




<u>Maintenance Costs</u>

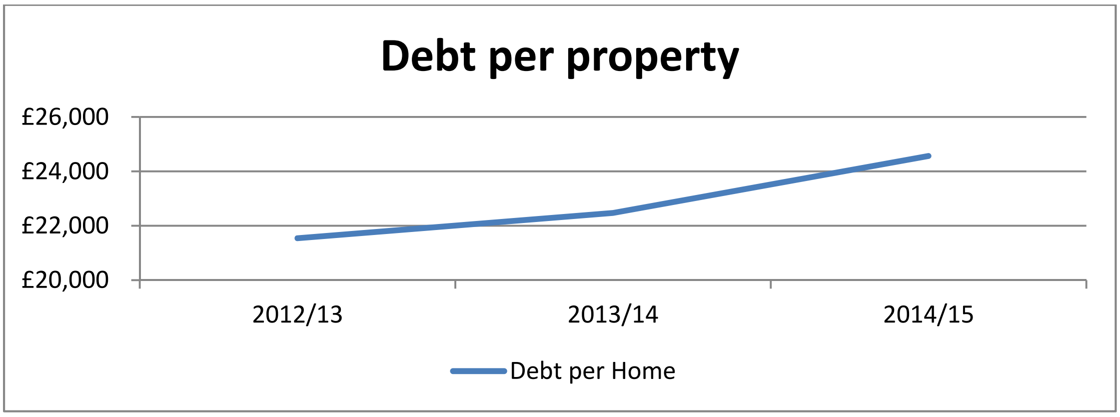
The chart below shows a four year trend in planned and routine maintenance per home. A renewed focus from the new leadership team on improved cost control has contributed to a reduction in repairs cost per property. Detailed analysis of our properties is being carried out to increase value for money further and we are reviewing how our maintenance services are delivered.



# Operating and Financial Review

Balance Sheet

Debt per property stands at £24,500 which has increased year on year due to the funding of new developments, lower grant rates and comparatively lower operating margins.




Cost of Funds

Cost of funds has increased significantly over the last three years from £11,288,000 (2012/13) to £13,522,000 (2014/15). Work is being done to reduce the complexity and risks of our funding arrangements and at the same time reduce the overall funding costs. For 2014/15 the effective interest rate is 4.62 % (2014: 3.86%). The hedging policy is to have between 50% and 80% of the debt fixed. The proportion fixed is currently 55%, maximising the benefit of low short term interest rates. Work is underway to replace some of the highest margin loans.

Rents Comparison

Our analysis shows us that our rents are higher than average in Liverpool and lower in Cheshire compared to other social housing providers. We have recently begun some work that will look, in some detail at the reasons for these differences, comparisons with the private sector and most importantly whether tenants feel that the Plus Dane 'offer' represents good value for money. This work will directly feed into our future rent setting policy.

Whilst customer satisfaction remains strong, Board are very clear that both the cost base and core business delivery need to significantly improve over the course of the next business plan.

**Efficiency Gains**

During 2014/15, a number of specific additional efficiency initiatives helped contribute to overall VfM efficiency savings of some £571,000, equating to 1% of the Group's operating cost base. This was slightly lower than the target of £582,000. The key areas where savings were achieved were:

- Renegotiation of price of new boilers - £265k
- Retender of window and communal cleaning service - £167k

# Operating and Financial Review

- Energy utilities retender - £62k

**Improved outcomes for tenants**

Our approach to measuring social value has developed over recent years, and we have used a number of tools from SROI and most recently HACT; however we recognise that we need to improve our approach to measuring the impact and outcomes of our investment as we aim to understand and maximise our return.

In 2014/15 examples of are activity include

- Tenancy sustainment has improved compared to last year; 8.8% (2014: 9.2%) tenancy turnover however we recognised that improvements are needed to reduce the number of tenancies ending in the first 12 months (14.8%). Through 2014/15 we have analysed the reasons why people were leaving us and as a result we have changed our pre-allocation approach to include credit checks and sustainability assessments in order to target interventions to maintain tenancies.
- Dealing with anti-social behaviour (ASB), which affects the wider community helps ensure successful tenancies and prevents others from moving away. Working with the local Crime and Safety Partnerships produces better outcomes for customers and avoids costly duplication. Our investment of £174k in this service resolved 191 cases in 2014/15.
- Working with Cheshire West and Cheshire Council through the Ellesmere Port Work Zone, since March 2014 we have supported 35 Plus Dane tenants into employment.
- Building on the success of the Live Local, Work Local event in Merseyside, the team in Ellesmere Port and Neston decided to replicate the formula in Cheshire West. Working in close partnership with the council, the event was held at the Civic Hall in Ellesmere Port on 26th September 2014. Over 550 people attended the event which saw over 450 job vacancies advertised, numerous training opportunities and representation from 30 employers and 20 training and advice agencies.
- Working in partnership with Seed Enterprises and Made Here, Plus Dane gave 10 young people experience of the world of business over a 6 week period. Of the ten young people who attended all reported an increase in confidence, 2 young people went onto secure work experience from Plus Dane, 2 entered into the national 'Tenner' campaign ran by Young Enterprise, a national charity which offers £10 to young people to set up a business or expand a current one and then offers the opportunity to take part in regional and national competitions; 1 young person expanded the product range of his existing business as a result of our support.
- Making Business Work supported over 350 businesses, sole traders, charities and social enterprises, meeting our targets and within budget. The project has supported small enterprises to sustain and create jobs, and deliver valued and unique services to within our communities. In Total 68 jobs safeguarded and 32 new jobs created.

# Operating and Financial Review

- Through its 2013-14 development programme 2013-14, Plus Dane has safeguarded 89 apprenticeships and created 14 apprenticeships.
- Our Welfare Team has worked to support tenants and ensure they get additional help and support if it is needed. As part of this we worked with c.1,200 tenants and government to help them receive additional support of £2.89m.
- We helped maintain and improve the look of the neighbourhoods in which we operate by investing £11 per home on neighbourhood "Clean Up" days.

**Repairs & Active Asset Management**

The repairs service is typically one of the largest cost areas for registered providers and also the key area of importance for tenant; in autumn 2014 Plus Dane participated in Housemark's VFM benchmarking project and the headline findings are below:

- Compared to the benchmark group Plus Dane achieved upper quartile ranking for satisfaction with the repairs service; 93.9% compared to a median of 96.5%.
- The percentage of jobs completed on the first visit was 91.3% which is higher than the median at 86.9%.
- Average cost of a responsive repair is higher than the median at £492 and appears to be driven by a significantly higher cost of gas repairs compared to others.
- Satisfaction from tenants moving into a property is median at 90%.

As part of our strategic work programme a wholescale review of our repairs service is underway with a detailed option appraisal expected in the autumn of 2015.

Plus Dane has produced a revised Asset Management Strategy, which was presented to Plus Dane Board in November 2014.

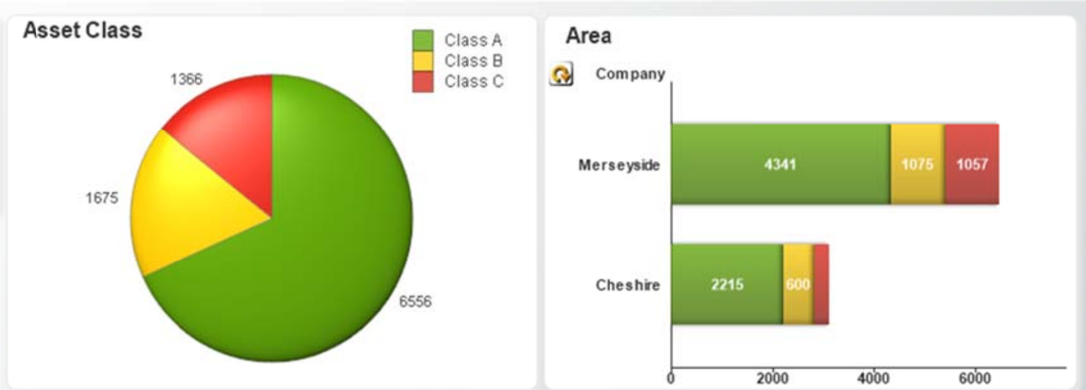
This strategy has been designed to ensure we can maximise the quality of our housing stock in order to make it safer, more comfortable and more in line with customer aspirations whilst also ensuring we maximise the quality and financial return of our asset base. This will enable us to both focus and target properties which are sustainable while at the same time identify alternative interventions for stock which does not perform financially and is no longer sustainable.

We will improve the quantity and robustness of the stock condition data to better inform short, medium and long term investment decisions and make better use of existing data management systems to further analyse and use information relating to its stock.

A focus on increasing investment in planned improvements will enable us to reduce the costs of responsive repairs, improving the net present value of our assets while aiming to increase satisfaction with the home.

Throughout 2014/15 we have built up our asset and liabilities register to better understand the risks associated with our current stock portfolio and enabled decision making target at reducing and mitigating these risks.

# Operating and Financial Review




We have developed and implemented our asset grading model which uses a combination of financial and sustainability indicators to better understand the performance of our stock base and through the development of our options appraisal model identify the most appropriate solution; the picture below shows the proportion of each class banding A through to C which is used to inform asset management and investment decisions.

As illustrated above our stock can be broken down into the following categories:

- Class A c.6.6k properties – our better performing assets that we will continue to invest in
- Class B c.1.7k properties where a combination of investment and management interventions will be examined to improve the performance of the stock
- Class C c.1.4k properties – we will use our options appraisal model to identify the most appropriate course of action.

We recognise that targeted disposals will have a positive impact on the places and people we serve, by providing increased tenure choice and realising additional resources for re-investment elsewhere.

Through a measured programme of disposals, including negotiation of existing sites and stock for market sale, Plus Dane has doubled its Recycled Capital Grant Funds (RCGF) for 2012-14 to £2.4m. This in turn has enabled us to achieve greater investment through our Affordable Housing development programme (AHP1).

In September 2014, the St Gregory's development received its HCA quality audit and the report stated "Code Level 3 was achieved on the scheme with building for life score of 17/20. The scheme strived for quality in all aspects and this is evident from visiting the scheme and understanding the technical criteria behind the sustainability aims. The fabric first approach focused on u/values within the property via increased insulation in the walls and concrete floors and 500mm of insulation within the roof void". In terms of tenants' views, the report highlighted "The residents are extremely pleased with the development and particularly sufficient communal space provided".

**Investment:** Plus Dane's in-house contractor continues to provide overall value for money in relation to delivery of planned and cyclical investment programme. In 2014-15 cost of delivery were 4% lower than the benchmarked average. Further work will continue during 2015-16 to examine efficiency by individual work streams and focus on driving further efficiencies in those areas which are higher than the benchmark average, such as window replacements. Where it is clear that further efficiencies can be achieved the Group will

# Operating and Financial Review

continue to deliver these programmes through a combination of externally procured contracts and an in-house contractor efficiency programme.

The table below highlights benchmark comparisons against key components and whether the work stream is delivered by in-house or external contractors.

| **Work Stream** | **Benchmark**[4] | **Cost** |
|---|---|---|
| Kitchen Replacement | Average | £4,496 |
| | Lower Quartile | £3,809 |
| | Upper Quartile | £5,249 |
| | Plus Dane Contractors | £4,611 |
| | Plus Dane DLO | £4,300 |
| Bathroom Replacement (General needs) | Average | £2,591 |
| | Lower Quartile | £2,026 |
| | Upper Quartile | £3,159 |
| | Plus Dane Contractor | £2,279 |
| Bathroom Replacement (with over bath shower) | Average | £3,245 |
| | Lower Quartile | £2,785 |
| | Upper Quartile | £3,719 |
| | Plus Dane Contractor | £2,713 |
| Bathroom Replacement (full shower and wetroom) | Average | £3,488 |
| | Lower Quartile | £2,532 |
| | Upper Quartile | £4,525 |
| | Plus Dane DLO | £4,500 |
| Full central heating replacement | Average | £3,474 |
| | Lower Quartile | £2,707 |
| | Upper Quartile | £4,234 |
| | Plus Dane Contractor | £2,733 |
| | Plus Dane DLO | £3,025 |
| Boiler replacement | Average | £1,898 |
| | Lower Quartile | £1,456 |
| | Upper Quartile | £2,466 |
| | Plus Dane Contractor | £1,407 |
| Window Replacement | Average | £4,209 |
| | Lower Quartile | £3,052 |
| | Upper Quartile | £5,527 |
| | Plus Dane Contractor | £5,041 |
| External Door Replacement | Average | £665 |
| | Lower Quartile | £539 |
| | Upper Quartile | £836 |
| | Plus Dane Contractor | £712 |
| Rewiring | Average | £3,001 |
| | Lower Quartile | £2,200 |
| | Upper Quartile | £3,854 |
| | Plus Dane Contractor | £2,322 |

4 Benchmark from external ARC Consultancy

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**Supporting Home Ownership**

Plus Dane secured the Help to Buy contract 2014-16 for the North West region, following a competitive tender exercise.

Help to Buy is one of the Government's flagship initiatives and the Help to Buy Agent plays a pivotal role in administering sales to customers benefiting from the Help to Buy equity loan and low cost homeownership products, along with headline promotional work. In 2014/14 we have helped approximately 3,600 households into homeownership in 14/15 through Help to Buy in the North West. We also approved over 3,000 shared ownership applications in the North West during the same period.

In 2014/15 we continued to support the HCA affordable homes programme, developing 417 new homes. Over the last three years we have reduced our Total Scheme Cost year on year which has resulted in a reduction in our private finance (PF) requirement year on year.

Our grant requirement has reduced from 12/13 but increased from 13/14 (this is due to the amount of ‘nil grant’ units we have delivered in the programme years)

| | **2014/15** | **2013/14** | **2012/13** |
|---|---|---|---|
| Homes | 417 | 328 | 300 |
| How much money – TSC | £35,585,606 | £27,355,750 | £28,370,000 |
| Grant Value | £4,987,238 | £2,866,485 | £4,677,498 |
| Private Finance | £30,598,367 | £24,489,264 | £23,692,501 |
| Percentage of PV over Cost | 86% | 90% | 84% |
| **Average Cost per unit** | **£85,337** | **£83,401** | **£94,566** |
| **Average PF per unit** | **£73,377** | **£74,662** | **£78,975** |
| **Average Grant per unit** | **£11,959** | **£ 8,739** | **£15,591** |
| Nil Grant funded units | 180 | 199 | 52 |
| Nil Grant funded units - % | 43% | 61% | 17% |

**Environmental Return**

We invest in our assets and services to improve the energy efficiency of homes and reduce our environmental impact. This helps reduce energy bills for our tenants. At the end of 2014/15 99.7% (2014:99.5%) of our homes met the Decent Homes standard and the average SAP rating of our homes is 68 (2014:67). Examples of improvement work undertaken last year are:

# Operating and Financial Review

- **Energy Efficiency**
  - The group has invested over £1.15M in warmer homes, retro-fitting 122 existing properties in Castlefields, Runcorn and Liverpool 8. Plus Dane secured £617K funding through CESP and ERDF SHIFT funding streams to deliver these projects, and generated cost savings by running mini-competitions through the Fusion 21 procurement framework. Average cost savings for individual households are estimated at £150 per annum.
  - Solar PV at Congleton and Sandbach – 90 properties on a rent-a-roof scheme whereby 100% of project costs are met by third party investor, who retains all Feed-in Tariff payments. Estimated savings to residents £80 per annum per resident. Co2 emission savings of approx. 1 tonne per property per annum.
  - Cavity Wall Insulation at Congleton – 125 flats across 10 blocks received cavity wall insulation at a cost of £12k. Potential fuel efficiency savings of £10 per resident per annum estimated.
  - New boilers provided to 420 properties across Merseyside and Cheshire at approx. cost of £550k, potential fuel efficiency savings of £25 per resident per annum estimated.
  - Double glazed windows and new front/rear doors installed to 152 no. properties in Merseyside at approx. cost of £450k.

