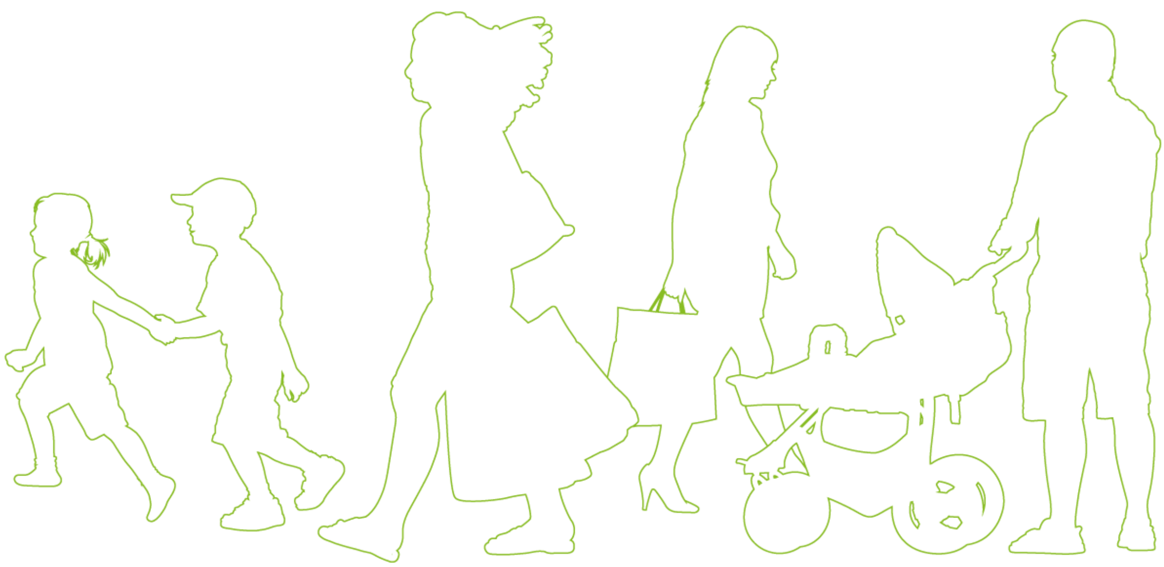
Herefordshire Housing Limited

Annual Report and Financial Statements

For the year ended
31 March 2017



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Executive Directors, Advisors, Bankers and Funders

Company registration number	04221587 Registered as a Company Limited by Guarantee	
Homes and Communities Agency Registration number	LH4353	
Charity Commission number	1105907	
Executive Directors		
Chief Executive	Peter Brown BSc (Hons), PgDip (Soc), MSc FCIH	
Director of Resources & Company Secretary	Richard Woolley FCCA, BA (Hons)	
Executive Directors	Christine Duggan BSc (Hons) Dawn Matthews-Smith (resigned May 2016)	
Registered office	Legion Way, Hereford, Herefordshire, HR1 1LN	
Independent Auditors	KPMG LLP One Snowhill Snow Hilll Queensway Birmingham B4 6GH	Internal Auditors: RSM Group UK LLP St Philips Point Temple Row Birmingham B2 5AF
Solicitors	Anthony Collins 134 Edmund Street Birmingham B3 fc2ES	
Bankers	Barclays Bank Plc P O Box 3333 One Snowhill Snow Hill Queensway Birmingham B3 2WN	

Report of the Board

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

Principal activities

Herefordshire Housing is a group consisting of Herefordshire Housing Limited, Enterprise4 Limited (a private company limited by shares), Independence Trust Limited (a charitable company limited by guarantee), Hereford Capital plc and Rise Partnership Developments Limited. Herefordshire Housing Limited ('the Company') is a not-for-profit organisation administered by a Board. The Company's overall aim is delivering quality housing services to diverse communities. It's principal activities are the management and development of social housing and related support.

Review of business and future developments

Details of the Group's performance for the financial year and future plans are set out in the Strategic Report that follows this report.

Housing property assets

Details of changes to the Group's fixed assets are shown in notes 12 and 13 to the financial statements.

Political and charitable donations

The Group made no charitable donations during the financial year (2016:£ 46,936). No political donations were made during the financial year (2016: £nil).

Reserves

The Group surplus on reserves at the end of the financial year was £31.8 million (2016: £24.2 million). This is after the transfer of the surplus for the financial year of £7.6 million (2016: £8.2 million).

Post balance sheet events

Herefordshire Housing has entered into negotiations with Shropshire Housing Group about merging the two Groups with Herefordshire Housing Ltd becoming a subsidiary of Shropshire Housing Ltd on 27th July 2017. More details are below in the Strategic Report.

