# LIVIN HOUSING LTD

**Report and Financial Statements**

**For the year ended 31 March 2015**

**Registered Community Benefit Society No 30568R**

**LIVIN HOUSING LIMITED**
**REPORT AND FINANCIAL STATEMENTS**
**For the year ended 31 March 2015**

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| Community Benefit Society registration number | 30568R |
| Homes and Communities Agency registration number | L4538 |
| Registered office: | Farrell House, Arlington Way, DurhamGate, Spennymoor, Co Durham, DL16 6NL |
| Board: | Ian Youll (Chair)<br>Adele Barnett<br>Mike Dixon<br>Alan Fletcher<br>Ian Gillespie<br>Jonothan Hitchen (to 18/09/2014 then from 13/10/2014)<br>Lucy Hovvels MBE<br>Andrew Lowery<br>Jonathan Mallen-Beadle (to 20/02/2015)<br>Paul Mullis (Co-optee from 11/03/2015)<br>Clare Reilly (to 03/10/2014)<br>Angela Rowlands (from 18/09/2014)<br>Brian Stephens<br>Kevin Thompson |
| Chief Executive | Colin Steel |
| Executive Directors: | Alan Smith (Finance and Governance) to 28/02/2015<br>Alan Boddy (People and Communities)<br>Wayne Harris (Property and Development) |
| Bankers: | Nat West PLC<br>21 Market Street<br>Ferryhill<br>Co Durham<br>DL17 8JN |
| Solicitors: | Trowers & Hamlins LLP<br>3 Bunhill Row<br>London<br>EC1Y 8YZ |
| Auditors: | Grant Thornton UK LLP<br>Registered Auditors and<br>Chartered Accountants<br>No1 Whitehall Riverside<br>Leeds LS1 4BN |

# LIVIN HOUSING LIMITED
## REPORT AND FINANCIAL STATEMENTS
## For the year ended 31 March 2015

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The Board of livin are pleased to present this report together with the audited financial statements of Livin Housing Limited (the Association) for the year ended 31 March 2015. This operating and financial review has been prepared in accordance with the ASB's 2006 Reporting Statement.

## Principal Activities

The Association's principal activities are the development and management of affordable housing.

The Association's head office is based in Spennymoor, County Durham and its homes are mainly in County Durham, principally in the area of the former Sedgefield Borough Council.

The Association is a Community Benefit Society with charitable objectives and operates two key business streams:

- Housing for rent, primarily by families who are unable to rent or buy at open market rates.

- Supported housing for people who need additional housing-related support.

The Association manages over 8,500 affordable housing homes.

## Board Members and Executive Directors

The Board Members and Executive Directors of the Association are set out inside the front cover (page i).

This year there have been changes to the Board as follows:

- Angela Rowlands was appointed as a tenant board member, with Clare Reilly standing down.
- Independent board member Jon Mallen-Beadle resigned and was replaced by Co-optee Paul Mullis.

The average age of the board is 56 years and they include specialist skills in the areas of Human Resources, Safety, Development, Assets and Finance. More information on livin's board can be found at The Board (unaudited information) on our website.

The Executive Directors are the Chief Executive and other members of the Association's senior management team. They hold no interest in the Association's shares and act as Executives within the authority delegated by the Board. Association insurance policies indemnify Board members and staff against liability when acting for the Association.

## Pensions

The Executive Directors are members of the Durham County Council Local Government Pension Scheme, a defined benefit (final salary) pension scheme. They participate in the scheme on the same terms as all other eligible staff and the Association contributes to the scheme on behalf of its employees.

## Other benefits

The Executive Directors are entitled to an allowance for the provision of a car. Details of Executive remuneration are included in note 10 to the audited financial statements.

## Objectives and strategy

The Association's objectives and strategy are set out in its corporate plan that was approved by the Board during 2011/12. The five key objectives are summarised as follows:

- **Well Governed and Viable** – to improve financial strength and governance.
- **Effective people** - to invest in our people.
- **Continuous Improvement** - to deliver excellent services through new ways of working.
- **Efficient Assets** - to invest in our homes and provide new homes.
- **Customer focused** - to meet our customers' needs and provide excellent services.

The 2012-15 Corporate Plan has been achieved ahead of schedule. A new Business Strategy is being developed which will replace the existing Corporate Plan and take into account changing priorities and emerging issues.

## Performance and development

Senior management and the Board monitor achievement of the Association's objectives by measuring performance against the targets that are set out below. The Board agrees targets each year that are designed to manage development and deliver continuous service improvement.

| Objective | Target |
|---|---|
| **Well governed and viable** - to improve financial strength and governance | • Develop a Medium Term Financial Plan and align to emerging priorities<br>• Realise Efficiency Savings and facilitate the Association's ambitions to 'bend' resources to meet emerging priorities<br>• Maintain effective Corporate Governance – ( G1 / V1 regulatory judgement maintained)<br>• Ensure compliance with the Code of Excellence in Governance<br>• Maintain and monitor the Association's Risk Registers |
| **Effective people** - to invest in our people | • Achieve the Investors in People Gold Standard - (achieved 2014/15)<br>• Develop a workforce Strategy to underpin priorities<br>• Work towards being recognised as an employer of choice by gaining appropriate accreditations (The Sunday Times Top 100 Employer Rankings – retained in 2014/15) |
| **Continuous improvement** - to deliver excellent services through new ways of working | • Achieve Level 2 Social Housing Equality Framework Accreditation, achieve high levels of Brand Awareness and a positive reputation in the market place<br>• Deliver all of the remaining promises (done)<br>• Deliver all of the commitments in the Local Offer<br>• Achieve our target score in our self-assessment<br>• Review and analyse current provision and use of business intelligence within the organisation<br>• Introduce new intelligence systems into the organisation |
| **Efficient assets** - to invest in our homes and provide new homes | • Achieve Accreditation for construction related services (HQN accreditation achieved)<br>• Implement the Asset Management Strategy delivery plan<br>• Deliver the outcome of the Older Persons Housing Services Review - (Approved by Board)<br>• Continue delivery of new affordable homes<br>• Deliver a Greener Living Strategy for livin and our tenants<br>• Achieve a Value for Money repairs and maintenance service - (New Contract scheduled for July 2016) |
| **Customer focused** - to meet our customers' needs and provide excellent services | • Develop and deliver the aims of the Sustainable Communities policy<br>• Extend ways for customers to be involved and empowered (resident involvement review completed in 2014/15)<br>• Promote specific elements of 'in your home' Customer Access Review such as the access channels available through the internet and other technology<br>• Build on current co-regulation and scrutiny arrangements<br>• Achieve the Customer Services Excellence Standard<br>• Introduce other service charges where appropriate to promote transparency, accountability and raise service standards. (Introduced from April 2014)<br>• Understand the impact of Welfare Reform on our organisation and our customers and develop an action plan to mitigate potential risks<br>• Work in partnership with other Registered Providers and stakeholders to deliver services centred around financial confidence in our communities<br>• Develop a Prosperous livin Strategy focussing on our communities to give them the opportunities to access training, financial inclusion and employment |

| | |
|---|---|
| | • Develop a Healthy Living Strategy and work in partnership to improve the health of our tenants and communities<br>• Ensure major strategic partners achieve added value through community projects<br>• Develop local standards of service delivery with our tenants<br>• Ensure the delivery of the Neighbourhood Action Plans<br>• Maintain high standards in livin's complaints service |

The performance measures are monitored and reported to the Performance Committee on a quarterly basis. Our performance against financial performance indicators are set out in the table on page 5 and are summarised below.

## Finance

Our Funders received quarterly management accounts in accordance with the Covenant requirements. Arrangements are in place for livin to monitor budgets on a monthly basis.

Internal Audit arrangements continued to work well and the recommendations made on all reports have been reviewed and an action plan has been established to ensure they are all implemented. Internal audit work was carried out by Pricewaterhouse Coopers LLP during the year. Their work not only focuses on reviewing controls and risks but also adding value and making recommendations. The trend between current and previous years shows that the risk's rating level increased for high risk but reduced for medium and remained the same on low ratings. The increase in high risk findings were considered to be isolated to the matters reported on page 27 of these financial statements. Despite these findings, when taken in aggregate, they were not considered pervasive to the system of internal control as a whole.

During 2014/15, a three year Medium Term Financial Plan was developed and aligned to the emerging priorities of the Association.

The Board has approved that specific funds be set aside within reserves to cover the following:

- Insurance – set aside to meet any liabilities arising from uninsured risks.

- Pensions – set aside to meet any potential increases in Employers Pension liability as a result of Actuarial revaluations.

- Mortgage Rescue and Empty Homes Schemes Fund - Proceeds from Right to Buy sales used to fund acquisition of homes under the Government's Mortgage Rescue and Empty Homes Schemes.

The table below shows those performance measures that are key to the Association and which formed the basis of our monitoring service improvement during 2014/15. Commentary on some of these indicators follows the table.

| Performance Indicator | 2014/15 Target | Performance score | Actual versus Target |
|---|---|---|---|
| Average time taken to re-let housing (days) | 28 | 61.76 | ☹ |
| % of responsive repairs completed right first time | 80% | 85.83 | ☺ |
| % of emergency repairs attended within 2 hours | 95% | 91.92% | ☹ |
| % of repairs where an appointment which had been made was kept | 98.5% | 98.87% | ☺ |
| % of homes with a valid landlord gas safety record | 100% | 99.90% | ☹ |
| % of sustainable stock that comply with livin standard | 100% | 100% | ☺ |
| Proportion of rent collected as a % of rent owed | 98.8% | 99.27% | ☺ |
| Rent arrears of current tenants as a proportion of rent roll | 0.9% | 0.64% | ☺ |
| % of rent lost through dwellings becoming vacant | 1.5% | 3.38% | ☹ |
| Number of working days / shifts lost due to sickness absence (Total) | 4.0 | 4.84 | ☹ |
| Employee turnover | 6% | 10.78% | ☹ |

(note some of livin's performance scores above differ from Benchmarking scores due to differences in their definitions)

## Rent losses from voids

Our target for the year was to manage our housing homes to minimise the length of time they remained empty between lettings and keep related losses below 1.5% of rental income receivable**.** Our target was not achieved for the year with overall rent losses being 3.38% (2014 2.8%). The figure excludes voids held pending redevelopment or remodelling.

The rent loss in 2014/15 in respect of lettable voids was £1,172,631. This is in comparison to £880,828 for 2013/14, an increase of £291,803. This is due to an increase in the average number of lettable void homes to 343 homes per week (2014 235 homes per week). Although void losses have increased, partly due to the increased rent debit, the number of void dwellings has risen significantly due to a fall in demand.

The type and location of certain properties, combined with the impact of Welfare Reform on any housing benefit dependent tenants has resulted in areas of low demand. livin continues to ensure tenants are aware of the financial impact of under-occupation on their Housing Benefit payments and the implications of reduced Council Tax Benefit payments, leading to a fall in demand for 3 bedroomed properties. livin works with existing and potential new tenants to ensure that they are able to afford their home and that sustainable tenancies are created.

This fall in demand also meant that costs incurred to return a void property to a lettable standard had to be reviewed. This review meant that certain void costs were only incurred in high demand areas or when a possible tenant had been identified. This had the effect of delaying and even reducing void costs.

### Rent arrears

Overall, rent arrears in respect of current tenancies at the year-end stood at 0.64% (2014 0.97%) against an operational target of 0.9% after accounting for the timing of a payment of housing benefit arrears, paid shortly after the year end. This performance was a direct result of interventions put in place to help tenants at an earlier stage (before falling into arrears), but also due to strong recovery action where necessary. Support for customers who are struggling to pay was provided by the Smart Money Team and this has helped customers to manage their finances and thereby maintain regular rent payments.

Our target for the coming year is to manage all rent arrears (current and former tenants) within 2.5% of rental income. This target has reduced compared to last year to ensure our attentions are focused on arrears given the emerging pressures from Welfare Reform changes and the on-going economic environment.

### Big Lottery Fund Grant (Monkey)

Monkey aims to support young (16 to 24 year old existing tenants in rent arrears) and new tenants by ensuring they have access to affordable finance, fuel and furniture services and products. Tenants will be supported by increasing their skills and confidence to be able to use these services and develop an understanding of the relevance of financial inclusion and capability services. This service should help prevent tenants falling into arrears and have a positive impact on livin's overall level of arrears.

### Asset management

We are continuing to improve our residential accommodation. During 2014/15 we invested £16.5m to build new homes and ensure all our homes continue to meet the Decent Homes standard. The Business Plan for 2014/15 assumed expenditure in this area of approximately £18.8m. This lower than planned investment was predominantly as a result of reduced development works.

In addition to the 65 new build properties, 4 homes were acquired under the Mortgage Rescue scheme at a net cost of £258,534, and 24 Empty Homes were brought back into use. 63 homes in total were disposed of during the year, with 35 Right To Buy, 1 Right To Acquire, and 27 Homesteading sales.

### Employees

We recognised that the success of our business depends on the quality of our managers and staff. It is the policy of the Association that training, career development and promotion opportunities should be available to all employees.