- **Meeting Customers' Needs**
  - Nearly 100 Plus Dane customers will also benefit from the REECH funded energy efficiency project, collectively saving approx. £11,500 on annual utility bills.
  - The recent improvement works to the heating infrastructure at Rosehill Court will see customer's fuel bills reduced by £3,700 per year.
  - Incorporating level access shower installation as part of the bathroom improvement works at one of sheltered schemes. Whilst this has provided greater safety and comfort for our tenants, it has also reduced the future demand on the Aids and Adaptations referrals and reduced the costs of installation compared to the one off costs. .

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## Looking Forward 2015-2017

<u>Board's Direction</u>

During the year ended 31st March 2015, the Board reappraised its approach to value for money. The catalyst for that was the All Boards Away Days in November 2014 where it considered the challenging operating environment, possible future markets and the organisational structure to meet that challenge. There was also a recognised need to address the lower benchmarked business performance and high operating costs explained earlier. These two challenges have been included within the 2015 business plan.

In addition following the summer 2015 Budget Announcement that rents in social housing would be reduced by 1% a year for four years resulting in a 12% reduction in average rents by 2020-21, further welfare reforms particularly around housing benefit and the implications of extended Right To Buy it is evident that Plus Dane needs to respond and respond quickly. To support the necessary changes, particularly regarding improved efficiency Board instructed the following to be undertaken in 2014/15.

**Governance review:** In 2014/15 we moved to a more streamlined governance arrangements with a unitary board in place from April 2015 resulting in improved control, assurance and decision making with a clear line of sight across the organisation. As the structure becomes established, efficiencies are expected to be made in the costs of board administration with a more consistent approach across the Group.

**Leadership team review:** Following a strategic review we restructured the Executive Team to a functional directorate model which resulted in 75% of the former leadership team leaving the organisation; posts reduced from 5 Executives to 3 and from 12 Directors to 10 with an overall salary saving of between 18-24%. In addition we are utilising the role of a lead Director (non-finance) to champion value for money.

**Rationalise funding arrangements**: Plus Dane is a complex group with two main registered provider subsidiaries and three commercial subsidiaries. The Group funding is also complex with different parts of the group having a range of different funders, all with different terms and conditions.

Due to the risks and inefficiencies of these funding arrangements, Board agreed a wholescale review of loans the outcomes of this review are expected to reduce risks to the group, increase capacity and reduce administration and other costs relating to funding. It is recognised that there are likely to be transition costs associated with the changes.

**Overarching strategic work programme**: The Board recognised that whilst a number of strategic developments were already in train, including as a result of the regulatory judgement in the previous year, in order to truly drive the necessary change through the organisation a number of more fundamental reviews were needed. These include:

- A revised and rigorous business planning and budget setting process that aligns the Corporate Strategy to annual directorate plans, with a clear line of sight through to individual performance.

# Operating and Financial Review

- Set a clear target for significant efficiency gains in our 2016 Corporate Plan; our financial modelling is looking at cost reductions of between 5% and 25% over the next 3 to 5 years.
- Tenant engagement and scrutiny, whilst there are a number of ways in which tenants and residents can influence, Board felt that there is a need to refresh this approach so that the tenants and customers had a much stronger voice in the organisation. We want to improve the way in which we involve our tenants and customers in making decisions, shaping services, and monitoring our performance. We have acknowledged the need to strengthen our arrangements and provide more flexible and agile ways for tenants and customers to engage with us – whether this is through better use of technology or broadening the routes to involvement through networking opportunities and increasing opportunities for our tenants to access local training and employment opportunities.
- A reinforced performance management framework built on strategic, operational and exception tiers of reporting.
- An improved organisational approach to programme management with more robust business cases needed for approval and tangible post implementation impact assessments.
- Improved customer insight and understanding to ensure that we truly understand the needs and aspirations of current and future customers so that services and resources can be better deployed to meet those needs.
- IT strategy that utilises lean business processes in systems design, improves customer access and increases use of digital channels.
- An organisational accommodation plan that considers the future focus of the organisation, supports efficiency and effectiveness of corporate services and drives service delivery
- The development of a people plan and strategy to support our long term aspiration of being an employer of opportunity.
- As a key driver of satisfaction we will carry out a full option appraisal of our repairs service looking at the full spectrum of service delivery options from a value for money basis.
- Plus Dane is harmonising its approach to Property by amalgamating its existing Asset Management and Regeneration & Commercial Development teams. We are updating and extending coverage of our stock condition surveys to ensure we are clear on what works need to be done to our properties and ensure that they are done in a way that maximises value for money.
- Energy Efficiency **-** The funding environment is currently very limited for Registered Providers, who are not eligible for the Green Deal. However, the organisation is taking one pilot project forwards through Solar PV funding. The current average SAP rating for Plus Dane homes is 68 which has improved marginally over the last three years; the group plans for 80% of its homes to achieve EPC Band C or better by 2020, currently we are achieving 45%. Improved data capture through Keystone, our asset management database, will improve the way assets are managed and invested in going forwards. Better use of EPC data will enable more targeted and collaborative energy programmes.

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An accessible version of this self-assessment against the HCA's VFM regulatory standard will be available on http://www.plusdane.co.uk.

**Risks and uncertainties**

A clear objective in the current business plan is to embed a comprehensive risk management culture within the organisation.

To achieve this a series of actions have been set out in the business plan that will ensure the Group has embedded a robust assurance approach resulting a in a clear alignment between risk appetite, tolerance and achievement of corporate goals.

Risks that may prevent the Group achieving its corporate goals have been reviewed by senior management and board as part of the corporate planning process. These risks are recorded and assessed in terms of their impact and probability.

They have also been reviewed in line with the risk appetite confirmed by the Board under the newly implemented risk appetite framework. Through 2014/15 risks have been reviewed at the end of each Board meeting, and consensus reached as to the cumulative impact of decisions made by Board on the risk position. The strategic risks key to the successful achievement of the organisation's objectives going forward are considered below.

| Major Risks | Action being taken |
|---|---|
| **Failure to comply with loan covenants**<br>Failure to comply with loan covenants causing a notifiable breach, leading to a re-price/withdrawal of funding facilities. | • Close monitoring of lenders covenants which is reported on monthly.<br>• Negotiating new facilities, revisions to facilities and alternative sources of finance in advance of need. |
| **Welfare reform leads to shortfall in income and increased costs**<br>Changes brought about through welfare reform lead to a shortfall in income collections and increased void loss, void repair costs and threat to organisational sustainability. | • Customer profiling allowing targeting of those affected.<br>• Close monitoring of rental arrears and working with tenants to recover these on a timely basis. |
| **Increasing cost of pension provision**<br>Continuing poor performance of pension funds resulting in increasing deficit contributions and pressure on budgets. Failure to take action to implement a pension strategy leading to costs becoming unaffordable. | • Pension strategy to be revisited and agreed with Board in autumn 2015. |

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| Major Risks | Action being taken |
| --- | --- |
| **Continued diminution in value of three60 investment property values**<br>Risk of continued diminution of investment property values in three60 leading to potential covenant breach and cross default as well as potential impairment of Plus Dane Merseyside's investment in three60. | • Property values kept under constant review to ensure no further adverse movement.<br>• Capacity to address covenant breach maintained within guarantee facility and potential for intra-group funding.<br>• Managed disposal of three60 assets in line with outcome of strategic review. |
| **Staff retention and development - Lack of suitably trained staff**<br>Loss of key staff and failure to have in place effective succession planning could lead to poor performance which could ultimately impact covenants and lead to repricing/withdrawal of funding. | • Leadership team review.<br>• Monitoring of staff profile and details of the anticipated retirement/leaving dates.<br>• Review of skills shortages and gaps and details of works put out to subcontractors.<br>• New People Strategy and plan in development 2015.<br>• HR team restructure quarter 2 2015 to deliver a contemporary and value adding service. |
| **Failure to achieve an improved governance rating**<br>New governance arrangements and board support protocols fail to improve board effectiveness, achieve compliance or improve G3 rating | • Unified Board appointed from 1st April 2015 with holistic view across the organisation.<br>• New committees introduced following external reviews of governance arrangements.<br>• Board succession, recruitment and development plans are in place. |
| **Failure to retain financial viability rating**<br>Tensions around three60 and the cross-default nature of a complex funding structure could detrimentally impact financial viability rating | • Careful management of refinancing negotiations.<br>• Manage and accelerate where possible the disposal of three60 assets.<br>• Considered options for loan impairments and settlements. |
| **Failure to comply with VfM standard**<br>Failure to deliver on regulatory requirements relating to value for money. | • Comprehensive asset management strategy being developed and scheduled for completion in November 2015.<br>• Targeted procurement of services with procurement targets in a number of areas.<br>• A full assessment of efficiencies will be carried out in the budget review in September 2015.<br>• Targeted voids activity driven by voids action plan and group. |

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| Major Risks | Action being taken |
|---|---|
| **Failure to deliver strategic change that will lift performance**<br>Inability to coordinate strategic change programmes needed to improve performance across the organisation | • Introduced an organisation wide approach to project and programme management.<br>• Brought in resources to support project management and delivery.<br>• Established a Project Management Office with robust governance.<br>• Aligned strategic work programme to business plan. |
| **Failure to improve income collection rates**<br>Income management performance throughout 2014 was poor (bottom quartile) which if continues could impact on financial strategy and future development | • Corrective action plan in place.<br>• Staffing levels reviewed and increased.<br>• Income strategy and policy being revised in 2015.<br>• Performance closely monitored by Board. |
| **Lack of funding for growth**<br>Poor performance, failure to improve our regulatory judgement or changes in the external environment may lead to an inability to secure new sources of funding for refinancing and future development. | • KPI performance reporting.<br>• Half yearly reports on business plan performance. |
| **Refreshed asset management strategy not implemented**<br>Lack of a coherent asset management strategy leading to the group not fully realising the value of assets through investment or disposal leading to poor organisational performance and value for money. | • Asset management action plan agreed.<br>• External consultants appointed to assist in delivery of action plan.<br>• Regular reporting to board/Audit and risk committee on progress.<br>• Established Property Panel as part of the new governance arrangements to oversee delivery of asset management plan. |
| **Failure to have robust Business Continuity Plan in place**<br>Failure to have an effective business continuity plan in place leading to an inability to function as a business and reputational damage and financial loss. | • Business Continuity Steering group in place.<br>• Business Continuity Working Group in place.<br>• Lessons learnt log maintained and shared.<br>• 2015 external Business Impact Analysis assessment to be carried out.<br>• Business continuity plan in place.<br>• Plan tested regularly and reviewed by internal auditors. |

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| Major Risks | Action being taken |
|---|---|
| **Failure to comply with health and safety legislation**<br>Failure to comply with health and safety legislation leading to injury or death with sanctions from the HSE and the HCA for causing serious detriment. | • Health and safety working group meet regularly.<br>• Dedicated H&S officers across the Group.<br>• Retained consultants advise on H&S matters.<br>• Compliance plan in place. |
| **Failure to deliver Waves of Hope project** | • Dedicated and experienced project manager.<br>• Strong internal governance.<br>• Assurance provided by the Big Lottery governance framework. |
| **Failure to respond to the 1% reduction in social housing rents for next four years** | • Board-led discussion on modelling the impact on current and future financial modelling.<br>• Primary assumption modelled into 3 to 5 year business and efficiency plan. |

**Investment for the future**

The investment of this year's financial results is detailed above. The investment of surpluses for investment in the Group's future financial stability is a key tenet of our financial strategy and is of paramount importance for all businesses. The investment will be in the form of development of new homes, extension and improvement of services, investment in existing stock and regeneration of our communities and neighbourhoods, investment in the people we serve as well as our properties. It also helps protect against unexpected events which is key in the current uncertain political and economic climate.

**Housing properties**

At 31 March 2015, the Group owned or managed 18,768 (2014: 18,538) completed units of accommodation. The owned properties are carried in the balance sheet at cost (after depreciation and capital grant) of £324.9 million (2014: £301.4 million). Further detail can be found in note 12.

Our investment in housing properties this year was funded through a mixture of cash generated from operations, social housing grant and loan finance. The Group's treasury management arrangements are considered below.

**Capital structure and treasury policy**

There is a robust treasury management strategy in place which addresses interest rate risk, covenant compliance, funding and liquidity risk and exposure to counterparties. The strategy is set annually and is approved by the Board. Management of the loan portfolio is the responsibility of the Executive Director – Corporate Services and is managed in accordance with the treasury management strategy and policy. The Association borrows at both fixed

# Operating and Financial Review

and floating interest rates. Regular updates on treasury activity are given to the Audit and Risk Committee.

The Group does not make use of hedging instruments other than to fix variable rate debt either at the time of drawdown or following a review of the loan portfolio and market conditions.

The Group's borrowings total £315.2 million (2014: £301.9 million). The movement in loans drawn represents funds drawn for stock development and improvement. Cash balances at the end of the year stood at £7 million (2014: £8 million). New debt drawn totalled £13.3 million (2014: £20.3 million). Interest costs increased to £13.5 million (2014: £11.3 million). The average rate of interest paid in the year increased from 3.86% to 4.62%.The Group is subject to a range of covenants and comply with all of these.

The Group borrows principally from banks, at both fixed and floating rates of interest. There is no limit imposed on the level of fixed interest rate borrowings the Group is able to hold although the treasury policy recommends that between 50% and 80% of the Group's debt should be fixed. At the year-end, 55.2% of the Group's borrowings were at fixed rates. Variable rate borrowings are those where the interest rate is fixed for less than 12 months from the balance sheet date.