Payment of creditors

In line with government guidance, the Group's aim is to pay purchase invoices within 30 days of receipt, or earlier if agreed with the supplier. Performance against this aim is shown in note 16 to the financial statements.

Board Members and Non-Executive Directors

The non-executive directors of the Company who were in office during the year and up to the date of signing the financial statements are set out below. The Board comprises of ten Ordinary board members and one Local Authority councillor (nominated by Herefordshire Council). There are currently two vacancies on the Group Board and one vacancy on the Independence Trust Board.

Ordinary Board Members	LA Board Members
Ruth Cooke (Chair)	Cllr Paul Rone
Richard Johnston (Vice Chair)	
Jon Land	
David Lincoln	
Michael McCarthy	
Michael Parkes	
Allison Taylor	
Rebecca McGuirk	

The Group has insurance policies that indemnify both its Board Members and Executive Directors against liability when acting for the Companies. Executive Directors are not Board Members and act as executives within the authority delegated by the Board.

The Chief Executive

The Chief Executive and other Executive Directors are employed on the same basis as other employees who are engaged on Herefordshire Housing Limited's terms and conditions. Annual increases are assessed based on market rates with any changes referred to the Board for approval.

Executive Directors

The Executive Directors participate in pension schemes on the same terms as all other employees.

Dawn Matthews-Smith was appointed as Interim Director of Health and Wellbeing in August 2015 for 10 months and left in May 2016. Simon Herdsfield, Head of Wellbeing and Support, has taken responsibility for the day-to-day management of the organisation.

Stakeholders

The strength of the Group lies in the quality and commitment of its employees. The Group's ability to meet its objectives and commitments to customers in an efficient and effective manner depends on the contribution of employees throughout the financial year. Consultation and communication with all employees takes place through regular briefings, team meetings and union representation.

The Group is committed to eliminating discrimination and harassment and promoting equality and diversity.

Herefordshire Housing Limited actively encourages customer involvement by promoting various mechanisms. These include having customers on the board of management, supporting resident groups, a customer challenge panel with direct access to the Group Board, resident researchers, and independent surveys through "Voluntas". These all help for customers to play an active role in shaping the future provision of services.

The Company's commitment is not purely to its customers, but also to the wider community. The Company supports the Newton Farm Information Centre, a local charity providing a wide range of advice either directly, by signposting or by providing space for other agencies on a surgery basis. This includes regular visits by the Citizens Advice Bureau (to whom grant aid is given to fund a part-time officer dedicated to supporting Herefordshire Housing Limited's tenants) and an access point for the local Credit Union.

From identified value for money savings, the Company directly allocated grants to community groups to support initiatives across Herefordshire.

NHF Code of Governance

We are pleased to report that the Group complies with the recommendations of the NHF Code of Governance. A formal review of the effectiveness of the Board has been undertaken during the year and found that the Group was compliant with the code.

Health and safety

The Board is aware of its responsibilities on matters relating to health and safety and the Group has detailed health and safety policies. The Group complies with the Health and Safety at Work Act 1974 and other relevant legislation.

The Board

The Board comprises eleven non-executive members (currently there are 2 vacancies) and is responsible for managing the affairs of the Group. It meets as a Board up to six times a year and meets quarterly for the Finance and Risk committees: The Remuneration Committee meets on an ad-hoc basis. The Independence Trust Board meets up to four times a year. The boards and committees reflect the strategic goals of the organisation.

The Herefordshire Housing Committee was dissolved during the year while the Finance & Investment and Audit and Risk Committees were merged (into a Finance and Risk Committee) as a result of recommendations arising out of the Governance review. The Remuneration Committee was established during the year.

The Board attend regular training sessions, both internal and external, and have undergone a full programme of induction. In line with best practice and compliance with the Code of Governance, a full annual appraisal programme has been undertaken.

The Board is responsible for the Group's strategic direction. Day to day management and implementation is delegated to the Chief Executive, the Director of Resources and the Director of Housing and Development who meet fortnightly as a Senior Management Team. The Chief Executive, Directors and senior colleagues attend Board and committees.

In addition the Board meet at least twice a year to discuss strategy at Away Days. The Chief Executive and Chair meet regularly.

Complaints and compliments

Herefordshire Housing Limited has an effective and clear complaints policy and associated procedure. During the financial year 68 complaints (2016: 47) were dealt with of which 63 have been resolved, 44 of these, 65% (2016:52%) were resolved within the published timescale.

Three of the complaints progressed to a review by the Independent Housing Ombudsman Service for which one resulted in an earlier resolution and two of which we are awaiting the outcome.

On a positive note, we have received 141 compliments during the year.