We are committed to equal opportunities and in particular we support the employment of disabled people as defined under the Disability and Discrimination Act (1995), both in recruitment and in retention of employees who become disabled whilst employed by the organisation.

The Board is aware of its responsibilities on all matters relating to health and safety. The organisation has prepared detailed health and safety policies and provides staff training and education on health and safety matters.

## Risks and uncertainties

Risks that may prevent the Association achieving its objectives are considered by the Organisation's Strategic Risk Group on a quarterly basis and detailed reporting occurs where an exception issue may arise. Quarterly reporting on operational risks also take place. The risks are recorded and assessed in terms of their impact and probability. Key risks, presenting the greatest threats are reported to the Audit and Risk Committee quarterly together with controls in place to manage the risks, including assessments of the adequacy of these, and the outcomes. The Audit and Risk Committee review which strategic risks ought to be reported to Board quarterly by way of an Executive Summary. livin also conducts an annual risk management framework review.

The 13 strategic risks of livin approved by the Audit and Risk Committee on 29 April 2015 are shown in the table below.

| Key risk | Key actions being undertaken |
|---|---|
| **1. Failure to focus on the customer** | **On-going work to ensure all customers can engage effectively with livin includes:**<br>• Develop and implement the Communities Action Plan<br>• Implement the Digital Strategy Action Plan<br>• Implement the Resident Involvement Action plan<br>• Assess the impact on tenants of Welfare Reform<br>• Develop and implement the Value for Money Action Plan<br>• Modernisation and Diversification Strategy will set out customer focus priorities |
| **2. Failure to deliver effective asset management** | **The asset management programme review will:**<br>• Influence the repairs and maintenance action plan<br>• Inform the Resident Involvement Strategy<br>• Implement the strategy for sheltered housing schemes<br>• Influence the Medium Term Financial Plan<br>• Influence the tender for the Construction Related Services Contract<br>• Deliver a Home Improvement action plan<br>• Assist in the delivery of the Value for Money action plan<br>• Implement internal audit recommendations<br>• Deliver the Asset Management Strategy 2012/17<br>• Ensure effective use of the recently implemented Asset Management System (Keystone) |
| **3. Failure in the Supply Chain** | **In the current economic climate this risk has been expanded to look at all critical partnership and supply contracts. The planned actions will include:**<br>• Inform and assist in the delivery of the Resident Involvement and Value for Money action plans<br>• Continued development of a Business Continuity Plan to incorporate partners<br>• Influence the Asset Management Strategy 2012/17<br>• Develop and implement the repairs and maintenance action plan<br>• Implement workforce planning<br>• Review the Business Continuity requirements under the new Construction Related Services Contract |

| Key risk | Key actions being undertaken |
|---|---|
| **4. Failure to implement our Green Agenda** | **A new risk designed to ensure that livin develops sustainable policies and practices that reduce the carbon footprint, these include:**<br>• Develop a Greener living action plan<br>• Development and implementation of a the livin Greener Strategy<br>• Influence the Asset Management Strategy 2012/17<br>• Implement Communities and Effective people action plan<br>• Assist in the Value for Money and Repairs and Maintenance action plans |
| **5. Failure to deliver the Development Strategy** | **livin will develop and then publish its new Development Strategy which aims to supply up to 107 conversions and new homes between 2015 and 2018. To ensure successful development and delivery of the strategy, livin will:**<br>• Use SDS Sequel to ensure continued support, monitoring and review of the Development Programme and the Business Plan<br>• Review the strategy with Board input to determine livin's growth requirements<br>• Review the Equality and Diversity action plan |
| **6. Failure to manage organisational capacity** | **Continual progress has been made to increase the capacity of the organisation, this progress will continue with the introduction of the following planned initiatives:**<br>• Deliver the workforce strategy and continued restructure/realignment/reskilling of workforce<br>• Deliver the Digital Strategy and digital reskilling programme<br>• Improve workforce productivity through lean processes, reskilling and a focus on performance<br>• Development and implementation of the Great People Action Plan |
| **7. Failure to maintain a positive reputation** | **A programme is being implemented that will amongst other things:**<br>• Complete the annual Scrutiny Review Programme<br>• Deliver the Value for Money action plan designed to bend resources to support emerging initiatives<br>• Implement the Development Strategy<br>• Implement the Asset Management Strategy<br>• Implement the Digital Strategy<br>• Develop and implement a revised marketing and communications strategy aligned to the Digital Strategy<br>• Deliver the revised Resident Involvement Strategy |
| **8. Failure to recognise and react to the current political and economic climate** | **A number of reviews are underway or being implemented that will improve use of resources and / or deliver efficiencies. These include:**<br>• Review of Medium Term Financial Plan<br>• Develop and implement a revised Value for Money Strategy<br>• Review the Strategic Risk register and mitigations<br>• Deliver the Corporate Improvement Programme aligned to the revised Business Strategy<br>• Implement the restructure and deliver the Workforce Strategy<br>• Deliver the Digital Strategy<br>• Deliver the Construction Related Services Contract Procurement<br>• Deliver the Rent Improvement Programme<br>• Deliver the Asset Management Strategy<br>• Align new performance measures to the new business strategy<br>• Deliver Tenure Diversification action plan<br>• Deliver the Resident Involvement Strategy<br>• Assess the impact of Welfare reform and budget announcements (i.e. decrease of social rents by 1% ) on the association's finances and Business Plan along with mitigations and further stress testing |

| Key risk | Key actions being undertaken |
|---|---|
| **9. Failure to effectively manage the Association's finances** | **A number of initiatives are underway that will improve the financial position of the Association. These include:**<br>• Review Medium Term Financial Plan and align to the new Business Strategy and emerging priorities<br>• Continue to embed the Value for Money Standard and review the re-investment programme to bend resources to meet emerging priorities<br>• Implement the asset management strategy to identify further efficiency savings<br>• Review the organisation's financing to achieve further savings<br>• Deliver the Construction Related Services Contract Procurement<br>• Monitor the organisation's Pension arrangements<br>• Assess the impact of Welfare reform and budget announcements (i.e. decrease of social rents by 1% ) on the association's finances and Business Plan along with mitigations and further stress testing<br>• Develop and implement a spending review for the association<br>• Deliver the Rent Improvement Programme and Tenure Diversification action plan to maximise income |
| **10. Failure to maintain effective corporate governance** | **Further strengthening of the Association's governance arrangements continued in 2014/15 including:**<br>• Review the Equality and Diversity action plan<br>• Review the Governance action plan<br>• Implementation/Monitoring in the event that Freedom of Information Act engages RPs<br>• Development of a Scrutiny action plan<br>• Development and implementation of a Resident Involvement action plan<br>• Adoption of and compliance with new NHF Code of Conduct<br>• Implementation of the Board Development plan<br>• Review Data Protection policy |
| **11. Failure to manage effective procurement** | **New initiatives will be implemented to improve the management of the procurement process across livin and manage some of the risks identified in an internal audit review, these include:**<br>• Develop and implement Directorate Procurement Plans<br>• Undertake a Spend Analysis review<br>• Implementation of the Value for Money action plan and Efficiency Strategy<br>• Implement internal audit recommendations |
| **12. Failure to effectively manage business continuity incidents** | **Development of a Business Continuity plan for livin has been undertaken during the year, this was supplemented as follows:**<br>• Develop Mutual Aid strategies<br>• Review of Business Continuity Plans for Mears<br>• Review the Business Continuity requirements under the new Construction Related Services Contract |
| **13. Failure to deliver Value** | **In order to implement the VFM Action plan and embed VFM across the organisation, the following actions will be undertaken:**<br>• Implementation of Service Improvement Plans<br>• Review and gap analysis of all strategies, and review of the Performance Management framework<br>• Partner working with HouseMark to review our approach to embedding VfM<br>• Research and explore Social Return On Investment<br>• Implement R&M action plan phase 4 (gas improvement plan) |

## Financial position

The Association's income and expenditure accounts and balance sheets are summarised in Table 1 (page 25) and the following paragraphs highlight key features of the Association's financial position at 31 March 2015.

The overall surplus for the year amounts to £4.465m compared to a budgeted surplus of £1.014m, a favourable variance of £3.451m.

The main features that account for this exceeded budgeted surplus are:

- Pension cost adjustments in accordance with Financial Reporting Standard 17.
- Lower than anticipated depreciation costs as a result of the level of Work in Progress at the year end.
- Lower than budgeted void losses and bad debts despite the impact of low demand areas.
- Reducing cyclical maintenance and repair costs by identifying low demand loss-making units suitable for demolition and subsequent redevelopment.
- Continued reduction in overheads through livin's reinvestment programme.

## Accounting policies

The Association's principal accounting policies are set out on pages 36 - 40 of the financial statements. The policies that are most critical to the financial results relate to accounting for housing homes and include: capitalisation of costs and housing property depreciation.

The Association follows guidance on the Statement of Recommended Practice (SORP) Accounting by Registered Social Housing Providers 2010.

## Housing Homes

At 31 March 2015 the Association owned 8,504 housing homes (8,525 at 31 March 2014). The homes are carried in the balance sheet at historical cost (after depreciation and grant) amounting to £104.19m (£95.84m at 31 March 2014) and valued at £773m for insurance purposes.

Our investment in housing homes this year was funded through a mixture of loan finance, mortgage rescue scheme and empty homes grants, Eco grant, working capital and revenue reserves.

## Pension costs

The Association is an Admitted Body to the Local Government Pension Scheme (LGPS). This Local Government Pension Scheme is a final salary scheme, offering good benefits for our staff. The Association has contributed to the scheme at a rate of 11% during 2014/15.

A full actuarial valuation of the LGPS was undertaken as at 31 March 2013.

## Value for Money

The self-assessment included below is a summary of livin's VfM achievements. The full VfM self-assessment (unaudited information) can be viewed on our website.

**livin Value for Money Statement**

**Introduction**

At the time of livin's last Value for Money Statement, the Corporate Plan for 2012/15 had been achieved 12 months ahead of schedule and focus had shifted to the three key high level objectives of strengthening core services, maximising value and protecting and diversifying income areas, which are supported by the three themes of livin Communities, livin Business and livin Assets. This theme has continued within livin's Business Strategy, which has been published alongside refreshed strategies for Value for Money, Workforce and Medium Term Financial Plan, as part of comprehensive interconnected framework. This is supported by significant work during 2014/15 to address not only internal priorities, but responding to the shifting political, economic and regulatory landscape.

livin's VfM strategy (unaudited information) places a requirement on its Board to satisfy themselves that the optimum sustainable performance of all its assets meets the purpose and objectives of the organisation, as set out in its Corporate Plan.  This demonstrates the importance of ensuring that VfM is closely linked to and embedded within the Corporate Plan and all key strategies.

***Approach to VfM***

The strategic direction from Board is translated into service level and individual targets through a VfM working group, which meets regularly to discuss the delivery of VfM initiatives. This group also provides valuable input and intelligence to influence the development of the VfM Strategy. A wider awareness of VfM is also achieved via engaging staff in VfM activities, including individual training and development interventions to ensure they are aware of their responsibility in its delivery, and continue to seek and achieve VfM in all their activities.

While livin has been working during 2014/15 to incorporate more efficient and effective VfM measures, it has a long-standing and successful cost saving approach which has grown in importance in the light of the current economic climate.

***Performance Management Framework***

Delivery of the VfM Strategy is incorporated in livin's Performance Management Framework (PMF). The PMF has been developed on a constant basis since livin's inception to ensure that it remains properly aligned to the strategic aims of the business, whilst maintaining full coverage across all areas of the organisation.

Quarterly Performance, Value and Risk Clinics, attended by Senior Management Team, Heads of Service and key managers provide an opportunity to take an overarching and in-depth view of performance, value and risk. Work has taken place to improve the alignment of performance and value with the Risk Management Framework. Strengthening these arrangements further is a key priority during 15/16.

The recent independent Housemark review highlighted the strength and value obtained by livin's modern approach to tenant involvement and empowerment. In particular, the Tenant Scrutiny Panel, which has an independent chair, has been instrumental in providing challenge and recommendations to improve VfM. The Scrutiny Group has undertaken reviews of Sustainable Tenancies and 'Customer Preparedness for Universal Credit' during 14/15. They also commenced a review of Complaints and Feedback, which was completed in June 2015. The Group have made 30 recommendations to Board, with all but one being approved.