Bank borrowings in summary:

| | **2015** | 2014 |
|---|---|---|
| | **£'000** | £'000 |
| Fixed | 173,882 | 166,518 |
| Variable | 141,242 | 135,415 |
| Total drawn | 315,124 | 301,933 |
| Available facility | 48,010 | 25,788 |

The maturity of the Group's borrowings is detailed in note 20 of the financial statements. The Group borrows and lends only in sterling and so is not exposed to currency risk.

**Post Balance Sheet events**

On 11 June 2015 Three60 repaid its portfolio facility of £4.0m with RBS.

**Going Concern**

The Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. It therefore continues to adopt the going concern basis in the preparation of the financial statements.

**Statement of compliance**

In preparing this Operating and Financial Review, the Board has followed the principles set out in the Statement of Recommended Practice "Accounting by Registered Social Housing Providers (update 2010)".

# Report of the Board

The Board has pleasure in presenting the report and financial statements for Plus Dane Housing Group Limited for the year ended 31 March 2015.

**Principal Activity**

Plus Dane Group provides affordable homes for rent and shared ownership together with housing support for vulnerable and elderly residents. It also has interests in major regeneration projects and partnerships to deliver change to the neighbourhoods and communities which it serves.

**Status**

Plus Dane Housing Group is a Registered Society incorporated under the Co-operative and Community Benefit Societies Act 2014. It is registered with the Homes and Communities Agency as a Registered Provider of social housing as defined by Housing and Regeneration Act 2008.

**Role of the Board**

The Board comprises up to twelve non-executive directors and is responsible for managing the affairs of the Association and Group. The present Board members and the executive officers of the Association are set out on page 1. All of the Board members served throughout the period and until the date of approval of these financial statements except as indicated on page 1.

Following a full review of its governance arrangements, Plus Dane rationalised its governance arrangements to establish a unified Board with membership in Common across the Group with just one or two exceptions. This changed approach enables Plus Dane to ensure it has the necessary oversight and control of the organisation's business.

The Board meets formally at least six times a year for regular business, including approval of the budget and business plan. Board members also attend an annual conference to discuss future strategy as part of the wider Plus Dane Group. Also in attendance at Board meetings are the Chief Executive and members of the Executive Management Team and the Company Secretary as detailed on page 1. The Executive Management Team is supported in its day to day running of the Association and Group by members of the Group's Leadership Team. The Executive Management Team served throughout the year except as detailed on page 1. They hold no interest in the Association's shares and act as executives within the authority delegated by the Board.

The Board members are drawn from a wide background bringing together professional, commercial and local experience. Terms of reference are issued to the Board. Board members act in the interest of the Association and not on behalf of any interest group.

Members of the Board represent the Group on the Plus Dane Group's Group-wide committees: these are the Audit & Risk Committee, Governance and Nominations Committee and Property Panel.

Group insurance policies indemnify board members and officers against liability when acting for the Group.

# Report of the Board

**Senior Management Team**

While the Board is responsible for the Association's and Group's overall policy and strategy, management is delegated to the Chief Executive. The Executive Management Team is appointed and acts as executives within the authority delegated by the Board. They meet monthly under the chairmanship of the Chief Executive to consider management issues. The meeting is the key decision making forum within the business.

**Corporate Governance**

In August 2013, the Group received a change to its governance rating in its Regulatory Judgement from the Homes and Communities Agency (HCA) from a G1 to a G3. Its viability rating remains unchanged at a V2, however the organisation is currently on the Regulator's watch-list for financial viability with an outcome expected at the end of September 2015. Following the downgrade of its governance rating, Plus Dane committed to a voluntary undertaking to strengthen the areas identified for improvement and this was confirmed as having been "honoured in full" by the HCA in November 2014.

The Board is committed to the integrity and accountability in the stewardship of the Association's affairs.

One of Plus Dane's objectives in respect of governance is to follow best practice. The Group has adopted the National Housing Federation (NHF)'s Excellence in Governance – Code for Members 2010 and endeavours to comply with it in its entirety.

This year, the Group's only identified area of non-compliance relates to the term of office of the Chair. Plus Dane had committed to being fully compliant with the NHF Code in terms of expectations around the 9 Year Rule for Board Membership for all of its members by September 2015. Following comprehensive succession planning this is the case with all but the Chair.

The Leadership Team changes during 2015, coupled with the current review of the organisation's viability rating by the HCA has resulted in the Board determining that the existing Chair's tenure should be extended to September 2016. This will ensure the organisation's continuing stability and enable the process for succession to be undertaken.

The Group updated its regulatory code policy by adopting the NHF's Code of Conduct 2012 in September 2013 and is currently reviewing its compliance against the Code of Governance 2015 Edition.

The Audit & Risk Committee has a protocol with the external auditors, which sets out policies for determining what non-audit work can be undertaken by the external auditors and procedures for periodic review and selection of external auditors.

**Employees**

The strength of the Group lies in the quality and commitment of its employees. The Group's ability to meet its objectives and commitments to its tenants in an efficient and effective manner depends on the contribution of all employees.

# Report of the Board

The Group provides training programmes focused on quality and customer service throughout the association, and seeks employees' views on how to improve services and on matters of common concern.

The Group continues to provide information on the Group's objectives, progress and activities through regular office and departmental meetings and through its staff newsletter, weekly Chief Executive email and the intranet.

**Tenant Engagement**

By working closely with tenants and customers we can make a real difference to our homes and neighbourhoods, and improve our services for the future.

The Group offers a wide range of ways for tenants to actively engage in decision making, scrutiny and developing our services. Tenants have a place on the Board and the Tenants Together Forum provides scrutiny and influence in developing policy and services. The Group has a youth engagement board and involves service users in exploring ways to work better across our partners and agencies.

The Group wants to improve the way in which tenants and customers are involved in making decisions, shaping services, and monitoring performance. The Board has acknowledged the need to strengthen arrangements and provide more flexible and agile ways for tenants and customers to engage with the Group – whether this is through better use of technology or broadening the routes to involvement through networking opportunities and increasing opportunities for our tenants to access local training and employment opportunities.

The Board are already reviewing our current structures and over the next 12 months will be designing and implementing a variety of ways for tenants and customers to get involved no matter how much time they have. The expectation is to have a new tenant and customer engagement strategy in place and implemented flexible methods so that we maximise the benefits that tenant and customer engagement can bring.

**Equality and Diversity**

The Group is committed to equal opportunities for all its employees. It is committed to fulfilling its statutory responsibilities with regard to equality and to the continued promotion of equality and diversity across the business.

**Investment power**

The Association's rules permit investment of monies not immediately required to carry out its objectives, as it determines and is permitted by law.

**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 for all organisations controlled by the Association.

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.

# Report of the Board

The Board advised by the Audit and Risk Committee, has reviewed the effectiveness of the system of internal control for the year ended 31 March 2015 and to the date of approval of these financial statements. The Board can make the following statements:

- With a new risk management strategy and approved framework for determining the Group's appetite to risk the Group is in the process of implementing a comprehensive and robust risk management framework throughout the organisation which will create clear parameters for decision making. The challenges around decision making and embedding risk are being focussed on as these must be part of the overall decision making process within the organisation.
- In reviewing the effectiveness of the Group's system of internal control, the Board has considered a range of sources of assurance including:
  - management reports
  - key performance indicators
  - audit reports and
  - management systems
- The system of internal control is designed to provide the Board with reasonable assurance that risks are identified on a timely basis and dealt with appropriately; that assets are safeguarded; that proper accounting records are maintained; and that the financial information used within the business or for publication is reliable. Control is exercised through an organisational structure with clearly defined levels of authority, responsibility and accountability.
- The Group is committed to sound financial management in all aspects of its business. It has a robust business planning process and all parts of the Group have detailed annual budgets and longer term business plans. The Group has a comprehensive system of management reporting that includes financial results and key performance indicators. Overall scrutiny is provided by the Board.
- The Group maintains a sophisticated approach to treasury management which is subject to external review each year.
- The anti-fraud policy sets out the commitment to preventing and detecting fraud. All staff are responsible for ensuring that systems of internal controls are operated effectively. Whistle blowing procedures are in place. A register of all frauds and losses is maintained and scrutinised by the Audit and Risk Committee on a quarterly basis.
- The Audit and Risk Committee has received the Director of Business Assurance's annual review of the effectiveness of the system of internal control for the Association, and the annual report of the internal auditor, and has reported its findings to the Board.

# Report of the Board

**Statement of the responsibilities of the Board for the report and financial statements**
The board is responsible for preparing the report and financial statements in accordance with applicable law and regulations.

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

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice (SORP) Accounting by Registered Housing Providers Update 2010, 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 which disclose with reasonable accuracy at any time the financial position of the group and association and enable it to ensure that the 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 2012. It is also responsible for safeguarding the assets of the association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as each of the directors is aware:

- there is no relevant audit information of which the Association's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant information and to establish that the auditors are aware of that information.

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

**Annual General Meeting**
The Annual General Meeting will be held on 17 September 2015.

# Report of the Board

**Auditors**

A resolution to re-appoint Grant Thornton UK LLP as auditors will be proposed at the Annual General Meeting.

**Approval**
Approved by the Board and signed on its behalf by:

**Alison Carey**
**Company Secretary**
**17 September 2015**

# Independent Auditors' Report to the Members of Plus Dane Housing Group Limited

We have audited the financial statements of Plus Dane Housing Group Limited for the year ended 31 March 2015 which comprise the Consolidated and Association Income and Expenditure accounts, the Consolidated and Association Statements of Total Recognised Surpluses and Deficits, the Reconciliations of Movements in Group and Association funds, the Consolidated and Association Balance Sheets, the Consolidated Cash Flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the society's members, as a body, in accordance with regulations made under Sections 87 and 98(7) of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the society and the society's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of the board and the auditor

As explained more fully in the Statement of Board's Responsibilities set out on pages 32, the board is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

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

## Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group and parent society's affairs as at 31 March 2015 and of the group and parent's income and expenditure for the year then ended;
- have been properly prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008, and the Accounting Direction for Private Registered Providers of Social Housing 2012.

# Independent Auditors' Report to the Members of Plus Dane Housing Group Limited

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

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

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

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Manchester
17 September 2015

# Consolidated and Association's Income and Expenditure Accounts

| | | Group | | Association | |
|---|---|---|---|---|---|
| | Note | **2015 £'000** | 2014 £'000 | **2015 £'000** | 2014 £'000 |
| **Turnover: Group and share of joint venture** | | 101,460 | 87,195 | 11,221 | 9,665 |
| Less: share of joint venture turnover | | (391) | (244) | - | - |
| **Group turnover** | 3 | 101,069 | 86,951 | 11,221 | 9,665 |
| Operating costs | 3 | (49,735) | (46,894) | (11,321) | (8,864) |
| Cost of Sales | 3 | (33,017) | (23,492) | - | - |
| **Group operating surplus/(deficit) before share of joint venture operating profit** | 3 | 18,317 | 16,565 | (100) | 801 |
| Share of joint venture operating profit | | 22 | 14 | - | - |
| **Total operating surplus/(deficit)** | 9 | 18,339 | 16,579 | (100) | 801 |
| Surplus on sale of fixed assets | 10 | 4,583 | 260 | - | - |
| Gift Aid | | - | - | - | (650) |
| Interest receivable | 7 | 41 | 43 | 2 | 2 |
| Interest payable and similar charges | 8 | (13,522) | (11,293) | - | - |
| Share of joint venture interest payable | | (3) | (4) | - | - |
| Other finance income/(costs) | 6 | 421 | 8 | - | - |
| **Surplus/(deficit) on ordinary activities before tax** | | 9,859 | 5,593 | (98) | 153 |
| Tax on surplus/(deficit) on ordinary activities | 11 | (390) | (795) | (84) | (46) |
| **Surplus/(deficit) for the year** | 25 | 9,469 | 4,798 | (182) | 107 |

All amounts relate to continuing activities.

The financial statements were approved by the Board and signed on its behalf on 17 September 2015.

**Linda Minnis**
**Chair**

**Tom Murtha**
**Board Member**

**Alison Carey**
**Company Secretary**

The accompanying notes form part of these financial statements.

# Consolidated and Association Statements of Total Recognised Surpluses and Deficits

| Group | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Surplus for the year | 9,469 | 4,798 |
| Actuarial (loss)/gain on defined benefit pension schemes | (6,979) | 3,180 |
| Unrealised (loss)/gain on revaluation of investment properties | (485) | 354 |
| Deferred tax on pension scheme | 1,092 | - |
| Total recognised surpluses and deficits for the year | 3,097 | 8,332 |

**Association**
There are no other recognised gains and losses for the Association for the year other than the deficit for the year.

# Reconciliations of Movements in Group's and Association's Funds

| | Group | | Association | |
|---|---|---|---|---|
| | **2015 £'000** | 2014 £'000 | **2015 £'000** | 2014 £'000 |
| Opening funds | 15,932 | 7,600 | 111 | 4 |
| Total recognised surpluses /(deficits) relating to the year | 3,097 | 8,332 | (182) | 107 |
| Closing funds | 19,029 | 15,932 | (71) | 111 |

The accompanying notes form part of these financial statements.