Public Benefit

In setting the Company's aims and objectives, the Board has given careful consideration to the Charity Commission's general guidance on public benefit. The Board confirms that the Company complies with the public benefit criteria by:

- The provision of social housing in Herefordshire.
- Ensuring that rents are charged within the parameters of the Company's rent plan, in accordance with the HCA's rent standard and guidance.
- Ensuring that housing is let on the basis of need by participating fully in the Herefordshire Homepoint choice-based lettings scheme.
- Valuing diversity through the Company's Equality and Diversity policy.

Details of the Company's performance in achieving this in the year to 31st March 2017 are included in the Strategic Report.

Internal controls assurance

The Board is ultimately responsible for ensuring that the Company maintains a system of internal control that is appropriate to the business environments in which it operates. The Company adheres to the NHF Code of Governance that it adopted in 2015.

Internal control systems are designed to meet the particular needs of the Company and the risks to which it is exposed. The Board recognises that no system of internal control can provide absolute assurance against material misstatement or loss or eliminate risk of failure to achieve business objectives.

The system of internal control is designed to manage key risks to provide reasonable assurance that planned business objectives and outcomes are achieved. It also exists to give reasonable assurance with respect to:

- the reliability of financial and operational information and;
- safeguarding of the Company's assets and interests.

In meeting its responsibilities, the Board has adopted a risk-based approach to internal controls which are embedded within the normal management and governance process. This approach includes the regular evaluation of the nature and extent of risks to which the Company is exposed, internally through the wider management team and externally through independent internal and external audit.

Regular management reporting on control issues provides assurance to successive levels of management and to the Board, with overview and structured feedback through the Board's Finance & Risk Committee. The arrangements include a rigorous procedure, monitored by the Finance & Risk Committee, for ensuring that corrective action is taken in relation to any significant control issues. Financial governance is monitored by the Finance & Risk Committee.

The key elements of the internal control framework include:

- The Board being directly responsible for strategic risk management
- Delegation of authority to the Finance and Risk Committee to monitor internal control
- The Leadership team compiling and monitoring the key business risks
- Monthly management accounts aligned to the needs of the business providing reliable, relevant and up to date financial information with significant variances from budgets being investigated
- Significant new initiatives being evaluated and approved in accordance with the Standing Orders and Financial Regulations of the Company.
- HR policies and procedures designed to ensure that all colleagues are aware of their roles and responsibilities in terms of the internal control framework.

The Board confirms this framework has been in place throughout the financial year 2016-17 and up to the date of signing these financial statements.

The internal audit service for the Company is now co-sourced with RSM LLP and in-house resource from within the finance team, led by a qualified accountant.

Financial risk management

Herefordshire Housing is financed by a combination of retained reserves, long-term loan facilities and grants from the Government. The Group has a formal Treasury Management Policy that is approved by the Finance and Investment Committee.

This policy seeks to address funding and liquidity risk and ensure covenant compliance; it states which types of financial instrument can be authorised for use, covering both borrowings and investments. In addition, the policy identifies the maximum value of financial instruments and with whom they may be agreed. The purpose of this policy is to reduce the impact to Herefordshire Housing of adverse movements in interest rates.

Going concern

After making enquiries the Board has a reasonable expectation that the Company has adequate resources to continue its operational activities for the foreseeable future, being a period of twelve months after the date on which the report and financial statements were signed. For this reason, it continues to adopt the going concern basis in the financial statements.

Annual General Meeting

The annual general meeting will be held on 26 September 2017 at the registered office, Legion Way, Hereford.

Independent Auditor

KPMG LLP were appointed by the Board on 24 November 2015.

A resolution to reappoint KPMG LLP, as independent auditor, will be put to the members at the annual general meeting.

The report of the Board was approved by the Board on 27 July 2017 and signed on its behalf by:

Ruth Cooke

Ruth Cooke

Chair

27 July 2017

Strategic Report

Background and business model.

Herefordshire Housing Limited (HHL) is a not for profit organisation providing homes and support services to people across Herefordshire and beyond. It is the parent of a group of companies and manages 5,300 social housing homes with related support and the letting of 1,991 garages and 29 shops. In addition it provides careline, responder and reablement services, services to 390 leaseholders, learning and development through the "Learning Box" and support to those affected by domestic abuse.

Through its commercial subsidiary, Enterprise 4 Limited, a wide range of maintenance and housing related services are provided to residents, non-residents and commercial companies. Any profits from the subsidiary are gift aided to the parent. The subsidiary, Independence Trust, provides wellbeing services across Gloucestershire and Worcestershire as well as managing wellbeing services on Herefordshire Housing's behalf. In addition to Enterprise 4 and Independence Trust there are 2 further subsidiaries in the Group, Herefordshire Capital and Rise Partnership Developments that provide bond issuance and design and building services respectively. The subsidiaries are wholly owned by Herefordshire Housing Limited.