***Benchmarking***

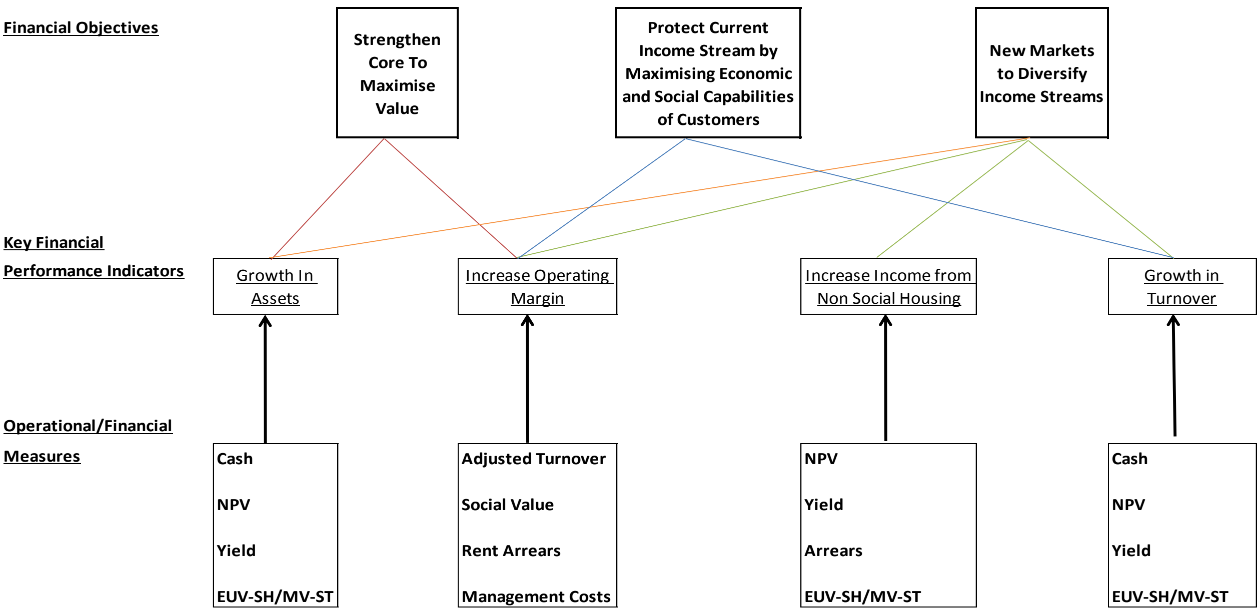
During 2014/15, the PMF has been developed to incorporate links to benchmarking data, providing external challenge to performance levels. Through Housemark, livin submits four Priority Performance Benchmarking submissions during the year and completes the annual Core Benchmarking submission. Benchmarking results are used as a 'can opener' to engage management teams to evaluate performance, refine performance measures and to improve target setting.

***Business Health Indicators***

There have also been improvements during 14/15 to integrate business critical financial measures that provide an overall view of business health at the most strategic level. This is a vital link between the PMF and the financial business plan, whereby operational performance can be considered in the context of overall business health.

There are four key financial performance indicators that measure the health of the business against each core business aim as illustrated in figure 1.

Figure 1 – financial health key performance indicators




Each key financial performance indicator is supported by operational financial measures that are used to gain a more in depth view of financial performance. These sub measures also help to determine the overall effectiveness of each objective within the PMF and its impact on the Business Strategy.

The following table compares livin's financial performance against peers, as detailed in the 2013/14 Global Accounts*:-

* The peer group selected for these comparatives is:- livin Housing Ltd, Berwick Borough Housing, Broadacres Housing Association Ltd, Byker Community Trust Ltd, Cestria Community Housing Association Ltd, Coast and Country Housing Ltd, Derwentside Homes Ltd, Erimus Housing Ltd, Gentoo Sunderland Ltd and Housing Hartlepool.

| Indicator | Livin 2013 | Livin 2014 | Peer Group Average Global Accounts 2014 |
|---|---|---|---|
| Stock Size | 8,577 | 8,525 | 8,683 |
| Stock failing the decent homes standard | 0.0% | 0.0% | 0.4% |
| Voids for the year | 1.1% | 3.3% | 1.8% |
| Bad Debts for the year | 0.9% | 0.6% | 0.8% |
| Arrears | 3.08% | 3.6% | 4.0% |
| Operating margin | 20.3% | 20.0% | 24.7% |
| Growth in turnover | 6.9% | 6.1% | 10.5% |
| Growth in total assets | 31.6% | 17.6% | 9.4% |
| Gearing | 286% | 265% | 112.9% |
| Debt per social housing unit | £6,732 | £8,542 | £9,828 |
| Management cost per unit | £999 | £1,075 | £773 |
| Maintenance cost per unit | £1,069 | £1,096 | £1,054 |

Property numbers have decreased as a result of the proactive rationalisation of poor performing stock, resulting in a housing stock that is better fit for purpose. However, void levels cause some concern and have been the subject of a deep dive exercise. livin is currently implementing the recommendations made as a result of this exercise.

Operating Margin has reduced as interest costs and depreciation continue to rise, both a result of the planned Major Improvement Programme and Development Programme. This expected trend was identified through the Business Planning process, and is not a cause for concern.

Whilst the Growth in Assets has slowed compared to previous years, this is as a result in approaching the end of the Major Improvement Programme, but is still higher than the peer group, and is indicative of the relative immaturity of livin in comparison to its peers. However, Gearing has fallen as savings have been found to fund capital spend without the need for the level of borrowings initially anticipated.

Management and Maintenance costs are above the peer group average, and will be addressed through the letting of the Construction Related Services contract due to complete in 2016. The re-specification of voids repairs has already taken place, resulting in reduced costs.

Appropriate performance measures are contained within the VfM Dashboards. Where a corresponding benchmarking measure exists, these have also been detailed.

***Risk Management***

livin recognises that in the current economic and political environment, a realignment of the key strategic risks is required. The Risk Management Framework is integral to the management of performance within the organisation.

This has influenced our future approach to Risk and VfM, resulting in a strong focus on Business Intelligence to inform decision making, with a more granular level of detail now being applied to the strategic decision making process.

**Return On Assets**

The overarching Asset Management strategy defines which properties will receive investment, and provides solutions for those which are inefficient or no longer financially viable utilising the Net Present Value (NPV) model, yield data and communities intelligence. VfM is a key consideration within this strategy, working within the framework of the Community Plans.

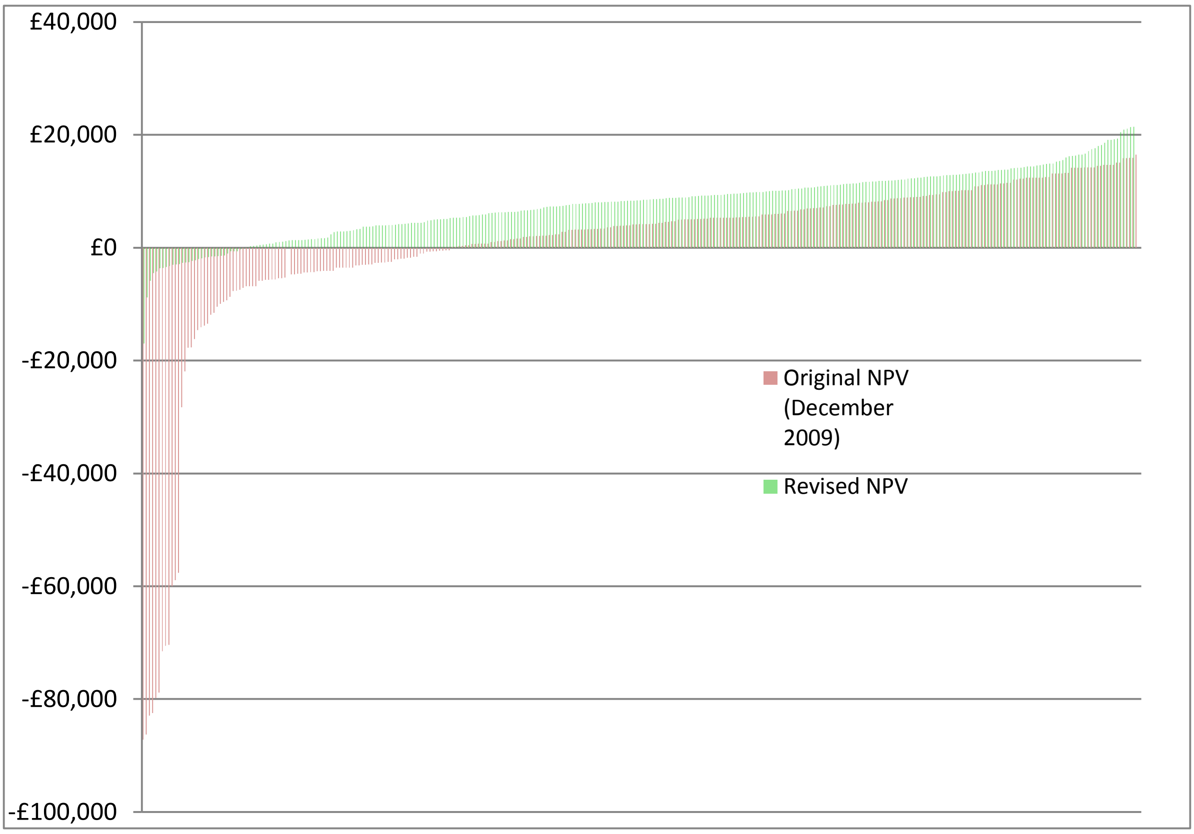
During the year, livin spent £8.5m improving the existing housing stock, as well as £8.0m on the construction and purchase of new stock.

The Net Present Value calculation of livin's stock has undergone further enhancement during 2014/15, with repairs, anti-social behaviour and void loss cost data now being allocated on a more detailed and granular level than the previous method of equal apportionment. This more commercial approach allows livin to identify with even greater accuracy the poorly performing assets, and allow plans to be formulated in line with the Active Asset Management Strategy regarding future investment/disposal. This intelligence led approach provides a sound evidence base for the tough decisions that lie ahead, and will result in a more sustainable, productive and profitable asset base.

The increase in the EUV-SH valuation of the stock was 3.1%, compared to an increase of 4.3% in the cost of the assets. Since these figures are broadly in line with each other, this demonstrates that livin is investing in the right type of home.

The following graph demonstrates the improvement in the Net Present Value of livin's housing stock:-

**Financial Performance (NPV's)**




Voids have been identified as an area providing significant downward pressure on livins' Return on Assets. A deep dive exercise has been undertaken and recommendations made to improve the under-performance in this area. Significant additional income is expected as a result of this.

## Benchmarking

livin is an active member of Housemark and values the challenge that external benchmark provides.

livin is a member of the Housemark benchmarking club, and compares its costs annually against its peer group. The VfM Dashboards contained within the full VfM Self-assessment report detail the performance for the key business objectives from 2012/13 to 2014/15.

A summary of the key areas of good and bad performance is provided below:-

| Business Objective | Performance 14/15† | Peer Group Median | Future Plans |
|---|---|---|---|
| **Improve and maintain quality homes and increase environmental sustainability of our assets** | | | |
| Repairs Total Cost Per Property | £474.97 | £373.91 | Construction Related Services contract procurement – 10% saving |
| Management Direct Cost Per Property – Repairs | £76.36 | £62.48 | |
| Total Cost Per Property – Cyclical Maintenance service provision | £179.69 | £196.45 | |
| Total Cost Per Property – Major Works | £1,995.51 | £1,224.95 | Agree Component Replacement cycle to maximise value of specifications |
| **Broaden the asset base, matching supply to demand** | | | |
| Total cost per property of - lettings | £93.72 | £70.88 | Reduction in low demand property numbers |
| Total cost per property – voids service provision | £261.52 | £293.07 | Identifying demand issues and appropriate properties for the Tenure Diversification programme |
| **Maximise Financial Capacity to deliver services** | | | |
| Rent Collected | 99.84% | 99.66% | Continue the Rent Improvement programme and Direct Debit promotion. |
| Rent Arrears – current | 3.09% | 2.73% | |
| Cost per property of rent arrears and collection | £93.61 | £123.73 | Continued delivery of Smart Start and roll out of 'Nudging your way to reduced rent arrears' |

† Benchmarking data is from the HQN or Housemark 2014/15 Report unless otherwise specified.

| | | | |
|---|---|---|---|
| Rent loss due to empty properties | 3.98% | 1.00% | Identifying demand issues and appropriate properties for the Tenure Diversification |
| **Optimise value and impact of IT and digital services** | | | |
| IT Cost as a percentage of turnover | 0.97% | 0.87% | 10% reduction in transactional costs through increased usage of Digital Services |
| Average cost of delivering online service per transaction | £3.15 | £2.66 | |
| **Be a fair and equitable business and engage customers with improving services** | | | |
| Resident Involvement cost per property | £12.21 | £28.01 | Implement fully the Resident Involvement IT system |
| Cost of providing Equality and Diversity service per property | £1.65 | £1.65 | |
| Cost of providing scrutiny service per property | £3.00 | £3.00 | Enhance the use of digital means of participation |
| **Maximise sustainable tenancies** | | | Accurate and meaningful cost measures to be identified |
| **Grow strong sustainable communities** | | | |
| Cost per property of Anti-Social Behaviour | £42.01 | £66.64 | Continued interventions and community initiatives |
| **Be an employer of choice and maximise HR capacity to deliver services** | | | |
| Direct cost of HR Staffing per property | £11 | £15 | Develop cost measure for staffing costs as a percentage of turnover<br>Deliver target of reducing staffing costs by 10% |

**Current Savings**

During 2014/15, livin achieved cashable savings of £3.4m (2013/14:- £7.2m). This was significantly lower than the anticipated savings of £6.2m (£2.8m shortfall), and can be attributed to 2 key areas:-

- The pausing of the refinancing project due to adverse Market Conditions (£600,000 underachieved);

- The decision not to award the Construction Related Services contract, as no submissions met the quality and cost requirements of the tender (£2,400,000 underachieved).

livin continues to target these two areas to deliver savings in the near future.