# Consolidated and Association's Balance Sheets

| | Note | Group 2015 £'000 | Group 2014 £'000 | Association 2015 £'000 | Association 2014 £'000 |
|---|---|---|---|---|---|
| **Tangible fixed assets** | | | | | |
| Housing properties | 12 | 604,898 | 578,781 | - | - |
| Social housing and other grant | 12 | (280,029) | (277,386) | - | - |
| | | 324,869 | 301,395 | - | - |
| Other fixed assets | 13 | 14,314 | 15,351 | 1,861 | 2,223 |
| Investments | 15 | 113 | 113 | 113 | 113 |
| Share of joint venture gross assets | 15 | 337 | 326 | - | - |
| Share of joint venture gross liabilities | 15 | (304) | (306) | - | - |
| Homebuy initiative | | 1,644 | 1,194 | - | - |
| Less: Social housing grant | | (1,136) | (1,159) | - | - |
| | | 339,837 | 316,914 | 1,974 | 2,336 |
| **Current assets** | | | | | |
| Stock | 16 | 131 | 193 | - | - |
| Properties for sale | 17 | 7,199 | 8,216 | - | - |
| Debtors: Due within one year | 18 | 6,878 | 11,412 | 958 | 2,495 |
| Debtors: Due after one year | 18 | 5,358 | 5,877 | - | - |
| Cash at bank and in hand | | 9,350 | 8,364 | 1,392 | (8) |
| | | 28,916 | 34,062 | 2,350 | 2,487 |
| **Creditors:** amounts falling due within one year | 19 | (26,243) | (34,238) | (4,395) | (4,712) |
| **Net current assets/(liabilities)** | | 2,673 | (176) | (2,045) | (2,225) |
| **Total assets less current liabilities** | | 342,510 | 316,738 | (71) | 111 |
| **Creditors:** amounts falling due after more than one year | 20 | 309,849 | 292,182 | - | - |
| **Net pension liability** | 6 | 13,632 | 8,624 | - | - |
| **Capital and reserves** | | | | | |
| Non-equity share capital | 24 | - | - | - | - |
| Revenue reserve | 25 | 23,157 | 21,304 | (71) | 111 |
| Designated reserve | 25 | 1,389 | 1,346 | - | - |
| Revaluation reserve | 25 | (5,517) | (6,718) | - | - |
| **Group/Association funds** | | 19,029 | 15,932 | (71) | 111 |
| | | 342,510 | 316,738 | (71) | 111 |

These financial statements were approved by the Board and signed on its behalf on 17 September 2015.

| | | |
|---|---|---|
| **Linda Minnis** | **Tom Murtha** | **Alison Carey** |
| **Chair** | **Board Member** | **Company Secretary** |

The accompanying notes form part of these financial statements

# Consolidated Cash Flow Statement

| | Note | 2015 | | 2014 | |
|---|---|---|---|---|---|
| | | £'000 | £'000 | £'000 | £'000 |
| **Net cash inflow from operating activities** | 27(a) | | 30,110 | | 30,832 |
| **Returns on investment and servicing of finance** | | | | | |
| Interest received | | 41 | | 43 | |
| Interest paid | | (15,430) | | (12,008) | |
| Interest element of finance lease payments | | (11) | | (9) | |
| | | | (15,400) | | (11,974) |
| **Taxation:** | | | | | |
| Taxation paid | | | 48 | | (84) |
| **Capital expenditure and financial investment** | | | | | |
| Housing property additions | | (41,223) | | (42,020) | |
| Social Housing Grant received | | 4,395 | | 5,220 | |
| Proceeds from sale of housing properties | | 11,021 | | 2,180 | |
| Proceeds from sale of other fixed assets | | 274 | | 67 | |
| Purchase of other tangible fixed assets | | (473) | | (1,063) | |
| Purchase of investments | | (473) | | - | |
| | | | (26,479) | | (35,616) |
| **Cash outflow before management of liquid resources and financing** | | | (11,721) | | (16,842) |
| **Financing** | | | | | |
| Loans received | | 12,880 | | 20,325 | |
| Capital repayment of finance lease | | (173) | | (164) | |
| **Net cash inflow from financing** | | | 12,707 | | 20,161 |
| **Increase in cash in year** | 27(b) | | 986 | | 3,319 |

The accompanying notes form part of these financial statements

# Notes to the financial statements

## 1. Legal status

The Association is registered under the Co-operative and Community Benefit Societies Act 2014 and is registered with the Homes and Communities Agency as a housing provider.

## 2. Principal accounting policies

**Basis of accounting**

The financial statements of the Group and the Association have been prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP) and the Statement of Recommended Practice: Accounting by Registered Social Housing Providers (Update 2010), and comply with Accounting Direction for Private Registered Providers of Social Housing 2012. The accounting policies are unchanged from the prior year.

The Group had net current assets of £2,673,000 at 31 March 2015. The Board has a reasonable expectation that the Group can draw on sufficient alternative funding should this be required. The Board are therefore comfortable that the Group has adequate resources to continue in operational existence for the foreseeable future. It therefore continues to adopt the going concern basis in the preparation of the financial statements.

**Basis of consolidation**

The Group accounts consolidate the Accounts of the Association and its subsidiaries at 31 March using merger accounting.

Interests in joint ventures are accounted for using the gross equity method in accordance with Financial Reporting Standard ("FRS") 9 – Associates and Joint Ventures.

**Turnover and revenue recognition**

Turnover comprises rental income receivable in the year, income from shared ownership first tranche sales, sales of properties built for sale, income from management contracts and other services included at the invoiced value (excluding VAT) of goods and services supplied in the year and revenue grants receivable in the year.

Rental income is recognised from the point when properties become available for letting. Revenue grants are receivable when the conditions for receipt of agreed grant funding have been met.

Income from first tranche sales and sales of properties built for sale is recognised at the point of legal completion of the sale.

Income from management contracts is recognised from the point the Group becomes unconditionally entitled to the income through performance of its contractual obligations.

# Notes to the financial statements

Revenue generated from properties developed for sale is recognised in accordance with the stage of completion of contractual obligations to the customer. The stage of completion of the contract at the balance sheet date is assessed by reference to the value of work done.

When the outcome of a contract can be assessed reliably, contract revenue and associated costs are recognised as revenue and costs respectively by reference to the stage of completion of the contract activity at the balance sheet date.

Where the outcome of a contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable, and contract costs are recognised in the period in which they are incurred.

**Pre-emption agreement**

Properties developed under a right of pre-emption agreement are included within current assets (as development sales debtors) where it is considered probable that the pre-emption right will be exercised.

**Taxation**

The charge for taxation is based on the taxable surplus for the year and includes current tax on the taxable surplus for the year and deferred tax.

**Deferred taxation**

The payment of taxation is deferred or accelerated because of timing differences between the treatment of certain items for accounting and taxation purposes. Except as noted below, full provision for deferred taxation is made under the incremental liability method on all timing differences that have arisen, but not reversed by the balance sheet date.

In accordance with FRS19, deferred tax is not provided for gains on the sale of non-monetary assets, if the taxable gain will probably be rolled over.

The recognition of deferred tax assets is limited to the extent that the Association and Group anticipates making sufficient taxable surpluses in the future to absorb the reversal of the underlying timing differences.

Deferred tax is measured at the tax rates that are expected to apply in the periods when the timing differences are expected to reverse, based on tax rates and law enacted or substantively enacted at the balance sheet date.

**Value Added Tax**

The Group charged Value Added Tax (VAT) on some of its income and is able to recover part of the VAT it incurs on expenditure. The financial statements include VAT to the extent that it is suffered by the Group and not recoverable from HM

# Notes to the financial statements

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

**Interest payable**

Interest, including issue costs, is allocated at a constant rate on the carrying amount over the period of the borrowing. Interest is capitalised on borrowings to finance developments to the extent that it accrues in respect of the period of development if it represents either:

a) interest on borrowings specifically financing the development programme after deduction of interest on Social Housing Grant (SHG) in advance; or

b) interest on borrowings of the Group as a whole after deduction of interest on SHG in advance to the extent that they can be deemed to be financing the development programme.

Other interest payable is charged to the income and expenditure account in the year.

**Pension costs**

Contributions to the Group's defined contribution pension scheme, the Norwich Union Group personal pension plan, are charged to the profit and loss account in the year in which they become payable.

The Group participates in three funded multi-employer defined benefit schemes: the Social Housing Pension Scheme (SHPS), Merseyside Pension Fund (MPF) and Cheshire Pension Fund (CPF).

For SHPS, it has not been possible to identify the share of the underlying asset and liabilities belonging to the individual participating employers. The income and expenditure charge represents the employer contribution payable to the scheme for the accounting period.

For the MPF and CPF schemes, assets are measured at fair values. Scheme liabilities are measured on an actuarial basis using the projected unit method and are discounted at appropriate high quality corporate bond rates. The net surplus or deficit adjusted for deferred tax, is presented separately from other net assets on the balance sheet. A net surplus is recognised only to the extent that it is recoverable by the Group.

The current service cost and costs from settlements and curtailments are charged against operating surplus. Past service costs are spread over the period until the benefit increases vest. Interest on the scheme liabilities and the expected return on scheme assets are included net in other finance costs. Actuarial gains and losses are reported in the statement of total recognised surpluses and deficits.

**Supporting people**

Charges for support services funded under Supporting People are recognised as they fall due under contractual arrangements with administering authorities.

# Notes to the financial statements

## 2. Principal accounting policies (continued)

### Supporting people managed by agencies

Social housing capital grants are claimed by the Group as a developer and owner of the property and included in the balance sheet of the Group. The treatment of other income and expenditure in respect of supported housing projects depends on the nature of the partnership arrangements between the Group and its managing agents and on whether the Group carries the financial risk. Where the Group holds the support contract with the Supporting People administering authority and carries the financial risk, all the projects income and expenditure is included in the Group's income and expenditure account.

### Investment properties

In accordance with SSAP 19 investment properties held for long term investment are revalued annually at open market value as at the balance sheet date. Valuations are carried out by external valuers at least every third year. Properties in the course of development included in tangible fixed assets are stated at cost at the commencement of the development plus all development costs incurred subsequently. Properties are reviewed regularly by the Directors and if, in their opinion, there has been impairment the property is written down to its valuation. On completion of a development the property is reclassified as either an investment property or property held for resale as appropriate.

The aggregate surplus or deficit arising on revaluation is transferred to the revaluation reserve except where a deficit is deemed to represent a permanent diminution in value, in which case it is charged to the income and expenditure account.

On disposal of a fixed asset property, any surplus or deficit calculated by comparing net sale proceeds with book value, is included in surplus on ordinary activities before taxation and any realised revaluation surplus or deficit is reclassified, within reserves, to the profit and loss account.

No depreciation or amortisation is provided in respect of freehold investment properties and leasehold investment properties with over 20 years to run.

### Housing properties

Housing properties are principally properties available for rent and are stated at cost less social housing grant ("SHG") and depreciation. Cost includes the cost of acquiring land and buildings, development costs, interest charges incurred during the development period and expenditure incurred in respect of improvements.

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

# Notes to the financial statements

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

**Depreciation of housing properties**

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

Where SHG has been allocated to a component; the depreciable amount is arrived at on the basis of original cost, less the proportion of SHG and other grants attributable to the component, less residual value.

The Group depreciates the major components of its housing properties at the following annual rates:

| | **Years** |
|---|---|
| Main structure | 100 |
| Pitched Roofs | 60 |
| Flat Roofs | 20 |
| Windows, doors, external joinery & cladding | 25 |
| Heating systems | 15 |
| Kitchens | 15 |
| Bathrooms | 20 |
| Electrics including PV panels, wind turbines and other generators | 25 |
| Septic Tanks | 25 |
| Lifts | 20 |
| Aids and adaptations | 15 |

Freehold land is not depreciated.

Properties held on leases are amortised over the life of the lease or their estimated useful economic lives in the business if shorter.

**Impairment**

Housing properties, including those with individual components which are depreciated over a period in excess of 50 years are subject to impairment reviews annually. Other assets are reviewed for impairment if there is an indication that impairment may have occurred.

Where there is evidence of impairment, fixed assets are written down to the recoverable amount, being the higher of the net realisable value or the value in use to the Group. Any such write down is charged to operating surplus.

# Notes to the financial statements

## 2. Principal accounting policies (continued)

**Social housing grant**

Social Housing Grant (SHG) is receivable from the Homes and Communities Agency (“HCA”) and is utilised to reduce the capital costs of housing properties. It is allocated to the land and structure components of the associated asset in proportion to their cost. SHG due from the Homes and Communities Agency or received in advance is included as a current asset or liability. SHG received in respect of revenue expenditure is credited to the income and expenditure account in the same period as the expenditure to which it relates.

SHG is subordinated to the repayment of loans by agreement with the Homes and Communities Agency. SHG released on sale of a property is normally available to be recycled and is credited to a recycled capital grant fund and included in the balance sheet in creditors.

Where individual components are disposed of and this does not create a relevant event for recycling purposes, any grant which has been allocated to the component is released to the income and expenditure account. Upon disposal of the associated property, the Group is required to recycle these proceeds.

**Other grants**

Other grants are receivable from local authorities and other organisations. Capital grants are utilised to reduce the capital costs of housing properties, including land costs. Grants in respect of revenue expenditure are credited to the income and expenditure account in the same period as the expenditure to which they relate.

**Properties for sale**

Shared ownership first tranche sales, completed properties for outright sale and property under construction are valued at the lower of cost and net realisable value. Cost comprises materials, direct labour and direct development overheads. Net realisable value is based on estimated sales price after allowing for all further costs of completion and disposal.

**Other tangible fixed assets**

Depreciation is provided evenly on the cost of other tangible fixed assets to write them down to their estimated residual values over their expected useful lives. No depreciation is provided on freehold land. The principal depreciation rates and bases applied are:

| | |
|---|---|
| Freehold office building (straight line) | 2% |
| Motor vehicles (on a reducing balance basis) | 25% |
| Fixtures and equipment (straight line) | 10% to 33% |
| Leasehold buildings (straight line) | Over term of the lease |

# Notes to the financial statements

## 2. Principal accounting policies (continued)

**Leased assets**

Assets held under finance leases are included in the balance sheet and depreciated in accordance with the Group's normal accounting policies. The present value of future rentals is shown as a liability.

The interest element of rental obligations is charged to the income and expenditure account over the period of the lease in proportion to the balance of capital repayments outstanding.

Rentals payable under operating leases are charged to the income and expenditure account on a straight line basis over the lease term.

Where the Group acts as lessor under the terms of a finance lease; the debtor represents amounts outstanding, under these agreements, excluding finance charges allocated to future periods. Finance lease interest is recognised over the period of the lease, so as to produce a constant rate of return.

**Investments**

Investments are valued at cost, less provision for impairment.

**Stocks**

Stocks have been valued at the lower of cost and net realisable value.

**Revenue reserves**

Revenue reserves represent the accumulated accounting surpluses of the Group. They are utilised for investment in future capital repairs and improvements to the Group's housing stock and funding for new housing projects. The Board regularly reviews the Group's overall financial strength and accordingly agrees the appropriate level of reserves relative to the size of its development programme and risk capacity, especially in relation to treasury risk.

**Designated reserves**

A designated reserve is a reserve which has been earmarked for a specific use. The Group maintains designated reserves as follows:

Furniture/Equipment Replacement – an amount set aside for the replacement of communal furnishings and other equipment.

The Neighbourhood Reinvestment Reserve is designated to fund improvements in neighbourhoods decided upon by tenants.

# Notes to the financial statements

## 3. Turnover, cost of sales, operating costs and operating surplus

| Group | 2015 Turnover £'000 | 2015 Cost of sales £'000 | 2015 Operating costs £'000 | 2015 Operating surplus/ (deficit) £'000 | 2014 Turnover £'000 | 2014 Cost of sales £'000 | 2014 Operating costs £'000 | 2014 Operating surplus/ (deficit) £'000 |
|---|---|---|---|---|---|---|---|---|
| **Social housing lettings** | 58,520 | - | (43,505) | 15,015 | 55,834 | - | (42,404) | 13,430 |
| **Other social housing activities** | | | | | | | | |
| Development services | 1,624 | - | (1,376) | 248 | 1,435 | - | (1,250) | 185 |
| Supporting people contracts | 1,260 | - | (1,185) | 75 | 1,272 | - | (1,252) | 20 |
| Management services and other | 49 | - | (25) | 24 | 48 | - | (93) | (45) |
| Leased to others | 361 | - | (1,009) | (648) | 349 | - | (70) | 279 |
| Community regeneration | 141 | - | (551) | (410) | 172 | - | (787) | (615) |
| Sale of housing accommodation | 9,909 | (7,644) | - | 2,265 | 4,434 | (3,506) | - | 928 |
| Other | 814 | - | (772) | 42 | 905 | - | (155) | 750 |
| | 14,158 | (7,644) | (4,918) | 1,596 | 8,615 | (3,506) | (3,607) | 1,502 |
| **Non-social housing activities** | | | | | | | | |
| Lettings | 260 | - | (117) | 143 | 271 | - | (66) | 205 |
| Management contract | 23,333 | (22,665) | - | 668 | 19,840 | (18,899) | - | 941 |
| Income from finance leases | 342 | - | (407) | (65) | 419 | - | - | 419 |
| Other* | 4,456 | (2,708) | (788) | 960 | 1,972 | (1,087) | (817) | 68 |
| | 28,391 | (25,373) | (1,312) | 1,706 | 22,502 | (19,986) | (883) | 1,633 |
| | 101,069 | (33,017) | (49,735) | 18,317 | 86,951 | (23,492) | (46,894) | 16,565 |

* Non-social housing activities – other, includes the activities of three60 Property Investors Limited, a subsidiary of the Group, whose principal activity is that of property investment and development.
The management contract income and expenditure is in respect of the Ellesmere Port and Neston management contract.