Housing management services and support is provided from the main office on the northern fringe of Hereford. The highest concentration of homes is within Hereford City at 70% with a further 10% within the town of Ross on Wye in the south of the county. The remaining 20% of homes are in rural areas predominantly to the south and west of Hereford City.

In addition to managing 5,697 homes, the Group is part of the Spectrum Development partnership providing access to grant funding under the Homes and Communities Agency (HCA) Affordable Homes Programme (AHP) and the Affordable Homes Guarantees Programme (AHGP).

At the end of the financial year, the Group had 368 employees and 9 Group Board members. Of the colleagues, 180 are male and 188 are female. Of the Group Board members at the end of the March 2017, 6 are male and 3 are female. More information on employees and board members during the year is contained in notes 10 and note 11 of the financial statements.

Herefordshire Housing Limited's Mission and Vision

We are focused on three key areas:

People. We're committed to helping people take a full part in the world and enjoy a rich and fulfilling life – both in their own homes and in the wider community.

Homes. We're a social landlord with 5,697 properties under management. Our aim is to create and maintain homes people enjoy and want to live in.

Community. We aim to create communities that people feel safe in, feel inspired by, and want to contribute to.

Everyone should have choice and access to high quality homes, services and support which meet their needs, and which help and encourage them to achieve their goals and ambitions. We work together – with our customers and colleagues – to deliver this aim.

Our key philosophy is to work closely with customers to understand their needs, so we can deliver the services they want.

We achieve this by:

- Listening to and involving them, ensuring our services are relevant and support their independence, development and growth.
- Supporting each other to make sure our services set the highest standards, and continually exceed expectations.

We have four key values:

We RESPECT the individuality of our colleagues and customers and tailor our approach to reflect their different needs.

We INVOLVE people in service developments and delivery, so we understand what's wanted. This helps make sure our services are more relevant and responsive.

We SUPPORT each other, always deliver our promises and take pride in our work and outcomes.

We EXCEED expectation by always doing what we say, and always looking to add value by doing even more.

Taking the first letter from each word (Respect, Involve, Support, Exceed), we call these our RISE values – because they help us constantly raise standards, rise to challenges and improve as an organisation. These values are ingrained within our culture.

Regulation and Governance

Herefordshire Housing is regulated by the Homes and Communities Agency (HCA) through its regulatory framework which was updated on 1 April 2015. The regulatory approach is underpinned by the principle of "co-regulation" whereby Boards are responsible for meeting the standards and being transparent and accountable for the organisation's delivery of its social housing objectives. In addition, as a "Registered Provider" it is our responsibility to support customers both to shape and scrutinise service delivery and for customers to hold the Board to account.

Resident scrutiny is applied at Herefordshire Housing through our Customer Challenge Panel, and Community Involvement.

Standards are set by the HCA and are organised into "consumer standards" and "economic standards". The consumer standards are:

- Tenant Involvement and Empowerment
- Home
- Tenancy
- Neighbourhood and Community

The Board is responsible for ensuring that Herefordshire Housing meets the consumer standards. Although the regulator no longer has an active role in monitoring performance, the HCA will still intervene where it has identified "serious detriment". This is identified in the guidance as being based "on the degree of harm or potential harm that may be caused to tenants by a breach of standards".

The economic standards are in place to "protect historic government subsidy, promote access to private finance, and help address the lack of competitive pressures on providers which might otherwise put pressure on service quality and efficiency". The economic standards are:

- Governance and Financial Viability
- Value for Money
- Rent

The HCA more actively regulates the economic standards with a view to ensuring that the Registered Provider is well-governed and financially viable. However, regulation is "risk-based" and is carried out in a proportionate way based on the HCA's assessment of the Registered Provider's risk.

To assist in reviewing the risk, it is a regulatory requirement to provide the HCA with a copy of our 30 year financial plan (The Financial Forecast Return), copies of our annual financial statements, audit management letter and fraud report, quarterly survey reports and a statistical data return.

In addition, since 2013 there is a new focus on Value for Money (which is detailed below) and the rent standard now forms part of the economic standard.