A summary of savings achieved against target is provided below:-

| | **Achieved** |
|---|---|
| Assets: Improvement and Repairs | 75,177 |
| Assets: Developments | 744,924 |
| Assets: Use of Assets | 83,333 |
| Salaries and Restructures | 182,908 |
| Business Processes | 2,027,858 |
| Purchasing and Procurement | 291,217 |
| | **3,405,417** |

**Future Savings**
Plans have been identified which will produce further cash savings or increase income for livin in the future. The table below summarises the key cash saving and income generating initiatives identified:-

| **Savings** | **Increased Income** | **Value** |
|---|---|---|
| | Tenure Diversification | Only expected to break even for first 3 years |
| | Further offer to the HCA under Continuous Market Engagement | £72k additional grant anticipated |
| Further implementation of the Digital Agenda | | 10% reduction in transaction costs |
| | Proactive Outbound Calls | 15% increase in payment of rent arrears (circa £150k) |
| Reduce failed tenancies, thereby reducing void loss and re-instatement costs of properties | | To be determined. Potentially circa £900k p.a. |
| | Match Funding | £390k |
| Reduction in development spend | | £1.5m |
| Re-profiling of property improvement spend through the lengthening of component lives | | To be determined subject to Board approvals |

| | | |
|---|---|---|
| Improved modernisation and business efficiency creating the capacity to reduce staff costs | | £500k p.a. targeted |
| Construction Related Services contract | | £1.5m p.a. for 10 years |
| Refinancing | | To be determined. |

Void loss has been identified as a problem area within the business. As a result, the service has undergone a root and branch review and the service re-engineered as a result, to produce a leaner more effective service. A fundamental improvement in performance is expected during 2015/16, and it is expected to also contribute to the Active Asset Management strategy, as more accurate business intelligence is gathered to determine the true level of low demand stock.

Initial estimates which represent a 5.7% reduction in Operating Costs have been generated and incorporated into the Business Plan to assess the impact of the above. Whilst significant mitigations are achieved, even with the full implementation of all initiatives, the negative impact of rent losses cannot be fully offset. It is therefore vital that further cost reduction or revenue increasing measures are identified.

**Social Impact**

The table below summarises how livin has provided value within its communities:-

| **Initiative** | **Value** |
|---|---|
| -Improvements to existing properties and surrounding environment | -Increased tenants pride in their homes<br><br>-Improved quality of homes<br><br>-Improved environmental aesthetics<br><br>-Improved community cohesion<br><br>-Improved tenants health and wellbeing |
| -Delivery of an additional 92 units through development and acquisition | -Increased tenants pride in their homes<br><br>-Improved quality of homes<br><br>-Improved environmental aesthetics<br><br>-Improved community cohesion |

| | |
|---|---|
| | -Improved tenants health and wellbeing |
| -Welfare Benefits Advisor | -£541k in additional benefits secured for tenants |
| -Monkey | -Improved financial confidence and awareness |
| -Smarterbuys Store and Credit Unions | -Providing an alternative source of credit to tenants to doorstep and payday lenders |
| -Smart Start | -Training at support for 'at risk' starter tenancies. 16% reduction in failed tenancies. |
| -Community Investment | -£204k invested and £361k match funding obtained<br><br>-46 Community projects funded<br><br>-Improved digital skills of tenants<br><br>-882 tenants engaged through livin futures, with 261 achieving qualifications<br><br>-£131k of tenants debt managed and an additional £12k of benefits secured for tenants. |

For the first time, during 2014/15, livin has piloted the HACT Social Value tool in order to quantify the amount of social value it has created through its livin Futures initiatives. livin is able to demonstrate value created of £3.5m The following table summarises these results.

| What's the activity? | Associated outcome / value | Average person value | Total minus deadweight |
|---|---|---|---|
| livin futures | Full-time employment | £ 10,767 | £ 827,478 |
| livin futures | Apprenticeship | £ 2,353 | £ 7,462 |
| livin futures | Employment training | £ 807 | £ 6,175 |
| livin futures | Vocational training | £ 1,124 | £ 35,501 |
| livin futures | Go to youth clubs | £ 2,300 | £ 79,844 |
| livin futures | Go to youth clubs | £ 2,300 | £ 127,750 |
| livin futures | Full-time employment | £ 10,767 | £ 2,367,832 |
| livin futures | Apprenticeship | £ 2,353 | £ 4,876 |
| livin futures | Employment training | £ 807 | £ 14,898 |
| livin futures | Vocational training | £ 1,124 | £ 866 |
| livin futures | Regular volunteering | £ 2,357 | £ 5,327 |
| livin futures | Keep fit | £ 1,670 | £ 16,016 |
| | | | **£ 3,494,025** |

Future potential community investment will be related to the priorities of the current Government, specifically around employability, energy efficiency and assets. This is covered in more detail in livin's Impact Report 2014/15 (unaudited information).

***The Future***
Over the last 12 months, livin has demonstrated a strong commitment to VfM and an analytical approach to problem solving by looking deep into issues to determine the root causes. We expect the thorough reviews we have undertaken in 14/15 to come to fruition throughout 15/16 as performance improves due to the evidence based changes we have made, such as voids.

During 2014/15, livin also established an independent market value of its properties. This intelligence, at a unit level, is also critical to the successful implementation of the Active Asset Management Strategy assisting in the determination of which properties are to be invested in and which would be more suitable for disposal.

This has informed our future direction. Given the impact on the Business Plan of the Emergency Budget on the 8th July 2015, our VfM focus is shifting, from one of Value creation, to a view of cost reduction, efficient, lean and effective service provision, and the desire to maximise impact where there is no additional cost through enhanced partnership working. Overall, livin's definition of VfM, **'To create the maximum possible positive impact for the resources available'** is as relevant going forward as it has ever been, the main difference being that there will be less resource available.

livin's revised VfM Strategy will be published in September 2015, and will take account of the requirements of the new Business Strategy. Board and all staff will receive additional training as a result of this.

Existing risks such as welfare reform and universal credit remain high on livin's agenda, however future risks must also be considered. Additional skills and challenge will be required throughout the business, from the Board down in order to meet the challenges facing livin in the short to medium term. Refinancing of the loan portfolio remains a key objective to reduce interest costs. However, given the uncertainty in the markets following the emergency budget announcement, work needs to be undertaken within all areas of the business to ensure the strong and stable financial foundations livin has built over the last 5 years can be maintained.

Future service improvements and cost saving measures have already been accelerated in order to provide the financial capacity to ensure the long term viability of the business.

**Conclusion**

As detailed above, livin has achieved savings for the year of £3.4m, though some challenges remain.

Core benchmarking data for 14/15 indicates that livin's performance has improved in certain areas including rent collection, current tenant arrears and total cost per property relating to repairs and major works. Although cost per property on repairs and major works is placed in the lower quartile, the trend of performance shows that costs in these areas are reducing overall. It is expected these costs will further reduce through key interventions such as the Active Asset Management Strategy and Construction Related Services contract. Action is this area has already been undertaken with the retendering of the Construction Services contract (to be completed by July 2016) expected to lead to significant improvements in this area.

Performance levels in relation to average re-let time and rent loss due to empty properties has declined during 14/15 and is in the lower quartile. Interventions such as the Voids Deep Dive and the current restructure will address performance levels in voids and lettings during 15/16.

An analysis of livin's performance measures shows that of the 32 measures in place at the start of the year, six have improved, 17 have remained static and nine have deteriorated. However, interventions have been identified for these measures and action will be taken to rectify any downward movement.

24 additional measures were introduced during the year, of which 14 are either amber or green, 4 are red and 6 have not yet been assigned a value judgement. Of the 56 measures currently in use, 22 are green, 20 amber, 8 red and 6 have no value judgement.

livin represents a Value organisation, albeit one which faces future challenges given the announcements in the July 8th Emergency Budget.

A number of initiatives which will lead to cost savings and efficiencies have been accelerated to meet these challenges.

The 30 year Business Plan has been reviewed in light of this, and will continue to be the focus of attention for the immediate future.

However, livin remains committed to serving its tenants and communities. As a result, over the coming weeks and months, Board and Senior Management Team will be assessing the priorities of both the Business and the local communities, and a new offer will be formulated and communicated through the new Business Strategy and VfM Strategy.

It is critical that livin continues to play to its strengths, but also that it identifies and acknowledges that there are future challenges ahead and has plans in place to address them. Scrutiny reviews have already played a part in this shift in focus and will continue to do so in the future.

In summary, the emergency budget announcement represents a significant challenge to the social housing sector including livin. However, as a result of its previous VfM achievements and future plans, the business is in a good position to overcome these challenges, and emerge a leaner, more profitable business.

### Regulatory Judgement and Financial Viability Review

The Homes and Communities Agency has issued the following regulatory judgements on livin concluding:

**Viable (V1)** – The provider meets the requirements on viability set out in the Governance and Financial Viability standard and has the capacity to mitigate its exposures effectively (issued April 2015).

**Properly Governed (G1)** – The provider meets the requirements on governance set out in the Governance and Financial Viability standard (confirmed in April 2015 following a visit and review).

### VAT Shelter

As part of the transfer arrangements livin entered into a VAT shelter agreement with the Council which enables them to recover the VAT incurred on the capital investment works to the housing stock.

The agreement provided for the first £7.06m to be set-aside in order to clear the deficit on the Pension Fund in respect of those staff that TUPE transferred to livin after which any further proceeds would be split in the ratio 55:45 between livin and Durham County Council (DCC).

## Capital structure and treasury policy

The Association's treasury management arrangements are considered below.

The Association borrowed a further £7.8m (2014 £20.6m) during the year, to finance its capital investment programme. £3.0m (2014 £5.7m) of this was repaid during the financial year. At the year end, Association borrowings totalled £77.4m (2014 £72.6m), £64.5m (2014 £64.5m) of which falls due to be paid after five years as shown below.

| **Maturity** | **2015** | **2014** |
|---|---|---|
| | **£m** | **£m** |
| Within one year | 12.90 | 8.10 |
| Between one and two years | - | - |
| Between two and five years | - | - |
| After five years | 64.50 | 64.50 |
| | 77.40 | 72.60 |

The Association borrows from RBS, Barclays and Santander, at both fixed and floating rates of interest. Interest rate swaps are used to generate the desired interest profile and to manage the Association's exposure to interest rate fluctuations. The Association's policy is to have outstanding at any one time, a maximum of 30% variable rate loans, and 90% fixed rate loans. At the year-end, 83 % of the Association's borrowings were at fixed rates.

The range of interest rates on the outstanding amounts varies between 6.20% and 6.61% (including margins) for the fixed rate loans, and stands at 2.75% for the revolving loan. These interest rates are higher than the sector average as the stock transfer which formed livin was concluded in March 2009. At this time, uncertainty in the financial markets meant borrowing costs were relatively high. These borrowing costs were at market rates at the time the loan facilities were put in place.

During the year, livin continued to work towards refinancing as it seeks to reduce its cost of debt. Drawdown of the new funding was expected to be completed early in the 2015 calendar year. However, adverse market conditions meant that refinancing was paused in early December 2014.

At present, livin is continuing to assess the refinancing options open to it to reduce future interest costs.

During 2014/15, livin's Business Plan was revised and included updated estimates and assumptions on the impact of Welfare Reform, and the impact of known mitigations. The estimated impact on rental income through changes to bad debts, arrears and void losses had a minimal impact on the forecast level of peak debt, which remains at £88.9m.

The Association's lending agreements require compliance with a number of financial and non-financial covenants. The Association's position is monitored on an on-going basis and reported to the Performance committee each quarter. Recent reports confirmed that the Association was in compliance with its loan covenants at the balance sheet date and the Board expects to remain compliant in the foreseeable future.

The Association had cash balances of £1.882m at 31 March 2015 (£1.423m 31 March 2014). The Association monitors cash flow forecasts closely to ensure sufficient funds are available to meet liabilities when they fall due, whilst not incurring unnecessary finance costs, by only drawing on loan facilities when required.

### Interest Rate Risk

The Association finances its operations through a mixture of retained surpluses and bank borrowings. The organisations exposure to interest fluctuations on its borrowings is managed by the use of both fixed and variable rate facilities.

### Liquidity Risk

The Association seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and invest cash assets safely and profitably. In addition to drawn borrowings the Association has £12.6 million of undrawn committed facilities.

### Credit Risk

The Association's principal credit risk relates to tenant arrears. This risk is managed by providing support to eligible tenants with their application for Housing Benefit and to closely monitor the arrears of self-funding tenants. The Welfare Reform and resulting changes to the benefits system has been identified as a key risk to the association, and a project team is currently assessing the impact of these changes and planning mitigations against them. The Association borrows and lends only in sterling and so is not exposed to foreign currency exchange rate risk.

### Cash flows

Cash inflows and outflows during the year are shown in the cash flow statement (page 35).