# Notes to the financial statements

## 3. Turnover, cost of sales, operating costs and operating surplus

| Association | 2015 Turnover | 2015 Cost of sales | 2015 Operating costs | 2015 Operating surplus | 2014 Turnover | 2014 Cost of sales | 2014 Operating costs | 2014 Operating surplus |
|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Other social housing activities** | | | | | | | | |
| Development services | 3,142 | - | (2,640) | 502 | 2,535 | - | (2,330) | 205 |
| Management services and other | 8,079 | - | (8,681) | (602) | 7,130 | - | (6,534) | 596 |
| | 11,221 | - | (11,321) | (100) | 9,665 | - | (8,864) | 801 |

# Notes to the financial statements

## 3. Income and expenditure from social housing lettings

### Group

| | General needs housing £'000 | Shared ownership £'000 | Supported housing & housing for older people £'000 | Total 2015 £'000 | Total 2014 £'000 |
|---|---|---|---|---|---|
| Rent receivable net of identifiable service charges | 45,618 | 1,310 | 8,499 | **55,427** | 52,652 |
| Service charges receivable | 1,216 | 187 | 1,163 | **2,566** | 2,646 |
| Charges for support services | 57 | - | 470 | **527** | 536 |
| **Turnover from social housing lettings** | 46,891 | 1,497 | 10,132 | **58,520** | 55,834 |
| **Expenditure on social housing lettings** | | | | | |
| Management | 10,100 | 407 | 2,293 | **12,800** | 12,961 |
| Services | 1,458 | 248 | 1,669 | **3,375** | 3,451 |
| Routine and planned maintenance | 11,293 | 35 | 2,141 | **13,469** | 13,120 |
| Major repairs expenditure | 3,027 | 96 | 623 | **3,746** | 3,316 |
| Rent losses from bad debts | 1,065 | - | 272 | **1,337** | 366 |
| Supporting people | 68 | - | 15 | **83** | 84 |
| Depreciation of housing properties | 7,408 | 214 | 1,368 | **8,990** | 8,951 |
| Provision for bad debts | (201) | - | (94) | **(295)** | 155 |
| **Operating costs on social housing lettings** | 34,218 | 1,000 | 8,287 | **43,505** | 42,404 |
| **Operating surplus on social housing lettings** | 12,673 | 497 | 1,845 | **15,015** | 13,430 |
| **Rent losses from voids** | 1,208 | 16 | 339 | 1,563 | 1,203 |

# Notes to the financial statements

## 4. Accommodation in management and development

### Group

At the end of the year, accommodation in management for each class of accommodation was as follows:

**Owned and managed by the Group**

| | **2015 Units** | 2014 Units |
|---|---|---|
| **Social housing** | | |
| General needs housing | 10,302 | 10,106 |
| Supported housing | 1,943 | 1,903 |
| Low cost home ownership | 401 | 352 |
| Leaseholder units | 96 | 132 |
| **Total owned** | 12,742 | 12,493 |
| **Managed for others** | 5,822 | 5,846 |
| **Managed by others** | 112 | 108 |
| **Non-social housing** | | |
| Market rented | 20 | 19 |
| Extra care | 72 | 72 |
| | 92 | 91 |
| Total owned and in management | 18,768 | 18,538 |
| **Under development** | | |
| Accommodation in development at the year end | 323 | 522 |

# Notes to the financial statements

## 5. Directors' emoluments and expenses

**Directors**

The remuneration for the executive directors of the Plus Dane Housing Group for the year ended 31 March 2015 is detailed in the table below.

| | **Basic salary** | **Benefits in kind** | **Pension contribution** | **Compensation for loss of Office** | **2015 Total** | 2014 Total |
|---|---|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | £'000 |
| Barbara Spicer Chief Executive (from September 2014) | 79 | 2 | 11 | - | 92 | - |
| Claire Griffiths Executive Director Development | 93 | 6 | 10 | - | 109 | 68 |
| Kenneth Perry Former Group Chief Executive (to May 2014) | 95 | 1 | 3 | 41[1] | 140 | 157 |
| Michael Doran MD Enterprising Neighbourhoods (to February 2015) and Acting Group Chief Executive (May - September 2014) | 111 | 3 | 7 | 56[2] | 177 | 101 |
| Peter Shaw Former MD Ellesmere Port and Neston (until December 2014) | 62 | 3 | 6 | - | 71 | 100 |
| Vivien Cross Former MD Finance (until June 2015) | 88 | 6 | 8 | - | 102 | 102 |
| Jacqueline Perry Interim Group Housing Director (to February 2015) | 85 | 4 | 6 | 37[3] | 132 | - |
| Michelle Gregg Interim Ni Director (January 2015-May 2015) | 27 | - | - | - | 27 | - |
| Jayne Phillips Former MD Knowledge, Innovation & Performance (to May 2014) | - | - | - | - | - | 3 |
| Gerard Murden MD Enterprising Neighbourhoods (to March 2014) | - | - | - | - | - | 108[4] |
| Christopher Mather Ni Director Strategic Initiatives (to February 2015) and MD Regeneration and Commercial Development (to February 2014) | 94 | - | 10 | 70[5] | 174 | 85 |
| **Total** | 734 | 25 | 61 | 204 | 1,024 | 724 |

[1] Payment for Loss of Office
[2] Redundancy Payment
[3] Redundancy Payment
[4] Includes £92k in respect of pension contributions on retirement.
[5] Redundancy Payment

# Notes to the financial statements

As a member of the Group, the Association bears a charge in respect of the services provided to it by the members of the Group director team. The charge for the current year amounted to £24,932 (2014: £33,367).

The emoluments of the highest paid director of the group, the MD Enterprising Neighbourhoods, excluding pension contributions were £114,459. The MD Enterprising Neighbourhoods was a member of the Social Housing Pension Scheme. He was an ordinary member of the pension scheme and no enhanced or special terms apply. During the year the Group did not make any further contribution to an individual pension arrangement for the MD Enterprising neighbourhoods. The emoluments of the highest paid director of the group in 2014, the Chief Executive, excluding pension contributions were £134,359.

In addition to the directors above Interim Executive Directors were also in place from January 2015 paid via contracted payments. CM Outcomes Limited was paid £34,500 for services in respect of the Interim Executive Director Corporate Services and Advanced Project Consultants Limited was paid £31,770 for services in respect of the Executive Director Change.

### Board members

During the year, fees of £53,000 (2014: £61,115) were paid to Board members and expenses paid amounted to £15,170 (2014: £8,846).

| | | **2015 Total £'000** | 2014 Total £'000 |
|---|---|---|---|
| Linda Minnis | Chair | 13 | 13 |
| Catrina Hewitson | Deputy Chair | 5 | 10 |
| Lilian Hazell | Board member | 5 | 5 |
| Anne Davies | Board member | 5 | 5 |
| Sandra Palmer | Board member | 5 | 5 |
| Thomas Murtha | Board member | 5 | 3 |
| Anthony Barwise | Board member | 5 | 3 |
| Gerard Lane | Board member | 5 | 3 |
| Mervyn Jones | Board member | 5 | 3 |
| Pol O'Gray | Former Board member | - | 2 |
| Roger Morris | Former Board member | - | 5 |
| John Turner | Former Board member | - | 2 |
| Glen Lewis | Former Board member | - | 2 |
| **Total** | | 53 | 61 |

# Notes to the financial statements

## 6. Employees

**Group**

The average number of employees of the Group expressed in full time equivalents during the year was:

| | **2015 Number** | 2014 Number |
|---|---|---|
| Housing, support and care | 621 | 608 |
| Development | 18 | 21 |
| Administration | 110 | 114 |
| | 749 | 743 |

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| **Employee costs** | | |
| Wages and salaries | 20,736 | 20,213 |
| Social security costs | 1,650 | 1,619 |
| Other pension costs | 2,471 | 2,526 |
| | 24,857 | 24,358 |

The full time equivalent number of staff (including executive directors) who received emoluments within the Group:

| | | **2015 No.** | 2014 No. |
|---|---|---|---|
| £60,001 to £70,000 | | 7 | 8 |
| £70,001 to £80,000 | | 6 | 8 |
| £80,001 to £90,000 | | - | 2 |
| £90,001 to £100,000 | (Note 1) | 5 | 3 |
| £100,001 to £110,000 | | 1 | 2 |
| £110,001 to £120,000 | | - | 1 |
| £120,001 to £130,000 | (Note 2) | 4 | - |
| £140,001 to £150,000 | (Note 3) | 1 | |
| £150,001 to £160,000 | | - | 1 |
| £170,001 to £180,000 | (Note 4) | 2 | - |

1 Included in this range is £9,538 paid to a senior officer as a redundancy payment who did not give consent to disclose

2 Included in this range are the following payments:

- £35,901 paid to a senior officer as a redundancy payment who did not give consent to disclose
- £33,764 paid to a senior officer as a redundancy payment who did not give consent to disclose
- £46,635 paid to a senior officer as a redundancy payment who did not give consent to disclose
- £37,068 paid to Jacqueline Perry as a redundancy payment.

3 Included in this range is £30,000 paid to a Kenneth Perry as compensation for loss of office.

4 Included in this range are the following payments:

- £69,414 paid to Christopher Mather as a redundancy payment.
- £55,805 paid to Michael Doran as a redundancy payment.

# Notes to the financial statements

## 6. Employees (continued)

**Association**
The average number of employees of the Association expressed in full time equivalents during the year was:

| | **2015 Number** | 2014 Number |
|---|---|---|
| Administration and development | 94 | 89 |

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| **Employee costs** | | |
| Wages and salaries | 3,513 | 3,217 |
| Social security costs | 284 | 576 |
| Other pension costs | 587 | 276 |
| | 4,384 | 4,069 |
| Recharged from Group companies | 2,326 | 1,363 |
| | 6,710 | 5,432 |

The full time equivalent number of staff (including executive directors) who received emoluments within the Association:

| | | **2015 No.** | 2014 No. |
|---|---|---|---|
| £60,001 to £70,000 | | 4 | 3 |
| £70,001 to £80,000 | | 2 | 3 |
| £80,001 to £90,000 | | - | - |
| £90,001 to £100,000 | | 1 | - |
| £100,101 to £110,000 | | 1 | 1 |
| £110,101 to £120,000 | | - | 1 |
| £120,101 to £130,000 | (Note 1) | 1 | - |
| £140,001 to £150,000 | (Note 2) | 1 | - |
| £150,101 to £160,000 | | - | 1 |
| £170,101 to £180,000 | (Note 3) | 1 | - |

1 Included in this range is £33,764 paid to a senior officer as a redundancy payment who did not give consent to disclose
2 Included in this range is £30,000 paid to a Kenneth Perry as compensation for loss of office.
3 Included in this range is £69,414 paid to Christopher Mather as a redundancy payment.

# Notes to the financial statements

## 6. Employees (continued)

The Group participates in three funded multi-employer defined benefit schemes: the Social Housing Pension Scheme, Merseyside Pension Fund and Cheshire Pension Fund.

**Social Housing Pension Scheme (SHPS)**

Members of the Group participate in SHPS (the Scheme). The Scheme is funded and contracted out of the state scheme.

SHPS is a multi-employer defined benefit scheme. Employer participation in the Scheme is subject to adherence with the employer responsibilities and obligations as set out in the "SHPS House Policies and Rules Employer Guide".

The Scheme operated a single benefit structure, final salary with a 1/60$^{th}$ accrual rate, to March 2007. From April 2007 there are three benefit structures available, namely:

- Final salary with a 1/60$^{th}$ accrual rate
- Final salary with a 1/70$^{th}$ accrual rate
- Career average revalued earnings with a 1/60$^{th}$ accrual rate

From April 2010 there are a further two benefit structures available, namely:

- Final salary with a 1/80th accrual rate.
- Career average revalued earnings (CARE) with a 1/80th accrual rate.

A defined contribution benefit structure was made available from 1 October 2010.

A defined contribution benefit structure was made available from 1 February 2014 for those affected by auto enrolment.

An employer can elect to operate different benefit structures for their active members and their new entrants. An employer can only operate one open benefit structure at any one time. An open benefit structure is one which new entrants are able to join.

Different members of the Group have elected to operate the final salary benefit structure as follows:

- a 1/60$^{th}$ accrual rate benefit structure for active members at 31 March 2007;
- a 1/60$^{th}$ or 1/70$^{th}$ accrual rate benefit structure for new entrants between 1 April 2007 and 31 March 2010;
- a 1/80th accrual rate benefit structure for new entrants from 1 April 2010;
- the option of a defined contribution benefit structure from 1 October 2010.

The Trustee commissions an actuarial valuation of the Scheme every 3 years. The main purpose of the valuation is to determine the financial position of the Scheme in order to determine the level of future contributions required, in respect of each benefit structure, so that the Scheme can meet its pension obligations as they fall due. From

# Notes to the financial statements

April 2007 the split of the total contribution rate between member and employer is set at individual employer level, subject to the employer paying no less than 50% of the total contribution rate. From 1 April 2010 the requirement for employers to pay at least 50% of the total contribution rate no longer applies.

The actuarial valuation assesses whether the Scheme's assets at the valuation date are likely to be sufficient to pay the pension benefits accrued by members as at the valuation date. Asset values are calculated by reference to market levels. Accrued pension benefits are valued by discounting expected future benefit payments using a discounted rate calculated by reference to the expected future investment returns.

During the accounting period the Group paid contributions at the rate of 2% to 11.00% in to the defined benefit scheme. Member contributions into the defined benefit scheme were at the rate of 1.0% to 10.75%. Further, the Group has paid a lump sum of £175,897 in respect of a contribution to past deficits. Employer and member contributions to the defined contribution scheme are set at 4.5% each. The additional scheme for Auto Enrolment has employer contributions of 2% and member contributions of 1%.