In April 2016 an updated regulatory framework was published by the HCA. The main changes apply to the Governance and Financial Viability Standard and the Rent Standard. There is also the introduction of a Code of Practice which amplifies the requirements in the Governance and Financial Viability Standard, making it easier for registered providers to understand what is expected of them

The key points resulting from these changes are as follows:

- The protection of social housing assets by means of robust risk management by registered providers.
- Business plans should be subjected to rigorous stress-testing and providers should identify the risks to which they are subject and the steps that are necessary to manage and mitigate those risks.
- Every provider should maintain an accurate and up-to-date register of its assets and liabilities.
- Registered providers are required to assess their compliance with the Governance and Financial Viability Standard at least once a year. Registered providers' boards shall certify in their annual accounts their compliance with the standard. This compliance is included in the Report of the Board.
- There are special, more demanding, provisions affecting specific categories of registered provider, such as those trading for profit and those in group structures with an unregistered parent.
- The Rent Standard now incorporates the annual adjustment from RPI +0.5% to CPI +1.0%, the removal of the provision for convergence with target rents and a 1% rent reduction for four years from April 2016.

A self-assessment audit against the full framework, including economic and consumer standards, and the NHF code of governance is completed on an annual basis with a six monthly review. This is reviewed in detail by the Group Board and actions required to improve our governance arrangements are monitored until completion.

Following on from the review at the March 2017 meeting, the Board confirms that Herefordshire Housing complies with the Governance and Viability standard and adheres to all relevant law.

<u>HCA Regulation of Herefordshire Housing in 2017</u>

Herefordshire Housing continues to meet the highest grading of viability and governance with a V1, G1 grading from the HCA.

Changes to the regulation of rent increases

The Government's policy on rent increases for Registered Providers was amended in July 2016 from a position where providers could increase rents by CPI plus 1% for each of the next 10 years to a rent reduction of 1% for the 4 four years beginning April 2016. Herefordshire Housing has always taken cost management seriously so began a programme of removing £6.5m of operating costs from the business over the four years with successful delivery of recurring savings being a key objective of Value for Money (VFM) over the first 12 months.

Mergers

The National Housing Federation introduced a merger code in 2016-17 which was considered by the Group Board and adopted subject to consideration of mergers only with other Registered Providers owning less than 7,000 homes. In coming to this conclusion the Board agreed that a merger should only be considered on the basis that it would be beneficial to our residents and other customers and promote our culture and ethos.

Shropshire Housing Group (SHG) fits all of these criteria so the Board agreed with SHG's Board to explore discussions around a potential merger between the 2 organisations. A Joint Board Steering Group (JBSG) was established in 2017 consisting of equal number of Board representatives from both organisations to progress this. The merger is expected to be completed by the 27th July 2017. Further information is provided in the VFM Self-Assessment.

Principal Risks and Uncertainties

The Group Board has ultimate responsibility for ensuring that risk management works effectively, reviewing processes at least annually. The Finance and Risk Committee has delegated authority to ensure that, operationally, the framework for risk management is working and that, from a practical perspective, the controls have been put in place to mitigate the inherent risks identified. The ongoing review of risks is carried out by the Governance team focussing upon 'business significant' risks for the Company. The results are scrutinised by the Risk & Resources Committee on a quarterly basis.

The risk mapping system used by the Group calculates risk by reference to the impact and the probability of risks. Risks identified on the risk register with a total score of 7 out of 10 and above at the end of March 2017 were:

- A number of contracts for our subsidiary, Independence Trust ended in the year. There is a risk that other contracts may not be secured. Whilst the support sector is very competitive financially, work has been undertaken to ensure that the remaining contracts are viable resulting in Independence Trust making a small surplus in 2016-17.
- There is a continued risk that the Government policy, particularly around welfare reform will adversely affect the Company's performance. In 2016-17 our housing team was restructured to provide a more customer focussed service. In addition, the Group made a significant investment in technology to allow Customer Account Managers to be more mobile rather than having to be based in the office. In addition, resources continue to be allocated to assist residents to provide guidance and signposting to information to ensure that they are fully informed on the effects of welfare reform. The Company has worked with other organisations

such as Herefordshire Council's financial inclusion partnership, the DWP, the Citizens' Advice Bureau and the local credit union to mitigate this risk.

- During the year there have been a number of high profile security issues throughout the country around security of data so we have increased the risk score on this to ensure that we take mitigating action to reduce the possibility of this occurring for Herefordshire Housing. In 2016-17 a local DR site was established and the DR plan was fully tested. Security has been increased on computers and action taken to ensure that the latest patches are installed for IT programmes
- Herefordshire Housing has an increased development programme compared to two years ago, which, because of the sums of money involved, creates risk around delivery. However costs are monitored against the programme quarterly by the Board and (for market sales and shared ownership) prudent assumptions are made on the delay between completion of build and sale. There are no unsold completed shared ownership properties at year end.

Last year we commented on the potential impact of the United Kingdom voting to leave the European Union creating uncertainty in the UK economy. Initial advice from our funding advisors, TradeRisks, was that the Herefordshire Housing Group was relatively well-insulated against possible negative effects of this. This remains the case.