The cash inflow from operating activities this year was £14.338m. The total budgeted cash outflow as per the business plan was £12.210m after accounting for interest costs and capital spend.

### Future developments

A key influence on the timing of borrowings is the rate at which the Association's Capital Investment programme in respect of modernising the existing housing stock and development of new homes takes place. The Board has approved plans to spend approximately £11.6m (after grant) during the next financial year to improve general housing (£7.9m in respect of Capital Improvements and bringing homes up to the decent homes standard and £3.7m after grant for the provision of new homes). £7.7m of the investment will be through new borrowings with the balance funded through the Association's rental income stream and accumulated reserves.

Expenditure of approximately £263,000 has been approved by the Board to be spent during the next financial year on ICT systems/equipment in line with the Association's ICT strategy.

The organisation continued the build of new homes under its Homes and Community Agency commitment during 2014/15, with all units being delivered with the exception of Thurlow Grange, which has been delayed as a result of the contractor entering administration. livin has appointed a new contractor to complete this scheme.

## Table 1 – Association highlights, two year summary

| For the year ended 31 March 15<br>Income and Expenditure Account | 2015<br>£,000 | 2014<br>£,000 |
|---|---|---|
| Total turnover | 34,148 | 33,116 |
| Operating surplus | 7,334 | 6,638 |
| Surplus for the year transferred to reserves | 4,465 | 3,343 |
| **Balance Sheet** | **£,000** | **£,000** |
| Housing homes, net of depreciation | 109,869 | 100,372 |
| Social Housing Grant and other grants | (5,673) | (4,532) |
| | 104,196 | 95,840 |
| Other fixed assets | 4,886 | 5,051 |
| **Total Fixed assets** | 109,082 | 100,891 |
| Current assets | 4,155 | 4,047 |
| Current liabilities | (19,425) | (15,481) |
| **Total assets less current liabilities** | 93,812 | 89,457 |
| Long term liabilities | 64,549 | 64,579 |
| Pensions liability / (asset) | 2,070 | (470) |
| Revenue Reserve | 27,193 | 25,348 |
| | 93,812 | 89,457 |
| Social housing | 8,504 | 8,525 |
| Non-social housing | - | - |
| | **8,504** | **8,525** |

| **Statistics: -** | **2015** | **2014** |
|---|---|---|
| Operating surplus as % of turnover | 21.5% | 20.0% |
| Surplus for year as % of turnover | 13.1% | 10.1% |
| Rent losses (voids and bad debts as % of rent and service charges receivable) | 3.9% | 3.7% |
| Liquidity (current assets divided by current liabilities) | (0.21) | (0.26) |
| Total reserves per home owned | £3,198 | £2,973 |

## Donations

The Association donated £50 (2014 nil) to the St Cuthbert's Hospice, £100 (2014 nil) to the North East Autism Society, £176 (2014 nil) to Macmillan Cancer Support, £50 (2014 nil) to DEBRA UK, £256 (2014 nil) to The Stroke Association and £2,786 (2014 £2,360) to The Foundation of Light.

No political donations were made.

## Going concern

The Association's business activities, its current financial position and factors likely to affect its future development are set out within this Operating and Financial Review. The Association has in place long-term debt facilities (including £12.60 million of undrawn facilities at 31 March 2015), which provide adequate resources to finance committed reinvestment and development programmes, along with the Association's day to day operations. The Association's ability to service these debt facilities and comply with lenders' covenants is monitored through the long-term business plan.

Recent announcements in the Government's Budget (July 2015) have reduced anticipated income in the Business Plan. Having modelled this reduced level of income in conjunction with planned future cost reduction, livin is confident it will continue to meet its financial covenants.

As livin adopts the historical cost accounting approach it is anticipated that there will be no adverse impact from the rent reduction announced in the budget on;

- the fair value of assets in the financial statements
- their valuation for loan security purposes and loan covenant compliance

Therefore the Board has a reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future, being a period of twelve months after the date on which the report and financial statements are signed. For this reason, it continues to adopt the going concern basis in the financial statements.

## Internal controls assurance

The Board acknowledges its overall responsibility, for establishing and maintaining the whole system of internal control and for reviewing its effectiveness.

The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and to provide reasonable assurance against material misstatement or loss.
The process for identifying, evaluating and managing the significant risks faced by the association is on-going and has been in place throughout the period commencing 1 April 2014 up to the date of approval of the report and financial statements.

Key elements of the control framework include:

- Adoption and compliance with the NHF 'Excellence in Governance code'.

- Forward planning of key meeting dates and reporting requirements which are reviewed annually.

- Board approved terms of reference and delegated authorities for audit and risk, performance, assets and development and human resources committees and a scheme of delegation for the Chief Executive and Executive Directors.

- Clearly defined management responsibilities for the identification, evaluation and control of significant risks.
- Robust strategic and business planning processes, with detailed financial budgets and forecasts.
- Formal recruitment, retention, training and development policies for all staff.
- Established authorisation and appraisal procedures for significant new initiatives and commitments.
- A sophisticated approach to treasury management which is subject to external review each year.
- Regular reporting to the appropriate committee on key business objectives, targets and outcomes.
- Board approved whistle-blowing and anti-fraud and corruption policies.
- Board approved fraud policies, covering prevention, detection and reporting, together with recoverability of assets.
- Regular monitoring of loan covenants and requirements for new loan facilities.

A fraud register is maintained and any identified frauds are reported to the Audit and Risk Committee on a quarterly basis. During the year there were three minor frauds that involved employees using their relationship with a supplier for personal gain. Whilst the value of these frauds was very low, the regulator was notified and a review of internal controls was carried out by PWC, livin's internal auditors. The outcome of the review was reported to the Audit and Risk Committee in February and action on the internal audit recommendations is monitored by the committee.

The Board cannot delegate ultimate responsibility for the system of internal control but has delegated authority to the Audit and Risk committee to regularly review the effectiveness of the system of internal control. The Board receives Audit and Risk committee meeting minutes and where applicable would initiate follow up actions. The Audit and Risk committee has received the Chief Executive'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.

## National Housing Federation (NHF) Code of Governance

livin adopted the NHF's code of excellence in governance in 2010 and continues to follow and comply with the provisions of that code. This is a requirement of the amended regulatory framework effective from April 2015 and the Organisation annually conducts a self assessment of compliance with its adopted code. This assessment also considers the adopted code of conduct (NHF 2012 edition) and compliance against that. Full compliance against both codes is evidenced in the annual self assessment and there is only one area that livin deviates from (explains a failure to comply against). This relates to a conduct code (D2) presumption, within the good practice and excellence guidance section, against employing connected persons of Board or SMT members. livin has determined that such a provision would be a fetter of its discretion and potentially not in compliance with employment law. It has therefore built in appropriate safeguards via its probity policy to ensure fair and transparent recruitment exercises in such circumstances. Adoption of the NHF Governance Code published in 2015 was considered by the Board in July 2015.

A review of livin's governance arrangements will be considered including whether the Organisation's constitution requires amendment/adoption of the latest NHF Model Rules is necessary in light of the regulatory standard amendments effective from April 2015. This review will also be scheduled to coincide with any move towards single status Board Membership.

livin continues to remunerate Board Members in accordance with its constitutional powers and probity arrangements and any business case for remuneration has been and will continue to be assessed after having obtained appropriate independent advice.

Appraisal of Board Members as a whole and collectively is an annual process and is also independently facilitated. This assists in ensuring an appropriate development plan for members and also in ensuring the business has an appropriately skilled Board to manage the business it conducts.

The procedure for electing tenant board members involves a rule compliant indirect election process whereby a Tenant Interview Panel, defined within Standing Orders, elect new members in accordance with the Board Membership/Shareholding and Recruitment Policy and Procedure of the Association.

**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 Societies legislation requires the board to prepare financial statements for each financial year. Under that law the Board Members have elected to prepare financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws). Under Co-operative and Community Benefit Societies 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 for that period.

In preparing those financial statements the Board is 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 a 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 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.

The Board is responsible for the maintenance and integrity of the corporate and financial information 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 21 September 2015 at livin's headquarters, Spennymoor County Durham.

## Disclosure of information to auditors

At the date of making this report each of the Association's Board members, as set out on page (i), confirm the following:

- So far as each Board member is aware, there is no relevant information needed by the Association's auditors in connection with preparing their report of which the Association's auditors are unaware; and

- Each Board member has taken all the steps that he / she ought to have taken as a Board member in order to make themselves aware of any relevant information needed by the Association's auditors in connection with preparing their report and to establish that the Association's auditors are aware of that information.

## External auditors

In October 2012, Grant Thornton LLP were re-appointed as auditors on a three year contract, with a two year extension, which has been exercised by livin.

## Statement of compliance

In preparing this Operating and Financial Review and Board report, the Board has followed the principles set out in the SORP 2010.

The report of the Board was approved by the Board on 21 September 2015 and signed on its behalf by:

**Ian Youll**
**Chairman**

## Independent auditor's report to the members of Livin Housing Limited

We have audited the financial statements of Livin Housing Limited for the year ended 31 March 2015 which comprise the income and expenditure account, the statement of total recognised surpluses and deficits, the reconciliation of movement in funds, the balance sheet, the 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 housing association's members, as a body, in accordance with regulations made under Section 8 of Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the housing association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the housing association and the housing association'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 auditors

As explained more fully in the Statement of Board Responsibilities (set out on page 28), the Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

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

## Opinion on financial statements

In our opinion the financial statements:

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

## 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 require us to report if, in our opinion:

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

Grant Thornton UK LLP

Grant Thornton UK LLP
Chartered Accountants and Registered Auditors
Leeds,
England

Date: 22nd September 2015

**LIVIN HOUSING LIMITED**
**INCOME AND EXPENDITURE ACCOUNT**
**For the year ended 31 March 2015**

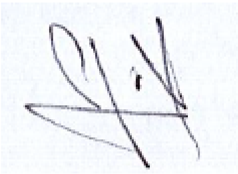
| | Note | 2015<br>£'000 | 2014<br>£'000 |
|---|---|---|---|
| Turnover | 3 | 34,148 | 33,116 |
| Operating costs | 3 | (26,814) | (26,478) |
| Operating surplus | | 7,334 | 6,638 |
| Surplus/(loss) on sale of fixed assets – housing homes | 6 | 643 | (139) |
| Interest receivable and other income | 7 | 1,157 | 1,282 |
| Interest payable and similar charges | 8 | (4,669) | (4,438) |
| Surplus on ordinary activities before taxation | | 4,465 | 3,343 |
| Tax on surplus on ordinary activities | | - | - |
| Surplus for the financial year | 24 | 4,465 | 3,343 |

The accompanying notes form part of these financial statements.

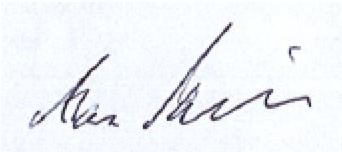
All activities of the Association are classed as continuing.

Historical cost surpluses and deficits were identical to those shown in the income and expenditure account.

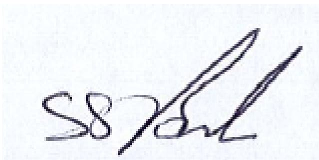
The financial statements were approved by the Board of Directors on 21 September 2015



**Ian Youll**
**Chair**



**Alan Fletcher**
**Vice chair**



**Sean Brodie**
**Secretary**

## STATEMENT OF TOTAL RECOGNISED SURPLUSES AND DEFICITS

| | Note | 2015 | 2014 |
|---|---|---|---|
| | | £'000 | £'000 |
| Surplus for the financial year | | 4,465 | 3,343 |
| Actuarial (loss)/gain relating to pension scheme | 9 | (2,620) | 3,620 |
| Total recognised surpluses relating to the year | | 1,845 | 6,963 |

## RECONCILIATION OF MOVEMENTS IN ASSOCIATION'S FUNDS

| | 2015 | 2014 |
|---|---|---|
| | £'000 | £'000 |
| Opening total funds | 25,348 | 18,385 |
| Total recognised surpluses relating to the year | 1,845 | 6,963 |
| Closing total funds | 27,193 | 25,348 |

The accompanying notes form part of these financial statements.

**LIVIN HOUSING LIMITED**
**BALANCE SHEET**
**As at 31 March 2015**

| | Note | 2015 £'000 | 2014 £'000 |
|---|---|---|---|
| **Tangible fixed assets** | | | |
| Housing homes | 11 | 109,869 | 100,372 |
| Social housing grant | 11 | (5,181) | (4,049) |
| Other grants | 11 | (492) | (483) |
| | | 104,196 | 95,840 |
| Other tangible fixed assets | 12 | 4,876 | 5,041 |
| Investments | 13 | 10 | 10 |
| | | 109,082 | 100,891 |
| **Current assets** | | | |
| Homes for Sale | 14 | 46 | 71 |
| Debtors | 15 | 2,227 | 2,333 |
| Cash at bank and in hand | | 1,882 | 1,643 |
| | | 4,155 | 4,047 |
| **Creditors: Amounts falling due within one year** | 16 | (19,425) | (15,481) |
| **Net current liabilities** | | (15,270) | (11,434) |
| **Total assets less current liabilities** | | 93,812 | 89,457 |
| **Creditors:** | | | |
| Amounts falling due after more than one year | 18 | 64,549 | 64,579 |
| **Provisions for liabilities and charges** | | | |
| Net pension liability / (asset) | 9 | 2,070 | (470) |
| | | 66,619 | 64,109 |
| **Capital and reserves** | | | |
| Revenue reserve | 24 | 27,128 | 25,304 |
| Designated reserve | 24 | 65 | 44 |
| **Association's funds** | | 27,193 | 25,348 |
| | | 93,812 | 89,457 |

The financial statements were approved by the Board of Directors on 21 September 2015

**Ian Youll**
**Chair**

**Alan Fletcher**
**Vice chair**

**Sean Brodie**
**Secretary**

The accompanying notes form part of these financial statements.