As at the balance sheet date there were 391 active members of the Scheme employed by the Group. The annual pensionable payroll of these members was £8,532,974 on a consistent and reasonable basis. The Group continues to offer membership of the Scheme to its employees.

It is not possible in the normal course of events to identify on a consistent and reasonable basis the share of underlying assets and liabilities belonging to individual participating employers. This is because the Scheme is a multi-employer Scheme where the Scheme assets are co-mingled for investment purposes, and benefits are paid from total Scheme assets. Accordingly, due to the nature of the Scheme, the accounting charge for the period under FRS17 represents the employer contribution payable.

The last formal valuation of the Scheme was performed as at 30 September 2011 by a professionally qualified Actuary using the Projected Unit Method. The market value of the Scheme's assets at the valuation date was £2,062 million. The valuation revealed a shortfall of assets compared with the value of liabilities of £1,035 million, equivalent to a past service funding level of 67.0%.

The Scheme Actuary has prepared an Actuarial Report that provides an approximate update on the funding position of the Scheme as at 30 September 2013. Such a report is required by legislation for years in which a full actuarial valuation is not carried out. The market value of the Scheme's assets at the date of the Actuarial Report was £2,718 million. The Actuarial Report revealed a shortfall of assets compared with the value of liabilities of £1,151 million, equivalent to a past service funding level of 70%.

The financial assumptions underlying the valuation as at 30 September 2011 were as follows:

# Notes to the financial statements

| | % p.a. |
|---|---|
| Valuation Discount Rates: | |
| Pre-Retirement | 7.0 |
| Non Pensioner Post Retirement | 4.2 |
| Pensioner Post Retirement | 4.2 |
| Pensionable Earnings Growth | 2.5 per annum for 3 years, then 4.4 |
| Price Inflation | 2.9 |
| Pension Increases: | |
| Pre 88 GMP | 0.0 |
| Post 88 GMP | 2.0 |
| Excess Over GMP | 2.4 |

Expenses for death-in-service insurance, administration and Pension Protection Fund (PPF) levy are included in the contribution rate.

The valuation was carried out using the following demographic assumptions:

Mortality pre-retirement – 41% SAPS S1 Male / Female All Pensioners (amounts), Year of Birth, CMI_2009 projections with long term improvement rates of 1.5% p.a. for Males and 1.25% p.a. for Females.

Mortality post retirement – 97% SAPS S1 Male / Female All Pensioners (amounts), Year of Birth, CMI_2009 projections with long term improvement rates of 1.5% p.a. for Males and 1.25% p.a. for Females.

The long-term joint contribution rates that will apply from April 2013 required from employers and members to meet the cost of future benefit accrual were assessed at:

| **Benefit Structure** | **Long-term Joint Contribution Rate (% of pensionable salaries)** |
|---|---|
| Final salary with a 1/60th accrual rate | 19.4% |
| Final salary with a 1/70th accrual rate | 16.9% |
| Career average revalued earnings (CARE) with a 1/60th accrual rate | 18.1% |
| Final salary with a 1/80th accrual rate | 14.8% |
| Career average revalued earnings (CARE) with a 1/80th accrual rate | 14.0% |

If an actuarial valuation reveals a shortfall of assets compared to liabilities the Trustee must prepare a Recovery Plan setting out the steps to be taken to make up the shortfall.

Following consideration of the results of the actuarial valuation it was agreed that the shortfall of £1,035 million would be dealt with by the payment of deficit contributions as shown in the table below:

# Notes to the financial statements

| | |
|---|---|
| From 1 April 2013 to 30 September 2020 | A cash amount(*) equivalent to 7.5% of Members' Earnings per annum (payable monthly and increasing by 4.7% per annum each 1 April) |
| From 1 October 2020 to 30 September 2023 | A cash amount(*) equivalent to 3.1% of Members' Earnings per annum (payable monthly and increasing by 4.7% per annum each 1 April) |
| From 1 April 2013 to 30 September 2026 | £30,640,000 per annum (payable monthly and increasing by 3% per annum each 1 April; first increase on 1 April 2014) |

(*) The contributions of 7.5% will be expressed in nominal pound terms (for each Employer), increasing each year in line with the Earnings growth assumption used in the 30 September 2008 valuation (i.e. 4.7% per annum). The contributions of 3.1% will be calculated by proportioning the nominal pound payment at the time of the change. Earnings at 30 September 2008 (for each Employer) will be used as the reference point for calculating these contributions.

These deficit contributions are in addition to the long-term joint contribution rates as set out in above.

The next formal valuation of the Scheme will begin later this year and will give an update on the financial position as at 30 September 2014. The results of this valuation will be available in Spring 2016.

Employers that participate in the Scheme on a non-contributory basis pay a joint contribution rate (i.e. a combined employer and employee rate).

Employers that have closed the Scheme to new entrants are required to pay an additional employer contribution loading of 2.5% to reflect the higher costs of a closed arrangement.

A small number of employers are required to contribute at a different rate to reflect the amortisation of a surplus or deficit on the transfer of assets and past service liabilities from another pension scheme into SHPS.

New employers that do not transfer any past service liabilities to the Scheme pay contributions at the ongoing future service contribution rate. This rate is reviewed at each valuation and new employers joining the scheme between valuations up to 1 April 2010 do not contribute towards the deficit until two valuations have been completed after the date of joining the Scheme. New employers joining the Scheme after 1 April 2010 will be liable for the past service deficit contributions from the valuation following joining. Contribution rates are changed on the 1 April that falls 18 months after the valuation date.

A copy of the Recovery Plan, setting out the level of deficit contributions payable and the period for which they will be payable, must be sent to The Pensions Regulator. The Regulator has the power under Part 3 of the Pensions Act 2004 to issue scheme

# Notes to the financial statements

funding directions where it believes that the actuarial valuation assumptions and/or Recovery Plan are inappropriate. For example the Regulator could require that the Trustee strengthens the actuarial assumptions (which would increase the Scheme liabilities and hence impact on the Recovery Plan) or impose a schedule of contributions on the Scheme (which would effectively amend the terms of the Recovery Plan).

As a result of pension scheme legislation there is a potential debt on the employer that could be levied by the Trustee of the Scheme. The debt is due in the event of the employer ceasing to participate in the Scheme or the Scheme winding up.

The debt for the Scheme as a whole is calculated by comparing the liabilities for the Scheme (calculated on a buy-out basis i.e. the cost of securing benefits by purchasing annuity policies from an insurer, plus an allowance for expenses) with the assets of the Scheme. If the liabilities exceed assets there is a buy-out debt.

The leaving employer’s share of the buy-out debt is the proportion of the Scheme’s liability attributable to employment with the leaving employer compared to the total amount of the Scheme’s liabilities (relating to employment with all the currently participating employers). The leaving employer’s debt therefore includes a share of any ‘orphan’ liabilities in respect of previously participating employers. The amount of the debt therefore depends on many factors including total Scheme liabilities, Scheme investment performance, the liabilities in respect of current and former employees of the employer, financial conditions at the time of the cessation event and the insurance buy-out market. The amounts of debt can therefore be volatile over time.

# Notes to the financial statements

## 6. Employees (continued)

### Merseyside Pension Fund

The MPF is a multi-employer scheme, administered by Wirral Borough Council under the regulations governing the Local Government Pension Scheme, a defined benefit scheme. The most recent formal actuarial valuation was completed as at 31 March 2013 and rolled forward to 31 March 2015 by a qualified independent actuary.

The employers' contributions to the MPF by the Association for the year ended 31 March 2015 were £908,871(2014: £836,241) at a contribution rate of 12.1% – 14.6% of pensionable salaries.

### Financial assumptions

The Association has two admission agreements into the MPF, the disclosures for which have been aggregated below.

| | **31 March 2015 % per annum** | 31 March 2014 % per annum |
|---|---|---|
| Discount rate | 3.3 | 4.6 |
| Future salary increases | 3.5 | 3.9 |
| Future pension increases | 2.0 | 2.4 |
| CPI Inflation assumption | 2.0 | 2.4 |

### Expected return on assets

The expected return on assets assumptions were:

| | **2015 % per Annum** | 2014 % per Annum |
|---|---|---|
| Equities | 6.5 | 7.0 |
| Government bonds | 2.2 | 3.4 |
| Other bonds | 2.9 | 4.3 |
| Property | 5.9 | 6.2 |
| Cash/liquidity | 0.5 | 0.5 |
| Other | Dependent on type of asset | |

# Notes to the financial statements

## 6. Employees (continued)

**Mortality assumptions**
The post retirement mortality assumptions used to value the benefit obligation at March 2014 are based on S1PA CMI_2009_[1.25%] Tables (106% Males, 97% Females) for non-retired members and pensioners.

Within the past three years, investigations have been carried out by the scheme actuaries into the mortality experience of the Association's scheme. These investigations concluded that the current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations on retirement at age 65 are:

| | **2015** | **2014** |
|---|---|---|
| Current pensioners | | |
| - Males | 22.4 years | 22.3 years |
| - Females | 25.3 years | 25.2 years |
| Future Pensioners | | |
| - Males | 24.8 years | 26.6 years |
| - Females | 28.1 years | 28.0 years |

**Amounts recognised in the balance sheet:**

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| Present value of funded obligations | (36,836) | (29,811) |
| Present value of unfunded obligations | - | - |
| Total present value of benefit obligations | (36,836) | (29,811) |
| Fair value of plan assets | 27,574 | 24,364 |
| Deficit | (9,262) | (5,447) |

# Notes to the financial statements

## 6. Employees (continued)

**Analysis of the amount charged to the income and expenditure account:**

| | **2015** | 2014 |
|---|---|---|
| | **£'000** | £'000 |
| Current service cost | 591 | 755 |
| Past service cost | - | - |
| Loss on settlements | - | - |
| Expected return on pension scheme assets | (1,435) | (1,362) |
| Interest on pension scheme liabilities | 1,343 | 1,309 |
| | 499 | 702 |

£591,000 (2014: £755,000) was charged to the operating surplus and £92,000 was credited (2014: £53,000 credited) to other finance costs/income.

**Amounts recognised in the statement of total recognised surpluses and deficits**

| | **2015** | 2014 |
|---|---|---|
| | **£'000** | £'000 |
| Actuarial (loss)/gain in pension scheme recognised in STRSD | (4,225) | 1,754 |
| Cumulative actuarial loss recognised in STRSD | (7,530) | (3,305) |

**Changes in present value of defined benefit obligation:**

| | **2015** | 2014 |
|---|---|---|
| | **£'000** | £'000 |
| Opening defined benefit obligation | 29,811 | 31,011 |
| Current service cost | 591 | 755 |
| Past service cost | - | - |
| Member contributions | 250 | 238 |
| Interest cost | 1,343 | 1,309 |
| Actuarial losses /(gains) | 5,732 | (2,701) |
| Benefits paid | (891) | (801) |
| Closing defined benefit obligation | 36,836 | 29,811 |

# Notes to the financial statements

**Changes in fair value of assets:**

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| Fair value of assets at beginning of year | 24,364 | 23,676 |
| Expected return on assets | 1,435 | 1,362 |
| Member contributions | 250 | 238 |
| Employer contributions | 909 | 836 |
| Actuarial gains /(losses) | 1,507 | (947) |
| Benefits paid | (891) | (801) |
| Fair value of assets at end of year | 27,574 | 24,364 |

**Major categories of plan assets as a percentage of total plan assets:**

| | **2015** | 2014 |
|---|---|---|
| Equities | 53.9% | 62.0% |
| Government bonds | 14.8% | 13.7% |
| Other bonds | 2.6% | 2.6% |
| Property | 10.8% | 8.0% |
| Cash | 3.0% | 2.7% |
| Other | 14.9% | 11.0% |

**Actual return on plan assets:**

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| Actual return on plan assets | 2,941 | 1,164 |

**Amounts for the current and previous four periods are as follows**:

| | **2015 £'000** | **2014 £'000** | **2013 £'000** | **2012 £'000** | **2011 £'000** |
|---|---|---|---|---|---|
| Present value of defined benefit obligation | (36,836) | (29,811) | (31,011) | (25,772) | (23,238) |
| Fair value of scheme assets | 27,574 | 24,364 | 23,676 | 20,532 | 19,475 |
| Surplus/(deficit) on scheme | (9,262) | (5,447) | (7,335) | (5,240) | (3,763) |
| Experience adjustments on plan liabilities | - | 293 | - | - | 1,857 |
| Experience adjustments on plan assets | 1,507 | (947) | 1,518 | (816) | 222 |

# Notes to the financial statements

## 6. Employees (continued)

**Cheshire Pension Fund ("CPF")**

The CPF is a multi-employer scheme, administered by Cheshire West and Chester Council under the regulations governing the Local Government Pension Scheme, a defined benefit scheme. The most recent formal actuarial valuation was completed as at 31 March 2013 and rolled forward to 31 March 2015 by a qualified actuary.

During 2012/13 a number of employees transferred into the Group from Cheshire West and Chester Council. FRS 17 obligations of £197,000 were recognised on the transfer of those employees who are members of the CPF.

The employer's contributions to the scheme by the Association for the year ended 31 March 2015 were £1,498,000 (2014: £1,305,000) at a contribution rate for the staff previously employed by Cheshire West and Cheshire in Ellesmere Port and Neston of 24.4% while for the remaining staff a rate of 29.8%. The employer's contribution rate for the year ending 31 March 2015 has been set at 21.3% and 36% for the Ellesmere Port and Neston staff and the Cheshire staff respectively.

**Financial Reporting Standard 17**

The Association has two admission agreements into the CPF, the disclosures for which have been aggregated below.

**Financial assumptions**

The major assumptions used by the actuary in assessing scheme liabilities were:

| | **2015 % per annum** | 2014 % per annum |
|---|---|---|
| Rate of increase in salaries | 3.6 | 3.6 |
| Rate of increase in pensions in payment | 2.4 | 2.8 |
| Discount rate | 3.2 | 4.3 |
| Expected return on assets | 3.6 | 5.6 |

**Mortality**

Life expectancy is based on the Fund's Vita Curves with improvements in line with the CMI 2010 model assuming current rates of improvement have peaked and will converge to a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

# Notes to the financial statements

## 6. Employees (continued)

| Current pensioners | 2015 | 2014 |
|---|---|---|
| - Males | 22.3 years | 22.3 years |
| - Females | 24.4 years | 24.4 years |
| **Future Pensioners** | | |
| - Males | 24.1 years | 24.1 years |
| - Females | 26.7 years | 26.7 years |

**Expected return on assets**

The expected return on assets assumptions were:

| | 2015<br>% per annum | 2014<br>% per annum |
|---|---|---|
| Equities | 5.7 | 6.6 |
| Bond | 2.2 | 3.5 |
| Property | 3.9 | 4.8 |
| Cash | 2.6 | 3.7 |

**Amounts recognised in the balance sheet**

| | **2015**<br>**£'000** | 2014<br>£'000 |
|---|---|---|
| Fair value of employer assets | 41,455 | 34,928 |
| Present value of funded liabilities | (46,917) | (38,105) |
| Net underfunding in funded plans | (5,462) | (3,177) |
| Related deferred tax asset | 1,092 | - |
| **Net liability** | (4,370) | (3,177) |
| Amount in the balance sheet | | |
| Liabilities | (4,953) | (4,834) |
| Assets | 583 | 1,657 |
| **Net liability** | (4,370) | (3,177) |

# Notes to the financial statements

**Analysis of the amount charged to the income and expenditure account**

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| Current service cost | 1,315 | 1,280 |
| Past service costs | 43 | 42 |
| Loss on curtailments and settlements | - | 1 |
| Expected return on pension scheme assets | (1,982) | (1,602) |
| Interest on pension scheme liabilities | 1,653 | 1,647 |
| | 1,029 | 1,368 |

£2,754,000 (2014: £1,323,000) was charged to the operating surplus and £329,000 charged (2014: £45,000) to other finance cost.