In addition, there are risks around the potential merger process with Shropshire Housing, both around its possible impact on Herefordshire Housing's existing performance (i.e. colleagues potentially focussing on merger issues rather than current performance) and risks associated with merger itself. Risk maps have been created for both of these scenarios and are reviewed at Group Board and a Joint Board Steering Group (with Board members of Shropshire Housing Group) respectively.

Financial Performance

The Group made a surplus of £8.6 million for the year ended 31st March 2017 compared to the £7.5 million for the year ended 31st March 2016.

The total comprehensive income for the year was £7.6 million (2016: £8.2 million). This was after taking into account the actuarial loss in respect of pensions of £1.0 million (2016: actuarial gain £0.7 million).

The main reasons for the movement between the surplus in 2016 and 2017 are as follows:

- A reduction in turnover of £0.6 million, £0.2 million arising from the rent reduction and £0.4 million from the reduction in contract income within Independence Trust.
- A reduction in operating expenditure of £1.6 million.
    - Expenditure on social housing lettings has reduced by £0.75 million with £0.5 million of this generated from the reduction in maintenance expenditure in response to a lower demand on the service and a reduction in voids compared with the in the previous year. Management and services costs have been reduced by £0.5m excluding the substantial investment of £0.25 million in ICT infrastructure and security to provide a robust platform for the future and to safeguard the organisation.

  - Expenditure in relation to Independence Trust services has reduced by £0.6 million following the expiry of a number of contracts.
  - A further reduction of £0.25 million has been derived from a higher level of capitalisation of property services and offsetting the increased £0.1 million expenditure on shared ownership property sales.
- An additional £0.3 million from property and land sales and overage payments predominantly arising from the Oval regeneration

The focus for 2017 continued to be maintaining the quality of our homes with £10.0 million (2016: £10.6 million) invested in the financial year, the growth of our development programme with a net investment of £14.8 million (2016: £10.7 million) and stabilising the financial position of Independence Trust which has delivered an operational surplus of £74,000 for the first time since 2013.

Rigorous control of cash and liquidity is a key focus for us. In November 2016 we secured our £35m retained bond which is being drawn in 5 tranches over a 2 year period, generating a bond premium of £5.065 million. In 2016-17 £5 million was drawn as the initial tranche with £825,000 premium being received. The remaining £30 million is being drawn in 4 tranches over the next 2 years. The way the retained bond structure was agreed enabled the Group to mitigate the cost of carry on excess funds whilst locking in the favourable gilt rates in the market.

The retained bond sale provides the Group with a comfortable level of cash and undrawn available facilities, covering more than 18 months planned expenditure.

Operating cash flow remained strong at £16.6 million (2015-16: £16.2 million) and represents 133% of operating surplus - a good cash conversion performance. Cash from operations has been sufficient to fund our interest payments and the majority of the £17.4 million investment activities, requiring just £0.8 million from liquid resources. Cash balances increased from £1.5 million to £2.5 million with short term investments also increasing by £2.1 million.

The Group met its funding covenants for the financial year.

Achievements and Performance and Plans for Future Periods

Our achievements and performance for 2017 are considered in our Value for Money self-assessment below. This also itemises our plans for future periods.

Value for Money

Statement from Board member and VFM Champion, Michael Parkes:

I am passionate about the key contribution Social Housing and related support and development services make to the wider health and wellbeing of the communities in which we operate.

In delivering our services, the Board of HHG is committed to obtaining the maximum beneficial return, in terms of achieving our strategic objectives, from the resources we deploy. This principle underpins our commitment to continuously improving our "Value for Money" (VFM).

In determining VFM we require a detailed understanding of our strategic objectives, the scale of available inputs such as money and colleague time and the scale of achievable outputs and outcomes both in terms of tangible assets like homes delivered and in terms of the wider impacts of these homes and our services upon social, environmental and economic issues. This is a challenging notion that causes us to stop and reflect upon what we choose to do amongst our competing priorities, how we do it and when.

It has an impact upon strategic decision making at Board and through our service delivery right down to sourcing the best nuts and bolts for the job at the best price.

The Value for Money Statement that follows is descriptive of our thinking and evidences our progress to date and our plans and aspirations for the future.

Michael Parkes, Board Member

Under the regulatory framework for social housing in England from April 2015, there is a continued focus on value for money with a requirement for Registered Providers to articulate and deliver a comprehensive and strategic approach to achieving value for money in meeting their organisation's objectives, specifically to:

- Have a robust approach to making decision on the use of resources to deliver the provider's objectives
- Understand the return on its assets and having a strategy for optimising the future return on its assets
- Performance management and scrutiny functions to drive and deliver improved VFM
- Understand costs and outcomes of delivering specific services

In order to demonstrate to stakeholders that this is achieved a robust self-assessment is published on an annual basis. This has been considered by the Board and is summarised below. The full self-assessment is available on our website.