**LIVIN HOUSING LIMITED**
**CASH FLOW STATEMENT**
**For the year ended 31 March 2015**

| | Note | 2015 £'000 | 2014 £'000 |
|---|---|---|---|
| **Net cash inflow from operating activities** | 25 | 14,338 | 12,530 |
| **Returns on investments and servicing of finance** | | | |
| Interest received | | 14 | 25 |
| Interest paid | | (4,639) | (4,305) |
| **Net cash outflow from returns on investments and servicing of finance** | | (4,625) | (4,280) |
| **Taxation** | | | |
| Corporation tax paid | | - | - |
| **Capital expenditure and financial investment** | | | |
| Purchase and construction of housing homes | | (8,038) | (11,980) |
| Social housing grant received | | 1,132 | 2,003 |
| Other capital grant received | | 9 | 25 |
| Investment / improvement of housing homes | | (8,523) | (12,624) |
| Purchase of other fixed assets | | (53) | (134) |
| Sale of housing homes | | 1,417 | 671 |
| Sale of other fixed assets | | 2 | 1 |
| **Net cash outflow from capital expenditure and financial investment** | | (14,054) | (22,038) |
| **Net cash outflow before financing** | | (4,341) | (13,788) |
| **Financing** | | | |
| Loans received | | 7,800 | 20,600 |
| Loans repaid | | (3,000) | (5,700) |
| **Net cash inflow from financing** | | 4,800 | 14,900 |
| **Increase in cash** | | 459 | 1,112 |

The accompanying notes form part of these financial statements.

**1 Legal status**

The Association is registered under the Co-operative and Community Benefit Societies Act 2014 and is a registered housing provider.

**2 Accounting Policies**

**Basis of accounting**

The financial statements are prepared in accordance with UK Generally Accepted Accounting Principles (UK GAAP) and, the Statement of Recommended Practice (SORP): Accounting by Registered Social Housing Providers Update 2010 and comply with the Accounting Direction for Private Registered Providers of Social Housing 2012.

livin holds a share in a joint venture, Spirit Regeneration and Development Co LLP. This interest has been disclosed as an investment in these accounts. The results and assets and liabilities of the joint venture have not been accounted for under the equity method of accounting on the basis that the amounts are not material in the year's ended 31 March 2015 and 31 March 2014.

**Going Concern**

The Association's business activities, its current financial position and factors that are likely to affect its future development are set out within the Operating and Financial Review. livin has long term debt facilities in place which provide adequate financial resources for reinvestment and development programmes along with financial cover for day to day operations. livin also has a 30 year business plan which shows it is able to service these debt facilities whilst continuing to comply with lenders' covenants.

On this basis, the board has a reasonable expectation that there are adequate resources to continue operational existence for the foreseeable future, being a period of at least twelve months after the date on which the report and financial statements are signed. For this reason, it continues to adopt the going concern basis in the financial statements.

**Turnover**

Turnover represents rental income receivable for the period (i.e. rent due (rent debit) less rent loss due to voids), service charges receivable, any revenue grants receivable, income from shared ownership first tranche sales and income from any other goods or services included at invoiced value (excluding VAT where recoverable) and commission on water rates collection.

**Revenue Recognition**

Rental income is recognised from the point when properties under development reach practical completion or otherwise become available for letting.

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

Revenue grants are receivable when the conditions for receipt of agreed grant funding have been met.

**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, including land costs. It is allocated to the land and structure components of the associated asset in proportion to their cost. Grant receivable in respect of identifiable components is allocated to those components.

SHG due from the HCA 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 HCA. SHG released on sale of a property may be repayable but 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 individual component is released to the income and expenditure account. Upon disposal of the associated property, the Association is required to recycle these proceeds, as such a contingent liability is disclosed to reflect this.

**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.

**Website development costs**
The Association has developed a website which is used to promote its activities and as a management tool for monitoring and evaluating responsive repairs. Planning, design and content development costs are charged as operating costs as incurred. On-going costs of maintaining and operating the website are also charged as operating costs as incurred.

**Housing Properties and Other Fixed Assets**
Social Housing Properties are principally available for rent and are stated at cost less depreciation. Cost includes the cost of acquiring land and buildings, development costs, incidental costs of acquisition and directly attributable development administration costs. Cost also includes expenditure on the replacement of key building components incurred as part of the planned improvement programme.

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, therefore enhancing the economic benefits of the assets, are capitalised as improvements.

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

Where expenditure is incurred on an asset which does not meet the definition of capital expenditure, such as general repairs to the housing stock, it will be charged to the Income and Expenditure Account in the year in which it is incurred.

Any single repair costing £1,000 or more will be separately assessed to determine whether capitalisation is appropriate.

The Association will not capitalise expenditure on assets such as land, equipment and computer software which costs less than the following de-minimus thresholds and it will be charged to the Income and Expenditure Account in the year in which it is incurred.

| Asset | |
|---|---|
| Land | £ 1,000 |
| Office equipment and furniture | £10,000 |
| Computer equipment and software | £ 5,000 |
| Vehicles and plant | £10,000 |

Properties held on leases are amortised over the life of the lease or the estimated useful economic life, if shorter.

**Assets under construction**
Housing properties under construction are stated at cost less related social housing and other capital grants. Cost includes the cost of acquiring land and buildings, development costs, and expenditure incurred in respect of improvements.

No depreciation is charged during the period of construction.

**Depreciation of Tangible Fixed Assets**
Depreciation charges reflect the write down of the net book value of fixed assets to their estimated residual value over their estimated useful lives, on a straight line basis. No depreciation is charged for land.

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

The following useful economic lives for identified components have been applied:

| Fixed Asset Classification | Asset Life |
|---|---|
| Existing Structure | 50 years |
| Kitchens and Bathrooms | 15 years |
| Central Heating | 15 years |
| Roofing and External Works | up to 50 years |
| Rewiring Works | 15 years |
| Doors and Windows | 15 years |

| Other Fixed Assets | |
|---|---|
| Office Equipment and Furniture | 5 years |
| Computer Equipment | 3 years |
| Offices | 50 years |
| Plant and Equipment | Up to 15 years |

**Impairment**
The Association undertakes impairment reviews when the useful life of the housing properties exceeds 50 years. 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 their recoverable amount being the higher of the net realisable value or the value in use to the Association. Any such write down is charged to operating surplus.

**Leased Assets**
Rentals payable under operating leases will be charged on a straight line basis over the term of the lease.

**Properties for sale**
Shared ownership first tranche sales, completed properties for outright sales and properties 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.

**Fixed Asset Investments**
Investments are stated at historical cost.

**Designated Reserves**
The Association will designate those reserves that have been set aside for specific uses which prevent them, in the judgment of the Board, from being regarded as part of the free reserves of the Association.

**The Big Lottery Fund Reserve**
This reserve has been created by the Big Lottery Funded project known as Monkey (money is the key). This project is aimed at providing support and advice to young (16 to 24 year old existing tenants in rent arrears) and new tenants by ensuring they have access to affordable finance, fuel and furniture services and products. Tenants will be supported by increasing their skills and confidence to be able to use these services and develop an understanding of the relevance of financial inclusion and capability services.

**Pensions**
The Association participates in the Durham County Council Local Government Pension Scheme, which is a defined benefit final salary scheme. The assets of the scheme are invested and managed independently of the Association.

Pension costs are assessed in accordance with the advice of an independent qualified actuary. For the Durham County Council Local Government Pension Scheme, 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 it is recoverable by the Association.

The current service cost and costs from settlement 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.

**Rental arrears**
A provision for bad and doubtful debts is made on an estimation of those debts at the balance sheet date which are considered to be potentially irrecoverable.

**Value Added Tax (VAT)**
The Association is VAT registered, but the majority of its income (from rents) is classified as an exempt supply for VAT purposes. Payments that are subject to VAT (Input VAT) that cannot be re-claimed are, therefore, recorded by the Association inclusive of the irrecoverable VAT. The balance of VAT payable or recoverable at the year end is included as a current liability or asset respectively.

**Development Agreement**
The Association has entered into agreements with Durham County Council (the Council) whereby the undertaking of catch up repairs and improvement works remained with the Council with that obligation subcontracted to the Association. The related debtor and creditor balances in relation to the transactions under these agreements have been offset in the balance sheet.

**Right to Buy and Right to Acquire Sales**
The gains or losses on disposal of Social Housing Properties under Right to Buy or Right to Acquire arrangements are calculated as being the difference between the proceeds of a sale of a property and the net book value of that property.

The gains or losses on disposal of Right to Buy or Right to Acquire Social Housing Properties are recognised in the Income and Expenditure Account at the date of legal completion after deducting the element of proceeds that is payable to the local authority under the Right to Buy sharing arrangement.

**Interest**
Interest payable is charged to the Income and Expenditure account in the year.

**Liquid Resources**
For the purposes of the cash flow statement, cash comprises cash in hand and deposits repayable on demand less overdrafts repayable on demand. Liquid resources are current asset investments that are readily disposable without curtailing or disrupting the business and are readily convertible into known amounts of cash at or close to their carrying values.

**Taxation**
The Association has charitable status and therefore is outside the scope of Corporation Tax on its charitable activities by virtue of section 505(1) Income and Corporation Taxes Act 1988 and from capital gains tax by virtue of Section 145 Capital Gains Tax Act 1979.

**Reserves**
livin establishes restricted reserves for specific purposes where their use is subject to external restrictions.

## 3 Particulars of turnover, cost of sales, operating costs and operating surplus

**Continuing activities**

| | 2015 | | |
|---|---|---|---|
| | Turnover | Operating costs | Operating surplus |
| | £ '000 | £ '000 | £ '000 |
| **Social housing lettings** | 32,616 | (25,807) | 6,809 |
| **Other social housing activities** | | | |
| Garage lettings | 659 | (506) | 153 |
| Big lottery project | 197 | (176) | 21 |
| **Non-social housing activities** | | | |
| Lettings | 276 | (325) | (49) |
| Other Income | 400 | - | 400 |
| | 34,148 | (26,814) | 7,334 |

| | 2014 | | |
|---|---|---|---|
| | Turnover | Operating costs | Operating surplus |
| | £ '000 | £ '000 | £ '000 |
| **Social housing lettings** | 31,627 | (25,588) | 6,039 |
| **Other social housing activities** | | | |
| Garage lettings | 696 | (518) | 178 |
| Big lottery project | 157 | (122) | 35 |
| **Non-social housing activities** | | | |
| Lettings | 267 | (250) | 17 |
| Other Income | 369 | - | 369 |
| | 33,116 | (26,478) | 6,638 |

## Particulars of income and expenditure from social housing lettings

| | 2015 | | | 2014 |
|---|---|---|---|---|
| | **General needs housing £'000** | **Housing for older people £'000** | **Total £'000** | **Total £'000** |
| Rent receivable net of identifiable service charges | 21,268 | 11,238 | 32,506 | 31,500 |
| Service income | 23 | 87 | 110 | 127 |
| Net rental income | 21,291 | 11,325 | 32,616 | 31,627 |
| Turnover from social housing lettings | 21,291 | 11,325 | 32,616 | 31,627 |
| Management and support services | (5,260) | (3,281) | (8,541) | (9,166) |
| Routine maintenance | (5,742) | (2,808) | (8,550) | (8,183) |
| Planned maintenance | (802) | (436) | (1,238) | (1,160) |
| Bad debts | (44) | (24) | (68) | (331) |
| Depreciation of housing homes | (4,127) | (2,245) | (6,372) | (5,299) |
| Payment to DCC (VAT sharing agreement) | (507) | (276) | (783) | (1,156) |
| Other costs | (165) | (90) | (255) | (293) |
| Operating costs on social housing lettings | (16,647) | (9,160) | (25,807) | (25,588) |
| Operating surplus on social housing lettings | 4,644 | 2,165 | 6,809 | 6,039 |
| **Void losses** | 996 | 205 | 1,201 | 911 |

Included in Interest receivable and other income (note 7) is £783k (2014 £1,156k) received relating to the VAT shelter.