**Amounts recognised in the statement of total recognised surpluses and deficits**

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| Actuarial (loss)/gain in pension scheme recognised in STRSD | (2,754) | 1,426 |
| Cumulative actuarial loss recognised in STRSD | (3,202) | (448) |

**Changes in present value of defined benefit obligations**

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| Defined benefit obligations at beginning of year | 38,105 | 36,206 |
| Obligations transferred in year | - | - |
| Current service cost | 1,315 | 1,280 |
| Interest cost | 1,653 | 1,647 |
| Contributions by members | 340 | 305 |
| Actuarial losses /(gains) | 6,429 | (591) |
| Past service costs | 43 | 42 |
| Losses on curtailments and settlements | - | 1 |
| Benefits paid | (968) | (785) |
| Defined benefit obligations at end of year | 46,917 | 38,105 |

# Notes to the financial statements

**Changes in fair value of assets**

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| Fair value of assets at beginning of year | 34,928 | 31,666 |
| Assets transferred in year | - | - |
| Expected return on assets | 1,982 | 1,602 |
| Contribution by members | 340 | 305 |
| Contributions by employer | 1,498 | 1,305 |
| Actuarial gains | 3,675 | 835 |
| Benefits paid | (968) | (785) |
| Fair value of assets at end of year | 41,455 | 34,928 |

**Major categories of plan assets as a percentage of total plan assets**

| | **2015 £** | 2015 % | **2014 £** | 2014 % |
|---|---|---|---|---|
| Equities | 20,728 | 50 | 22,703 | 65 |
| Bonds | 16,582 | 40 | 7,684 | 22 |
| Property | 3,316 | 8 | 2,445 | 7 |
| Cash | 829 | 2 | 2,096 | 6 |
| | 41,455 | 100 | 34,928 | 100 |

**Actual return on plan assets**

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| Actual return on plan assets | 5,657 | 2,918 |

**Amounts for the current and previous four periods are as follows:**

| | **2015 £'000** | **2014 £'000** | **2013 £'000** | **2012 £'000** | **2011 £'000** |
|---|---|---|---|---|---|
| Fair value of employer assets | 41,455 | 34,928 | 31,666 | 13,714 | 13,345 |
| Present value of defined benefit obligation | (46,917) | (38,105) | (36,206) | (17,788) | (16,249) |
| Surplus/(deficit) | (5,462) | (3,177) | (4,540) | (4,074) | (2,904) |
| Experience gains/(losses) on assets | 3,675 | 835 | 2,593 | (477) | 540 |
| Experience gains/(losses) on liabilities | 223 | (2,503) | 23 | (181) | 1,042 |

# Notes to the financial statements

## 7. Interest receivable

| | Group | | Association | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **£'000** | £'000 | **£'000** | £'000 |
| Interest receivable and similar income | 41 | 43 | 2 | 2 |

## 8. Interest payable and similar charges

| | **Group 2015** | Group 2014 |
|---|---|---|
| | £'000 | £'000 |
| Interest on bank loans and overdrafts | 13,712 | 11,445 |
| Finance leases | 11 | 9 |
| RCGF Interest | 16 | 5 |
| Refinancing costs written off | 326 | 445 |
| | 14,065 | 11,904 |
| Less: interest capitalised in housing property costs | (543) | (611) |
| | 13,522 | 11,293 |
| Capitalisation rate used to determine the finance costs capitalised during the period | 4.2% | 4.4% |

# Notes to the financial statements

## 9. Operating surplus / (deficit)

| | Group | | Association | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **£'000** | £'000 | **£'000** | £'000 |
| Is stated after charging: | | | | |
| Depreciation of housing properties | 9,175 | 8,430 | - | - |
| Depreciation of other tangible fixed assets | 1,021 | 1,076 | 531 | 576 |
| Operating lease charges: | | | | |
| - Land and buildings | 444 | 1,216 | - | - |
| - Motor Vehicles | 863 | | | |
| - Other | 141 | 122 | - | 7 |
| Auditors' remuneration (excluding VAT): | | | | |
| - for audit services | 38 | 41 | 4 | 4 |
| - for non-audit services | | | | |
| - tax compliance | 4 | 7 | 18 | 3 |
| - tax advisory | 18 | 12 | 15 | 12 |
| - other | 15 | 29 | - | 29 |

## 10. Surplus on sale of fixed assets- housing properties

| | Group | | Association | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **£'000** | £'000 | **£'000** | £'000 |
| Disposal proceeds | 10,068 | 1,775 | - | - |
| Carrying value of fixed assets | (5,485) | (1,515) | - | - |
| | 4,583 | 260 | - | - |

# Notes to the financial statements

## 11. Tax on surplus on ordinary activities

| | Group | | Association | |
|---|---|---|---|---|
| **United Kingdom Corporation Tax** | **2015** | 2014 | **2015** | 2014 |
| | **£'000** | £'000 | **£'000** | £'000 |
| *Current taxation:* | | | | |
| Current tax on income for year | 471 | 354 | 66 | 24 |
| Adjustment in respect of prior year | (45) | 9 | - | 9 |
| Group relief payable/(receivable) | 3 | - | - | - |
| Total current tax charge/(credit) | 429 | 363 | 66 | 33 |
| *Deferred taxation:* | | | | |
| Net origination and reversal of timing differences | (39) | 555 | 18 | 34 |
| Adjustment in respect of prior year | - | (123) | - | (21) |
| Total tax charge | 390 | 795 | 84 | 46 |

# Notes to the financial statements

## 11. Tax on surplus on ordinary activities (continued)

The current tax charge for the year varies from the standard rate of corporation tax in the United Kingdom of 21% (2014 23%). The differences are explained below:

| | Group | | Association | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **£'000** | £'000 | **£'000** | £'000 |
| Surplus on ordinary activities subject to tax | 9,859 | 5,593 | (98) | 153 |
| Surplus on ordinary activities at the standard rate of corporation tax in the UK of 21% (2014 - 23%) | 2,070 | 1,286 | (21) | 35 |
| Effects of: | | | | |
| Expenses not deductible for tax purposes | 71 | 304 | 106 | 14 |
| Income not taxable | (2,166) | - | - | - |
| Fixed asset differences | 574 | 508 | - | - |
| Net charitable income | - | (1,134) | - | - |
| Defined Benefit scheme timing differences | 480 | - | - | - |
| Chargeable gains | - | 9 | - | - |
| Depreciation in excess of capital allowances | (62) | (10) | (19) | (25) |
| Losses utilised | (23) | (621) | - | - |
| Unrelieved tax losses | 55 | - | - | - |
| Adjustment in respect of prior year | (45) | 9 | - | 9 |
| Other permanent difference | (2) | - | - | - |
| Additional deduction for land remediation expenditure | (6) | - | - | - |
| Short term timing differences | 61 | 12 | - | - |
| Amounts (charged) / credited directly to STRGL or otherwise transferred | (578) | - | - | - |
| | 429 | 363 | 66 | 33 |

Unrelieved losses of £nil (2014: £nil) are carried forward and are available to reduce the tax liability in respect of future surpluses.

# Notes to the financial statements

## 12. Tangible fixed assets - Housing properties – Group

| Housing properties | Non-Social Housing | Social Housing Shared Ownership | | Social Housing General needs | | |
|---|---|---|---|---|---|---|
| | Held for letting £'000 | Held for letting £'000 | Under construction £'000 | Held for letting £'000 | Under construction £'000 | Total £'000 |
| **Cost** | | | | | | |
| At 1 April 2014 | 7,497 | 28,984 | 1,772 | 581,932 | 19,308 | 639,493 |
| Works to existing properties | - | - | - | 2,182 | - | 2,182 |
| Reclassification | - | - | - | (126) | - | (126) |
| Additions | (1) | 17 | 8,369 | 5,733 | 29,123 | 43,241 |
| Schemes completed in year | - | 3,829 | (3,829) | 34,414 | (34,414) | - |
| Transfer (to)/ from current assets | - | (79) | (5,253) | - | - | (5,332) |
| Disposals | (37) | (353) | - | (7,584) | - | (7,974) |
| At 31 March 2015 | 7,459 | 32,398 | 1,059 | 616,551 | 14,017 | 671,484 |
| **Depreciation and impairment** | | | | | | |
| At 1 April 2014 | (195) | (630) | - | (59,662) | (225) | (60,712) |
| Charged in year | (346) | (229) | - | (7,006) | - | (7,581) |
| Released on disposal | 10 | 47 | - | 1,650 | - | 1,707 |
| At 31 March 2015 | (531) | (812) | - | (65,018) | (225) | (66,586) |
| **Depreciated cost** | | | | | | |
| At 31 March 2015 | 6,928 | 31,586 | 1,059 | 551,533 | 13,792 | 604,898 |
| At 31 March 2014 | 7,302 | 28,354 | 1,772 | 522,270 | 19,083 | 578,781 |
| **Social Housing Grant** | | | | | | |
| At 1 April 2014 | (3,987) | (9,457) | (235) | (257,066) | (5,344) | (276,089) |
| Reclassification | (6) | - | - | - | - | (6) |
| Additions | - | 180 | (327) | (712) | (4,603) | (5,462) |
| Schemes completed in year | - | (562) | 562 | (4,813) | 4,813 | - |
| Disposals | - | 137 | - | 2,688 | - | 2,825 |
| At 31 March 2015 | (3,993) | (9,702) | - | (259,903) | (5,134) | (278,732) |
| **Other Grant** | | | | | | |
| At 1 April 2014 | (533) | (39) | - | (725) | - | (1,297) |
| Additions | - | - | - | - | - | - |
| Schemes completed in year | - | - | - | - | - | - |
| At 31 March 2015 | (533) | (39) | - | (725) | - | (1,297) |
| **Net book value** | | | | | | |
| At 31 March 2015 | 2,402 | 21,845 | 1,059 | 290,905 | 8,658 | 324,869 |
| At 31 March 2014 | 2,782 | 18,858 | 1,537 | 264,479 | 13,739 | 301,395 |

# Notes to the financial statements

## 12. Tangible fixed assets - Housing properties (continued)

The net book value includes £454,089 (2014: £542,515) in respect of assets held under finance leases. Depreciation charged in the year on these assets amounted to £88,246 (2014: £88,246).

| **Social Housing Grant** | **2015 £'000 Revenue** | **2015 £'000 Capital** | 2014 £'000 Revenue | 2014 £'000 Capital |
|---|---|---|---|---|
| Total accumulated SHG receivable at 31 March : | 1,809 | 278,782 | 1,809 | 276,193 |

The Group is unable to analyse the cost of housing land and buildings between freehold and other tenures, nor is it able to provide a reasonable estimate except at excessive costs. It is considered the effect of this omission is negligible.

| **Expenditure on works to existing properties:** | **2015 £'000** | 2014 £'000 |
|---|---|---|
| Amounts capitalised | 7,000 | 7,171 |
| Amounts charged to income and expenditure account | 4,844 | 4,400 |
| | 11,844 | 11,571 |

# Notes to the financial statements

## 13. Other fixed assets

### Group

| | Freehold offices £'000 | Leasehold office premises £'000 | Motor vehicles £'000 | Fixtures & equipment £'000 | Freehold investment properties £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | |
| At 1 April 2014 | 6,007 | 1,186 | 62 | 6,374 | 8,324 | 21,953 |
| Additions | 3 | - | - | 470 | - | 473 |
| Disposals | - | - | - | (274) | - | (274) |
| Revaluations | - | - | - | - | (485) | (485) |
| At 31 March 2015 | 6,010 | 1,186 | 62 | 6,570 | 7,839 | 21,667 |
| **Depreciation** | | | | | | |
| At 1 April 2014 | (2,370) | (681) | (62) | (3,488) | - | (6,601) |
| Charged for the year | (186) | (82) | - | (752) | - | (1,020) |
| Disposals | - | - | - | 268 | - | 268 |
| At 31 March 2015 | (2,556) | (763) | (62) | (3,972) | - | (7,353) |
| **Net book value** | | | | | | |
| At 31 March 2015 | 3,454 | 423 | - | 2,598 | 7,839 | 14,314 |
| At 31 March 2014 | 3,637 | 505 | - | 2,886 | 8,324 | 15,352 |

The company's four freehold commercial investment properties were subject to a director's valuation as at 31 March 2015 informed by an external valuation prepared by Savills as at 30 April 2015. This external valuation was under instruction from the directors of Three60 Property Investors Limited. For Beetham Court (a freehold commercial property) no movement on the value has been recognised. The historic movement has been recognised as a permanent movement from the revaluation reserve to the revenue reserve. The net reduction in value has been treated as temporary on all other commercial and residential properties.

Both valuations represent an assessment of the Market Value (as defined in the Royal Institute of Chartered Surveyors' Valuation Standards) of the individual properties. The valuation on the residential properties has been carried out by a qualified surveyor who is a chartered surveyor and a member of the Royal Institution of Chartered Surveyors. The surveyor is also an employee of the group.

In determining whether the cumulative diminution in value (including that previously recognised in the financial statements) is temporary rather than permanent, the

# Notes to the financial statements

directors have taken into account general movements in UK commercial property values, regional variations on such movements and the condition and position of each individual property in the company's portfolio. It is the company's intention to hold the properties for their long-term potential and the directors consider that in the medium to long term not all property values will recover to at least those paid. In the context of holding the properties for long-term benefit the directors have prepared cash flow projections that support their view that (based on current occupancy and yield levels) the treatment of the diminution in value as temporary is appropriate for some properties.

In reaching this conclusion the board directors acknowledge the current uncertainties in the UK economy and that recorded reductions in value may take longer than anticipated to recover or indeed may in part prove to be permanent. In such an event, part or all of the deficit on the revaluation reserve (see note 25) will be realised.

Had the freehold investment property not been revalued, it would have been included on the historical cost basis at £17.076m.