What Value for Money means to us.

We have developed a value for money strategy in consultation with customers, colleagues, board members and other stakeholders that is aligned to the objectives in our corporate plan. The key stakeholders and value perspectives are detailed in the table below

Stakeholder	Value perspective
Existing and future customers of HHL homes	To create and maintain homes that people enjoy and want to live in.
Other Customers	To provide a high quality service at a reasonable cost.
Wider Community, Herefordshire County Council	To create communities that people feel safe in, feel inspired by and want to contribute to. Helping people take a full part in the world and enjoy a rich and fulfilling life both in their homes and in the wider community.
Other local service providers	To work in partnership for the greater benefit of our communities.
Government, regulator, taxpayer	To provide the greatest social environmental and economic return on public resources available.

Our strategic approach to VFM is to:

- Listen to what our customers say and communicate promises made and delivery of outcomes;
- Deliver the promises we have made;
- Get it right first time to the satisfaction of our customers;
- Deliver great service;
- Challenge ourselves to go the extra mile;
- Compare ourselves with other organisations in the sector and more widely;
- Always looking to improve;
- Secure the best outcome for the resource invested;
- Reinvest the efficiencies gained as agreed with our customers and in accordance with our corporate priorities.

Our Statement of Strategy 2016-20 has been created to ensure that resources are used efficiently and for the core aims of the Group. On an annual basis budgets are prepared alongside service improvement plans by budget holders and scrutinised by the Senior Management Team and Board. Robust business cases are prepared based on forecast costs and benefits to demonstrate a positive return on the investment and allow prioritisation of expenditure.

The Statement of Strategy sets out the strategic direction of each service over the lifetime of the plans. Each team produces a service improvement plan that details the actions carried out each financial year to improve the service.

<u>We have a clear and robust approach to value for money</u>

We provide "quality choices for our communities"

We believe everyone should have a choice and should be able to access high quality homes, services and support which meets their needs, and which help and encourage them to achieve their goals and ambitions. We support and are bound by the principles of the Public Services (Social Value) Act 2012 when buying or selling goods and/or services.

In practice this means we consider the social value that may derived from procurement not simply the financial cost. We are a values-led social business and as such we measure our social value by evidencing our:

- Service quality
- Social and economic benefits
- Environmental benefits
- Financial return

Since the last self-assessment in July 2016, significant progress has been made on achieving objectives in our VFM strategy as follows:

1. Ensure that the £25.6 million development programme from April 2016 to March 2019 (net of grant) is delivered
    - 75 new homes were completed in 2016-17. A further 290 were on site at the 31st March 2017.
2. Review services to ensure that they are delivered in the most efficient way possible in the way that customers require
    - A 10% cut in operating costs was budgeted for and delivered in 2016-17 minimising the effect of rent cuts on direct services to our customers.
3. Ensure that customers are supported throughout changes to the welfare system
    - £789,932 was obtained for 1,025 customers in the year through money advice, benefit and other gains.
4. Prioritise stock investment decisions to maximise the return on assets.
    - Agreement reached with local authority to sell unsuitable individual properties to allow reinvestment in social housing
5. Ensure the strategy for care and support reflects the high standards set by CQC, is financially viable and provides excellent customer satisfaction
    - Overall CQC inspection rating of good on inspection carried out in the year for the Reablement service and Henffordd Gardens.

VFM Efficiencies Delivered

Financial

£5.68million (2015-16: £0.71 million) of cash efficiencies were delivered against a target of £0.55 million for VFM savings in 2016-17 (2015-16: £0.50m). This included £4.9 million arising from sale of the retained bond at a lower interest rate than anticipated. The VFM target was based on 2% of budgeted operating cost. The efficiencies were delivered by colleagues across the business and recorded centrally on a "VFM log".

Social Impact

We monitor social impact using the tool provided by HACT (Housing Associations' Charitable Trust). In 2016-17 we delivered £8.1 million (2015-16: £10.1m) of social value from a variety of our services. In 2016-17 this included social impact of £5.6 million social impact from the reablement service provided in partnership with the local authority, £1.9 million from the delivery of the "Job Club" and £1.1 million through facilitating homes contents insurance for customers.

Environmental

Environmental savings were delivered in the year:

Mini-distribution centre:

- 256kg of CO2
- 630 miles of van travel
- 49 hours
- 96 litres of fuel
- £899.64 of colleague costs

Total financial saving £1,004.