## Particulars of turnover from non-social housing lettings

| | **2015 £'000** | **2014 £'000** |
|---|---|---|
| Commercial properties | 200 | 189 |
| Other | 76 | 78 |
| | 276 | 267 |

## 4 Accommodation in management and development

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

| | 2015 No | 2014 No |
|---|---|---|
| **Social housing** | | |
| General housing | | |
| - social rent | 4,952 | 5,077 |
| - affordable rent | 748 | 571 |
| - Shared Ownership | 2 | 2 |
| Supported housing and housing for older people | 2,802 | 2,875 |
| **Total owned and managed** | 8,504 | 8,525 |

## 5 Operating surplus

The operating surplus is arrived at after charging:

| | 2015 £ '000 | 2014 £ '000 |
|---|---|---|
| Depreciation of housing homes | 6,265 | 5,310 |
| Depreciation of other tangible fixed assets | 218 | 202 |
| Impairment | 56 | - |
| Profit on disposal of non housing assets | 2 | 1 |
| Operating lease rentals | | |
| - land and buildings | 109 | 109 |
| - office equipment and computers | 139 | 186 |
| - motor vehicles | 48 | 52 |
| Auditors' remuneration (excluding VAT) | | |
| - for audit services | 18 | 19 |
| - tax compliance services | 2 | 1 |
| - other services | 3 | 3 |

## 6 Surplus on sale of fixed assets - housing properties

| | 2015 £ '000 | 2014 £ '000 |
|---|---|---|
| Disposal proceeds | 1,906 | 1,128 |
| Less administration charges | (53) | (43) |
| Less amount payable to Durham County Council | (436) | (414) |
| Net disposal proceeds | 1,417 | 671 |
| Carrying value of fixed assets | (743) | (810) |
| | 674 | (139) |
| Capital grant recycled | - | - |
| Disposal Proceeds Fund (note 19) | (31) | - |
| | 643 | (139) |

**7 Interest receivable and other income**

| | 2015 £ '000 | 2014 £ '000 |
|---|---|---|
| Interest receivable | 14 | 25 |
| Interest receivable for pension scheme | 360 | 100 |
| VAT shelter income | 783 | 1,156 |
| Other income | - | 1 |
| | 1,157 | 1,282 |

**8 Interest payable and similar charges**

| | 2015 £ '000 | 2014 £ '000 |
|---|---|---|
| Loans and bank overdrafts | 4,665 | 4,438 |
| Other interest charges | 4 | - |
| Interest costs for pension scheme | - | - |
| | 4,669 | 4,438 |

**9 Employees**

Average monthly number of employees expressed as full time equivalents:

| | 2015 No. | 2014 No. |
|---|---|---|
| Administration | 49 | 55 |
| Property and Development | 47 | 49 |
| People and Communities | 59 | 61 |
| | 155 | 165 |

| Employee costs: | 2015 £ '000 | 2014 £ '000 |
|---|---|---|
| Wages and salaries | 4,758 | 4,923 |
| Social security costs | 357 | 364 |
| Other pension costs | 556 | 512 |
| | 5,671 | 5,799 |

Included in Employee costs are early retirement and voluntary redundancy costs totalling £108,529 (2014 £106,748).

The Association's employees are eligible to be members of Durham County Council Local Government Pension Scheme. Further information is given below.

**Durham County Council Local Government Pension Scheme**

Durham County Council Pension Fund (DCCPF)

The DCCPF is a multi-employer scheme, administered by Durham County 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, allowing for different financial assumptions required under FRS 17, to 31 March 2015 by a qualified independent actuary.

The employers' contributions to the DCCPF by the Association for the year ended 31 March 2015 were £546,351 (2014 £511,890) at a contribution rate of 11% of pensionable salaries.

Estimated employers' contributions to the DCCPF during the accounting period commencing 1 April 2016 are £370,000.

**Financial assumptions**

| | 31 March 2015 % per annum | 31 March 2014 % per annum |
|---|---|---|
| Discount rate | 3.3% | 4.4% |
| Future salary increases | 3.4% | 3.9% |
| Future pension increases | 1.9% | 2.4% |
| Pension accounts revaluation rate | 1.9% | n/a |
| Inflation assumption - RPI | 3.0% | 3.4% |
| Inflation assumption – CPI | 1.9% | 2.4% |

**Mortality assumptions**

The mortality assumptions are based on the recent actual mortality experience of members within the Fund and allow for expected future mortality improvements.

The assumed life expectations on retirement at age 65 are:

| | 2015 No. of years | 2014 No. of years |
|---|---|---|
| Retiring today: | | |
| - Males | 22.6 | 22.5 |
| - Females | 25.1 | 25.0 |
| Retiring in 20 years: | | |
| - Males | 24.7 | 24.7 |
| - Females | 27.4 | 27.3 |

**Expected return on assets**

livin employs a building block approach in determining the rate of return on fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is then derived by aggregating the expected return for each asset class over the actual asset allocation for the fund at 31 March 2015.

| The expected returns on assets are: | 1 April 2015 % pa | 1 April 2014 % pa |
|---|---|---|
| Equities | 7.6% | 7.8% |
| Gilts | 3.4% | 2.8% |
| Bonds | 4.0% | 3.8% |
| Homes | 6.9% | 7.3% |
| Cash | 0.9% | 0.9% |
| Other | 7.6% | 7.8% |

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

| **Year ended 31 March** | **2015 £'000** | **2014 £ '000** |
|---|---|---|
| Current service cost | 730 | 850 |
| Past service cost | - | - |
| Expected return on scheme assets | (1,450) | (1,330) |
| Interest on scheme liabilities | 1,090 | 1,230 |
| Total | 370 | 750 |
| Actual return on scheme assets | 2,690 | 1,470 |

**Analysis of amount recognised in Statement of total recognised surpluses and deficits (STRSD)**

| **Year ended 31 March** | **2015 £'000** | **2014 £'000** |
|---|---|---|
| **Actuarial (loss) / gain in pension scheme recognised in STRSD** | (2,620) | 3,620 |
| **Cumulative actuarial (loss) recognised in STRSD** | (3,430) | (810) |

**Amounts recognised in the balance sheet**

| **Net pension (liability) / asset at 31 March** | **2015 £'000** | **2014 £'000** |
|---|---|---|
| Present value of funded obligation | (29,970) | (24,420) |
| Fair value of scheme assets (bid value) | 27,900 | 24,890 |
| **Net (liability) / asset recognised in balance sheet** | (2,070) | 470 |

| Reconciliation of opening and closing balances of the present value of scheme liabilities | 2015 | 2014 |
|---|---|---|
| | £'000 | £'000 |
| Opening scheme liabilities | (24,420) | (25,790) |
| Current service cost | (730) | (850) |
| Past service cost | - | - |
| Interest cost | (1,090) | (1,230) |
| Contributions by scheme participants | (290) | (260) |
| Actuarial gain / (loss) | (3,860) | 3,480 |
| Benefits paid | 420 | 230 |
| Closing scheme liabilities | (29,970) | (24,420) |

| Reconciliation of opening and closing balances of the fair value of scheme assets | 2015 | 2014 |
|---|---|---|
| | £'000 | £'000 |
| Opening fair value of scheme assets | 24,890 | 22,900 |
| Expected return on scheme assets | 1,450 | 1,330 |
| Actuarial gains | 1,240 | 140 |
| Contributions by employer | 450 | 490 |
| Contributions by scheme participants | 290 | 260 |
| Benefits paid | (420) | (230) |
| Closing fair value of scheme assets | 27,900 | 24,890 |

| | | |
|---|---|---|
| Equities | 43.7% | 53.7% |
| Gilts | 31.3% | 26.2% |
| Bonds | 9.3% | 8.8% |
| Homes | 6.1% | 6.8% |
| Cash | 9.6% | 4.3% |
| Other | - | 0.2% |

| History of asset values, present value of liabilities and (deficit) / surplus | Year ended 31 March 2015 | Year ended 31 March 2014 |
|---|---|---|
| | £’000 | £’000 |
| Fair value of assets | 27,900 | 24,890 |
| Present value of liabilities | (29,970) | (24,420) |
| (Deficit) / Surplus | (2,070) | 470 |

**History of experience gains and losses**

| | Year ended 31 March 2015 | Year ended 31 March 2014 |
|---|---|---|
| **Experience gains / (losses) on assets** | | |
| Amount (£000's) | 1,240 | 140 |
| Percentage of assets | 4.4% | 0.6% |
| **Experience gains / (losses) on liabilities** | | |
| Amount (£000's) | (60) | (360) |
| Percentage of the present value of the liabilities | 0.2% | 1.5% |

**Estimated pension cost in future years**
Set out below is an estimate of the charge in future years, together with the assumptions used.

**Financial assumptions**

| | % per annum |
|---|---|
| Discount rate | 3.3% |
| Future salary increases | 3.4% |
| Future pension increases | 1.9% |
| Pension accounts revaluation rate | 1.9% |
| Inflation assumption - RPI | 3.0% |
| Inflation assumption – CPI | 1.9% |

The expected returns on assets are:

| Asset Class | 31 March 2015 % pa |
|---|---|
| Equities | 3.3% |
| Gilts | 3.3% |
| Bonds | 3.3% |
| Homes | 3.3% |
| Cash | 3.3% |
| Other | 3.3% |
| **Average Return** | **3.3%** |

**Analysis of Estimated Income and Expenditure charge for years ended 2016 and 2017 – Funded Benefits**

| | 2016 £'000 | 2017 £'000 |
|---|---|---|
| Current service cost | 960 | 990 |
| Net Interest cost | 60 | 90 |
| Total | 1,020 | 1,080 |

**Amounts for the current and previous four accounting periods**

| | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Present value of scheme liabilities | (29,970) | (24,420) | (25,790) | (23,530) |
| Fair value of scheme assets | 27,900 | 24,890 | 22,900 | 19,770 |
| Surplus / (deficit) on scheme | (2,070) | 470 | (2,890) | (3,760) |
| Experience adjustment on plan liabilities | (60) | (360) | - | (10) |
| Experience adjustment on plan assets | 1,240 | 140 | 1,410 | (470) |

## 10 Board Members and Executive Directors

| | 2015 | | | 2014 |
|---|---|---|---|---|
| | Basic salary and Benefits in Kind | Pension contributions | Total | Total |
| | £'000 | £'000 | £'000 | £'000 |
| Board members | 37 | - | 37 | 35 |
| Executive Directors | 398 | 41 | 439 | 451 |

The full time equivalent number of staff who received remuneration, including Directors:

| | 2015 | 2014 |
|---|---|---|
| | No. of employees | No. of employees |
| £60,001 and £70,000 | 5 | 6 |
| £70,001 and £80,000 | - | - |
| £80,001 and £90,000 | 1 | - |
| £90,001 and £100,000 | 3 | 4 |
| £100,001 and £110,000 | - | - |
| £110,001 and £120,000 | 1 | - |
| £120,001 and £130,000 | 1 | 1 |
| | 11 | 11 |

| **Individual Board Members levels of remuneration** | **2015** | **2014** |
|---|---|---|
| | **£'000** | **£'000** |
| Ian Youll (Chair) | 10 | 10 |
| Adele Barnett | 5 | 3 |
| Alan Fletcher | 5 | 5 |
| Ian Gillespie | 4 | 4 |
| Jonothan Hitchen | 3 | 3 |
| Doug Hollingworth (to 19/09/2013) | - | 2 |
| Andrew Lowery | 3 | 2 |
| Jonathan Mallen-Beadle (to 20/02/2015) | 4 | 4 |
| Clare Reilly (to 03/10/14) | 2 | 2 |
| Angela Rowlands (from 18/09/2014) | 1 | - |
| | 37 | 35 |

Local authority nominees are presently not remunerated.

The emoluments of the highest paid Director (Chief Executive), excluding pension contributions, were £124,565 (2014 £120,108). The pension contributions made during the period were £12,458 (2014 £13,650).

The highest paid Director is a member of the Durham County Council Pension Fund. They are an ordinary member of the pension scheme and no enhanced or special terms apply. The Association does not make any further contribution to an individual pension arrangement for this Director.

The number of directors accruing benefits under the pension scheme at 31 March 2015 was 3 (2014: 4).

**Board members**

Board remuneration levels and calculations are recommended following the receipt of independent advice and adoption of an appropriate remuneration policy in accordance with livin's rules and probity policy. Performance assessment is conducted through collective and individual annual appraisal of Board and Role Profiles and contracts for services are agreed with all Board Members to assist in assessing performance.

Board remuneration as a percentage of turnover is 0.1% (2014 0.1%).