**Association**

| | Fixtures, fittings & equipment £'000 |
|---|---|
| **Cost** | |
| At 1 April 2014 | 3,945 |
| Additions | 170 |
| Disposals | (12) |
| At 31 March 2015 | 4,103 |
| **Depreciation** | |
| At 1 April 2014 | 1,723 |
| Charge for the year | 531 |
| Disposals | (12) |
| At 31 March 2015 | 2,242 |
| **Net book value** | |
| At 31 March 2015 | 1,861 |
| At 31 March 2014 | 2,223 |

# Notes to the financial statements

## 14. Subsidiaries

As required by statute, the financial statements consolidate the results of Plus Dane Housing Group Limited and its wholly owned and/or controlled subsidiary undertakings, as follows:

- Plus Dane (Cheshire) Housing Association Limited (1)
- INclude Neighbourhood Regeneration Limited (1)
- Three60 Property Investors Limited (2)
- Dane Partnership Homes Limited (2)
- Plus Dane (Merseyside) Housing Association Limited (1)

(1) Registered Societies
(2) Limited Companies Registered in England

In accordance with the Accounting Direction 2012 disclosures have been made in relation to transactions between Plus Dane Housing Group and non-regulated entities within the Group.

During the year the Association had the following intra-Group transactions with Dane Partnership Homes Limited, Three60 Property Investors Limited and Include Regeneration Limited, non-regulated entities:

| | **Dane Partnership Homes Limited** | | **Three60 Property Investors Limited** | | **Include Neighbourhood Regeneration Limited** | |
|---|---|---|---|---|---|---|
| | **2015 £'000** | 2014 £'000 | **2015 £'000** | 2014 £'000 | **2015 £'000** | 2014 £'000 |
| Management Services | (5) | (5) | (87) | (100) | (101) | (95) |
| Development and Sales Services | - | - | (29) | (23) | - | - |
| | (5) | (5) | (116) | (123) | (101) | (95) |

| **Transaction Category** | **Allocation Basis** |
|---|---|
| Management Services | Directly attributable costs and percentage of budgeted turnover |
| Development and Sales Services | Directly allocated Staff Costs |

Plus Dane Merseyside has provided a guarantee to three60 Property Investors Limited, a fellow group undertaking, for £10.5m. The guarantee is next due for renewal on 17 September, 2017.

# Notes to the financial statements

## 15 Fixed asset investments

**Group**

| | Joint venture loan £'000 |
|---|---|
| At 1 April 2014 and at 31 March 2015 | 113 |

| Association | Joint Venture £'000 |
|---|---|
| As at 1 April 2014 and 31 March 2015 | 113 |

**Joint Venture Undertakings**

The Group has the following aggregate interests in joint ventures.

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Share of gross assets | 337 | 326 |
| Share of gross liabilities | (304) | (306) |
| Share of net assets | 33 | 20 |

The Association (and Group) holds a 22.5% interest in the ordinary share capital of a joint venture undertaking, Circle Liverpool Limited. This company is incorporated in the United Kingdom and manages and operates waste recycling in the Liverpool area.

## 16. Stock

**Group**

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Consumables | 131 | 193 |

# Notes to the financial statements

## 17. Properties for sale

| Group | **2015 £'000** | 2014 £'000 |
|---|---|---|
| Outright sale | 5,928 | 5,105 |
| Shared ownership | 1,271 | 3,111 |
| | 7,199 | 8,216 |

## 18. Debtors

**Amounts receivable within one year**

| | Group | | Association | |
|---|---|---|---|---|
| | **2015 £'000** | 2014 £'000 | **2015 £'000** | 2014 £'000 |
| Rent and service charges | 3,319 | 4,636 | - | - |
| Less: provision for bad debts | (1,887) | (3,012) | - | - |
| | 1,432 | 1,624 | - | - |
| Amounts due under finance lease | 462 | 482 | - | - |
| Loans to employees | 136 | 233 | - | - |
| Other debtors and prepayments | 4,606 | 8,819 | 903 | 1,949 |
| SHG receivable | 201 | 196 | - | - |
| Corporation tax | - | - | - | - |
| Amounts due from Group undertakings | - | - | 15 | 488 |
| Deferred tax | 41 | 58 | 40 | 58 |
| | 6,878 | 11,412 | 958 | 2,495 |
| **Amounts receivable after one year** | | | | |
| Amounts due under finance lease | 5,358 | 5,877 | - | - |
| | 12,236 | 17,289 | 958 | 2,495 |

# Notes to the financial statements

**Amounts due under finance lease**

Amounts due under finance leases amount to £5,820,000. This represents the value of the finance lease at 31 March 2015 granted to CLS Care Services over The Larches in Macclesfield. The Larches is a 90 unit dementia and extra care village which was completed and the lease granted in October 2007. The lease is for a period of 30 years and the substance of the lease is such that it is deemed to be a finance lease and has been treated in the financial statements accordingly.

**Loans to employees**

The loans to employees relate solely to the Group's car loan, travel pass and course loan scheme, the interest rate on all loans being between 3 per cent and 3.5 per cent per annum repayable by monthly instalments.

## 19. Creditors: amounts falling due within one year

| | **Group** | | **Association** | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **£'000** | £'000 | **£'000** | £'000 |
| Loans (see note 20) | 8,072 | 10,545 | - | - |
| Finance lease creditor (see note 20) | 50 | 123 | - | - |
| Trade creditors | 3,181 | 4,742 | 231 | 529 |
| Social Housing Grant received in advance | 1,788 | 4,753 | 56 | 1,729 |
| Other grant received in advance | - | - | - | - |
| Rent received in advance | 1,606 | 1,287 | - | - |
| Other tax and social security | 1,146 | 876 | 130 | 90 |
| Corporation tax | 156 | 351 | 64 | 21 |
| Accruals and deferred income | 7,517 | 8,833 | 1,584 | 371 |
| Recycled Capital Grant Fund (see note 23) | 84 | 562 | - | - |
| Disposal Proceeds Fund (see note 21) | 127 | 74 | - | - |
| Amounts due to Group undertakings | - | - | 2,205 | 1,753 |
| Other creditors | 2,153 | 1,673 | 125 | 219 |
| Deferred tax | 363 | 419 | - | - |
| | 26,243 | 34,238 | 4,395 | 4,712 |

# Notes to the financial statements

## 20. Creditors: amounts falling due after more than one year

| Group | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Bank loans | 307,052 | 291,388 |
| Less: issue costs | (558) | (246) |
| | 306,494 | 291,142 |
| Recycled Capital Grant Fund (see note 23) | 2,664 | 309 |
| Disposal Proceeds Fund (see note 21) | 570 | 521 |
| Other grants | 121 | 160 |
| Finance lease creditor | - | 50 |
| | 309,849 | 292,182 |

### Debt Analysis

| Group | 2015 £'000 | 2014 £'000 |
|---|---|---|
| **Debt on bank loans repayable as follows** | | |
| In five or more years | 247,039 | 252,129 |
| Between two and five years | 47,872 | 30,649 |
| Between one and two years | 12,141 | 8,610 |
| | 307,052 | 291,388 |
| In one year or less | 8,072 | 10,545 |
| | 315,124 | 301,933 |

Housing loans from lending institutions are secured by specific charges on some of the Group's housing properties and floating charges over the Group’s assets and are repayable at rates of interest of between 0.9% and 10.73%.

The level of undrawn facilities at the year end stands at £48 million (2014: £25.8 million).

# Notes to the financial statements

| **Debt on finance leases repayable as follows** | **2015 £'000** | 2014 £'000 |
|---|---|---|
| | | 123 |
| Between one and two years | 50 | 50 |
| Between two and five years | - | - |
| After five years | - | - |
| | 50 | 173 |

Finance leases are secured on the assets to which they relate.

## 21. Disposal proceeds funds

| **Group** | **2015 £'000** | 2014 £'000 |
|---|---|---|
| At 1 April | 595 | 226 |
| Grant recycled upon relevant events | 365 | 368 |
| Utilisation of fund | (130) | - |
| Interest credited | 3 | 1 |
| Transferred internally | (165) | - |
| Balance at 31 March | 668 | 595 |

Disclosed as:

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| Due within one year (see note 19) | 98 | 74 |
| Due after one year | 570 | 521 |
| | 668 | 595 |

# Notes to the financial statements

## 22. Deferred tax

| | Group | | Association | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **£'000** | £'000 | **£'000** | £'000 |
| At 1 April | 361 | (71) | (58) | (71) |
| Origination and reversal of timing differences | (39) | 555 | 18 | 34 |
| Prior year adjustment | - | (123) | - | (21) |
| At 31 March | 322 | 361 | (40) | (58) |
| Deferred tax asset (note 18) | (41) | (58) | (40) | (58) |
| Deferred tax liabilities (note 19) | 363 | 419 | - | - |
| Net deferred tax liability/(asset) | 322 | 361 | (40) | (58) |
| Comprising: | | | | |
| Accelerated capital allowances | 396 | 389 | (40) | (58) |
| Fixed asset timing differences | - | (28) | - | - |
| Losses and other deductions | (15) | - | - | - |
| Short term timing differences | (59) | - | - | - |
| Net deferred tax liability/(asset) | 322 | 361 | (40) | (58) |

# Notes to the financial statements

## 23. Recycled capital grant fund

| **Group** | **2015** **£'000** | 2014 £'000 |
|---|---|---|
| At 1 April | 871 | 1,001 |
| Additions to fund | 2,631 | 94 |
| Interest credited | 13 | 5 |
| Utilised in the year | (696) | (229) |
| Transferred Internally | (71) | |
| At 31 March | 2,748 | 871 |
| **Disclosed as:** | | |
| Amounts falling due within one year | 84 | 562 |
| Amounts falling due after one year | 2,664 | 309 |
| | 2,748 | 871 |

## 24. Share capital

| | **2015** **£** | 2014 £ |
|---|---|---|
| Shares of £1 each issued and fully paid | | |
| At 1 April and 31 March | 19 | 8 |

The shares provide members with the right to vote at general meetings but do not provide any rights to dividends or distributions. The members' liability is limited to £1 on a winding up of the Association.

# Notes to the financial statements

## 25. Reserves

| | Revenue reserve £'000 | Furniture equipment replacements (Designated) £'000 | Revaluation reserve £'000 | Tenant invest reserve (Designated) £'000 | Total 2015 £'000 |
|---|---|---|---|---|---|
| **Group** | | | | | |
| At 1 April | 21,304 | 1,317 | (6,718) | 29 | 15,932 |
| Surplus for year | 9,469 | 48 | - | (5) | 9,512 |
| Transfers | (43) | - | - | - | (43) |
| Actuarial loss on defined benefits pension | (5,887) | - | - | - | (5,887) |
| Fixed asset revaluation | (1,686) | - | 1,201 | - | (485) |
| At 31 March | 23,157 | 1,365 | (5,517) | 24 | 19,029 |

**Association**

| | Revenue reserve 2015 £'000 | Revenue reserve 2014 £'000 |
|---|---|---|
| At 1 April | 111 | 4 |
| (Deficit)/surplus for year | (182) | 107 |
| At 31 March | (71) | 111 |

## 26. Note of historical cost surpluses and deficits

| **Group** | **2015 £'000** | 2014 £'000 |
|---|---|---|
| Reported surplus on ordinary activities before taxation | 9,859 | 6,338 |
| Realisation of property revaluation loss | - | - |
| **Historical cost surplus on ordinary activities before taxation** | 9,859 | 6,338 |
| **Historical cost retained surplus for the year** | 9,859 | 6,338 |

# Notes to the financial statements

## 27. Notes on the cash flow statement

### a) Reconciliation of operating surplus to net cash inflow from operating activities

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Operating surplus | 18,339 | 16,580 |
| FRS 17 adjustment | (458) | (63) |
| Depreciation/amortisation/impairment | 8,332 | 10,260 |
| Share of JV surplus | (19) | (10) |
| Movement in stock and properties held for sale | 1,205 | 948 |
| Movement in debtors | 4,989 | (2,425) |
| Movement in creditors | (2,278) | 5,542 |
| Net cash inflow from operating activities | 30,110 | 30,832 |

### b) Reconciliation of net cash inflow to movement in net debts

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Change in cash in the year | 986 | 3,319 |
| Cash flow from movement in debt | (12,707) | (20,161) |
| Movement in net debt | (11,721) | (16,842) |
| Net debt at 1 April | (293,496) | (276,654) |
| Net debt at 31 March | (305,217) | (293,496) |

### c) Analysis of changes in net debt

| | At 1 April 2014 £'000 | Cash flow £'000 | At 1 April 2015 £'000 |
|---|---|---|---|
| Cash at bank and in hand | 8,364 | 986 | 9,350 |
| Loans | (301,687) | (12,880) | (314,567) |
| Finance leases | (173) | 173 | - |
| | (301,860) | (12,707) | (314,567) |
| Change in net debt | (293,496) | (11,721) | (305,217) |

# Notes to the financial statements

## 28. Capital commitments

**Group**

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| Capital expenditure that has been contracted for but has not been provided for in the financial statements | 9,337 | 36,691 |
| Capital expenditure that has been authorised but not yet contracted for | 10,218 | 13,524 |
| | 19,555 | 50,215 |

The Group expects to finance the above commitments by:

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| Social Housing Grant receivable | 3,494 | 8,863 |
| Loan facilities, shared ownership staircasing sales and other trading cash flows | 16,061 | 41,352 |
| | 19,555 | 50,215 |

## 29. Commitments under operating leases

As at 31 March 2015, the Group had annual commitments under non-cancellable operating leases as follows:

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| **Land and buildings** | | |
| Operating leases which expire: | | |
| Less than 1 year | 77 | 37 |
| In two to five years | 479 | 449 |
| In five to ten years | - | - |
| | 556 | 486 |

# Notes to the financial statements

## 29. Commitments under operating leases (continued)

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| **Other** | | |
| Operating leases which expire: | | |
| Less than 1 year | 324 | 496 |
| In two to five years | 610 | 546 |
| | 934 | 1,042 |

The payments which the Association is committed to make in the next year under operating leases are as follows:

| | **2015 £'000 Other equipment** | 2014 £'000 Other equipment |
|---|---|---|
| Leases expiring: | | |
| Within one year | - | - |
| One to five years | 7 | 7 |
| | 7 | 7 |

## 30. Guarantee

The Homes and Communities Agency (HCA) have committed £2m of development funding to Three60 limited, with an initial scheme completion date of March 2015. Plus Dane Housing Group has provided a parent company guarantee to the HCA in respect of this funding. The maximum liability in respect of this guarantee being the amount drawn at any specific time not to exceed the £2m facility. The full £2m facility was drawn and repayments began during the year. The loan will be fully paid by November 2015 following completion of the scheme.

Plus Dane Merseyside has provided a guarantee to three60 Property Investors Limited, a fellow group undertaking, for £10.5m. The guarantee is next due renewal on 17 September, 2017.