## 11 Tangible fixed assets – properties

| Housing properties | Social housing properties held for letting | Non-social housing properties held for letting | Housing properties for letting under construction | Total housing properties |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| **Cost** | | | | |
| At 1 April 2014 | 109,554 | 294 | 4,820 | 114,668 |
| Additions | 4,131 | - | 3,907 | 8,038 |
| Works to existing homes | 8,523 | - | - | 8,523 |
| Transferred from other fixed assets | 4,149 | - | (4,149) | - |
| Disposals | (912) | - | - | (912) |
| At 31 March 2015 | 125,445 | 294 | 4,578 | 130,317 |
| **Depreciation and impairment** | | | | |
| At 1 April 2014 | (14,262) | (34) | - | (14,296) |
| Charged in year | (6,252) | (13) | - | (6,265) |
| Impairment | - | (56) | - | (56) |
| On disposals | 169 | - | - | 169 |
| At 31 March 2015 | (20,345) | (103) | - | (20,448) |
| **Social housing grants** | | | | |
| At 1 April 2014 | (3,280) | - | (769) | (4,049) |
| Additions | (940) | - | (201) | (1,141) |
| Transferred from other fixed assets | (568) | - | 568 | - |
| To Recycled Capital Grant Fund | 9 | - | - | 9 |
| At 31 March 2015 | (4,779) | - | (402) | (5,181) |
| **Other grants** | | | | |
| At 1 April 2014 | (483) | - | - | (483) |
| Additions | (9) | - | - | (9) |
| At 31 March 2015 | (492) | - | - | (492) |
| **Net Book Value** | | | | |
| **At 31 March 2015** | 99,829 | 191 | 4,176 | 104,196 |
| **At 31 March 2014** | 91,529 | 260 | 4,051 | 95,840 |

**Expenditure on works to existing homes**

| | 2015 | 2014 |
|---|---|---|
| | £'000 | £'000 |
| Amounts capitalised as components | 8,523 | 12,624 |
| Amounts charged to the income and expenditure account | 1,448 | 958 |
| | 9,971 | 13,582 |

**Housing homes book value, net of depreciation and grants**
**Impairment**
livin considers individual schemes to be separate Income Generating Homes when assessing for impairment, in accordance with the requirements of Financial Reporting Standard 11 – Impairment of Fixed Assets and Goodwill.

During the current year, livin recognised an impairment loss of £56,000 (2014 Nil). This related to a property on land held for development purposes which was demolished shortly after the year end.

**Social Housing Grant**

| **Total accumulated Social Housing Grant Received or receivable at 31 March** | **2015** | **2014** |
|---|---|---|
| Capital grant | 5,181 | 3,359 |
| Revenue grant | 7 | 6 |
| | 5,188 | 3,365 |

## 12 Tangible fixed assets – other

| | **Offices £'000** | **Computers and office equipment £'000** | **Total £'000** |
|---|---|---|---|
| **Cost** | | | |
| At 1 April 2014 | 5,280 | 331 | 5,611 |
| Additions | 38 | 15 | 53 |
| At 31 March 2015 | 5,318 | 346 | 5,664 |
| **Depreciation** | | | |
| At 1 April 2014 | (376) | (194) | (570) |
| Charged in year | (156) | (62) | (218) |
| At 31 March 2015 | (532) | (256) | (788) |
| **Net Book Value** | | | |
| At 31 March 2015 | 4,786 | 90 | 4,876 |
| At 31 March 2014 | 4,904 | 137 | 5,041 |

## 13 Investments

| | **2015 £'000** | **2014 £'000** |
|---|---|---|
| Investment in collaboration agreement | 10 | 10 |

livin is a member of the Spirit Regeneration and Development Co. LLP. This is an agreement which allows livin to deliver its development programme in line with HCA requirements.

## 14 Homes for sale

| | 2015 | 2014 |
|---|---|---|
| | £'000 | £'000 |
| Homes completed for Shared Ownership | 46 | 71 |

## 15 Debtors

| | 2015 | 2014 |
|---|---|---|
| | £'000 | £'000 |
| **Due within one year** | | |
| Rent and service charges receivable | 1,940 | 2,201 |
| Less: provision for bad and doubtful debts | (621) | (900) |
| | 1,319 | 1,301 |
| Trade debtors | 192 | 282 |
| Social housing grant receivable | 215 | 397 |
| Other capital grant receivable | - | 25 |
| Other debtors | 247 | 177 |
| Prepayments and accrued income | 254 | 151 |
| | 2,227 | 2,333 |

## 16 Creditors: amounts falling due within one year

| | 2015 | 2014 |
|---|---|---|
| | £'000 | £'000 |
| Debt (note 20) | 12,900 | 8,320 |
| Trade creditors | 1,015 | 743 |
| Rent and service charges received in advance | 203 | 243 |
| Social Housing grant received in advance | - | - |
| Recycled capital grant fund (note 17) | 80 | - |
| Other taxation and social security | 113 | 108 |
| Other creditors | 1,263 | 1,590 |
| Accruals | 3,851 | 4,477 |
| | 19,425 | 15,481 |

Included in Other creditors is £782,734 (2014 £1.156m) owed to DCC in respect of the VAT shelter and £38,629 (2014 £49,842) relating to grant received in advance from the Big Lottery Fund.

## 17 Recycled capital grant fund

| | 2015 | 2014 |
|---|---|---|
| | £'000 | £'000 |
| At 1 April | 79 | 79 |
| Grants recycled | 9 | - |
| Interest accrued | 1 | - |
| Withdrawals | - | - |
| At 31 March | 89 | 79 |
| Amount of grant due for repayment to HCA | - | - |

£80k of the £89k stated above has been transferred into Creditors: amounts falling due within 1 year. The balance remains in Creditors: amounts falling due after more than one year.

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

| | 2015 | 2014 |
|---|---|---|
| | £'000 | £'000 |
| Debt (note 20) | 64,500 | 64,500 |
| Trade creditors | - | - |
| Recycled capital grant fund (note 17) | 9 | 79 |
| Disposal proceeds fund (note 19) | 40 | - |
| | 64,549 | 64,579 |

## 19 Disposal Proceeds Fund

| | 2015 | 2014 |
|---|---|---|
| | £'000 | £'000 |
| At 1 April | - | - |
| Net sales proceeds recycled | 40 | - |
| Interest accrued | - | - |
| Withdrawals – works to existing housing | - | - |
| At 31 March | 40 | - |

The £40,083 above is made up of £31,035 surplus sale proceeds and £9,000 discount to be reclaimed. The remaining £48 balance is interest accrued.

## 20 Debt analysis

**Borrowings**

| | 2015 | 2014 |
|---|---|---|
| | £'000 | £'000 |
| **Due within one year** | | |
| Bank overdraft | - | 220 |
| Bank loans | 12,900 | 8,100 |
| | 12,900 | 8,320 |

| | 2015 | 2014 |
|---|---|---|
| | £'000 | £'000 |
| **Due after more than one year** | | |
| Bank loans | 64,500 | 64,500 |
| | 64,500 | 64,500 |

## 21 Security

The bank loans are secured by a floating charge over the assets of the Association and by fixed charges on individual homes.

## 22 Terms of repayment and interest rates

The bank loans are repayable upon maturity at an average rate of interest of 3.8325% together with the Bank's margin which is currently 2.25%. The loans mature on the following dates:

| Amount | Rate | Repayment Date |
|---|---|---|
| £6,000,000 | 6.1936% | 31/03/2034 |
| £20,000,000 | 6.3353% | 31/03/2035 |
| £15,000,000 | 6.4353% | 31/03/2036 |
| £11,000,000 | 6.6053% | 31/03/2032 |
| £12,000,000 | 6.8403% | 31/03/2033 |

At 31 March 2015 the Association had available further loan facilities of £12.6m (2014 £17.4m).

Based on the lender's earliest repayment date, borrowings are repayable as follows:

| | 2015 | 2014 |
|---|---|---|
| | £'000 | £'000 |
| Within one year or on demand | 12,900 | 8,100 |
| Five years or more | 64,500 | 64,500 |
| | 77,400 | 72,600 |

## 23 Non-equity share capital

| | 2015 £ | 2014 £ |
|---|---|---|
| **Shares of £1 each issued and fully paid** | | |
| At 1 April and 31 March | 9 | 9 |

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

## 24 Reserves

| | Revenue reserve £'000 | Designated reserve £'000 | Total reserves £'000 |
|---|---|---|---|
| At 1 April 2014 | 25,304 | 44 | 25,348 |
| Surplus for the year | 4,444 | 21 | 4,465 |
| Actuarial loss relating to pension scheme | (2,620) | - | (2,620) |
| At 31 March 2015 | 27,128 | 65 | 27,193 |

The designated reserve relates to a surplus on the Big Lottery Grant Fund to provide financial inclusion advice.

## 25 Net cash inflow from operating activities

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| **Operating surplus** | 7,334 | 6,638 |
| Depreciation of tangible fixed assets | 6,483 | 5,512 |
| Impairment of tangible fixed assets | 56 | - |
| Surplus on disposal of tangible fixed assets | (2) | (1) |
| Defined benefit pension scheme operating charge | 730 | 850 |
| Defined benefit pension scheme contributions paid | (450) | (490) |
| VAT shelter income | 782 | 1,156 |
| | 14,933 | 13,665 |
| **Working capital movements** | | |
| Decrease/(increase) in Debtors | 60 | 2,026 |
| (Decrease)/increase in Creditors | (655) | (3,161) |
| Net cash inflow from operating activities | 14,338 | 12,530 |

## 26 Reconciliation of net cash flow to movement in net debt

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Increase in cash | 459 | 1,112 |
| Cash inflow from increase in debt | (4,800) | (14,900) |
| Change in net debt resulting from cash flows | (4,341) | (13,788) |
| Movement in net debt for the period | (4,341) | (13,788) |
| Net debt at 1 April | (71,177) | (57,389) |
| Net debt at 31 March | (75,518) | (71,177) |

## 27 Analysis of changes in net debt

| | 1 April 2014 £'000 | Cashflow £'000 | 31 March 2015 £'000 |
|---|---|---|---|
| Cash at bank and in hand | 1,643 | 239 | 1,882 |
| Bank overdraft | (220) | 220 | - |
| **Changes in cash** | 1,423 | 459 | 1,882 |
| **Loans** | (72,600) | (4,800) | (77,400) |
| **Changes in debt** | (72,600) | (4,800) | (77,400) |
| **Changes in net debt** | (71,177) | (4,341) | (75,518) |

## 28 Capital commitments

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| **Capital expenditure** | | |
| Expenditure contracted for but not provided in the accounts | 9,149 | 5,369 |
| Expenditure authorised by the Board, but not contracted | 8,488 | 24,856 |
| | 17,637 | 30,225 |

The above commitments will be financed through borrowings, operating surpluses and HCA grant.

The reduction in authorised capital spend is as a result of the completion of the five year major improvement programme and the development programme 2012-15. Future capital requirements are lower than previous years as 100% of livin stock is now at the Decent Homes Standard.

livin submitted a bid for the Affordable Homes Programme (phase 2) and the level of HCA grant attached to this is £1,688,263 for 107 units. A further £72,000 has been awarded for 6 units under Continuous Market Engagement. The remaining capital commitments will be funded through revenue reserves.

**Stock transfer obligations regarding housing homes**

The Association entered into a Stock Transfer Agreement to acquire the housing homes of the former Sedgefield Borough Council (SBC) on 30 March 2009. Immediately prior to entering into the Stock Transfer Agreement, SBC contracted with the Association to complete the refurbishment works necessary to bring the housing homes up to an agreed standard. The contract was for a fixed sum of £248.694m equal to the expected costs of the work. At transfer, the Association contracted with SBC to acquire the benefit of SBC's obligation to carry out the refurbishment works £248.694m plus the housing homes at a price equal to the agreed value of the property in its unenhanced condition (£4.1m). A right of set off exists between the contracts. These contracts have enabled the Association to recover VAT on improvement costs that would otherwise have been expensed.

Sums received from the VAT shelter are split between Durham County Council and livin in the ratio 45:55. livin's share will be used to fund new development works.

At the time of transfer, no monies were deemed due to SBC in relation to the above transactions, by virtue of the right to set off these contracts.

The impact of these transactions is that whilst SBC (DCC) has a legal obligation to complete the improvement works, this work has been contracted back to the Association who are also legally obligated. The underlying substance of the transaction is therefore that the Association has acquired the homes in their unenhanced condition at their agreed value, and will complete certain agreed improvements in line with guarantees to tenants of not less than £248.694m. The risks and responsibilities to the Association arising from this arrangement would be identical had these transactions not been entered into. As a result, the contractual assets and liabilities have been ignored for accounts purposes.

## 29 Contingent assets / liabilities

The Association had no contingent assets or liabilities as at the 31 March 2015 (2014 £nil).

## 30 Leasing commitments

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Land and Buildings £'000 | Other Assets £'000 | Land and Buildings £'000 | Other Assets £'000 |
| In one year or less | 16 | 135 | 12 | 147 |
| Between one & two years | - | 4 | - | 3 |
| Between two to five years | - | - | - | - |
| Over five years | 92 | 7 | 94 | 9 |
| | 108 | 146 | 106 | 159 |

## 31 Related parties

There were four tenant board members at the year end. Jonothan Hitchen, Alan Fletcher and Andrew Lowery who were board members throughout the year, were joined by Angela Rowlands (appointed to the vacant position on 18 September 2014). Their tenancies are on normal commercial terms and they are not able to use their position to their advantage.

Four members of the Board Kevin Thompson, Mike Dixon, Brian Stephens and Lucy Hovvels MBE are Councillors with Durham County Council a local authority having nomination rights over tenancies for certain Association homes. All transactions with the council are on normal commercial terms and none of them are able to use their position to any advantage.