How was this achieved?

Colleagues in our distribution centre in Hereford realised that there was a lot of time and energy wasted by trades colleagues coming to Head Office every day to pick up supplies from the distribution centre, so mini-distribution centres have been set up in Hereford (nearer to our larger neighbourhoods) so that supplies can be taken by distribution centre colleagues to the mini-distribution centres saving time, money and the environment by reducing the distance that the trades colleagues have to drive to collect parts for their jobs.

Tracker system

In addition, the tracker system introduced for our repairs and maintenance teams has saved 4,009 litres of fuel and 10,943 kg of CO2 by allowing better prioritisation of work.

Savings directly for customers

External wall insulation was carried out on and new PVC windows (with A rated glass) were fitted to, 82 properties in the year saving 77,120kg of CO2. In addition, advice from "Energy Extra" helped to obtain potential financial savings for our customers plus 27,404 kg of CO2.

What were the savings used for?

We never forget that VFM is about providing a return for our stakeholders. Our stakeholders include those who are not our customers but want to rent in Herefordshire, so development of new housing in Herefordshire continues to be a key aim for us. As a charitable company, all our surpluses are reinvested for the benefit of our communities. Our March 2016 financial plan set aside £23 million over the next 2 years for building new properties funded from surpluses from HHL, efficiencies, sales income and grants.

All the efficiencies resulted in a surplus for the Group of £8.642 million in 2016-17. This all goes into reserves and allows us to invest in new homes for customers. In addition, we have invested to maintain services to customers (for example in mobile working technology) and to provide resilience in an ever more difficult financial landscape.

Governance

We have a clear governance framework across the Group to ensure that VFM is embedded across the organisation and has a clearly defined structure to make decisions that are aligned with our stated objectives. This is detailed in our full VFM self-assessment available on our website.

Who	VFM Role
Group Board	Responsible for the strategy and direction of the organisation. VFM is scrutinised by the Board across all aspects of our work ensuring that the maximum return is achieved from all of our assets.
Finance and Risk Committee	Delegated authority from the Board to oversee effective scrutiny of the Group. Fundamental to this is the VFM of every activity that we undertake. Scrutiny of VFM is undertaken here as well as risk management, internal audit and all aspects of governance compliance review. In addition it scrutinises all finance and investment decisions including quarterly review of management accounts, development finance appraisals that fall outside of approved parameters, options appraisals of business opportunities and all aspects of treasury management.
Remuneration Committee	This committee is responsible for reviewing Board and Senior Management Team pay and terms and conditions.
Independence Trust Board	A Board that is responsible for the strategy and direction of this subsidiary and for managing support services of Herefordshire Housing Performance is measured on a quarterly basis through balanced scorecard and financial reports.

Who	VFM Role
Quality and Performance Group	A group that operates across the business. Its membership includes customers, colleagues from HHL and a Board "champion" (the Chair of the Finance & Risk Committee) to scrutinise VFM at an operational level. Including in the remit of the QPG is the setting of targets for VFM efficiencies each year and monitoring of progress against achieving them and scrutiny of outcomes following implementation of the strategy.
Customer Challenge Group	A Customer challenge group entirely of customers operates to scrutinise any aspect of HHL business that they choose. The Challenge Group works in partnership with Herefordshire Housing to scrutinise and challenge services to ensure continuous improvement. They ensure value for money is embedded across Herefordshire Housing ensuring excellent value in service delivery. They have direct access to the HHL Group Board. 2 members of the Customer Challenge Group are on the QPG to ensure that customers priorities are reflected in the Group's VFM strategy.
Senior Management Team	SMT meet on a fortnightly basis to scrutinise performance and ensure value for money. Business cases are brought to this forum for new opportunities for SMT to review and approve.
ICT Steering Group	Relevant colleagues meet with managers from the Information Technology team to agree prioritisation of ICT developments, assessment of business cases for significant ICT expenditure and the review of outcomes following implementation.
All Colleagues	We have an embedded VFM culture throughout HHL that encourages colleagues across all levels to embrace VFM. We have an open culture and are recognised by Investors in People at silver level. One of our key competencies for all colleagues is to deliver results by "providing value for money services to our customers". This is evidenced at monthly one to one meetings with managers and more formally at annual performance appraisals.

Embedding VFM with colleagues

VFM Promises from 2015-16 delivered in 2016-17

In our VFM self-assessment for 2015-16 the following aims were targeted for 2016-17:

1. We said that we would take advantage of low long-term gilt rates to sell £35 million of retained bond in September 2016.

   The sale of the retained bonds was delivered in an innovative way with 5 sale dates over a 2-year period matching the profile of our development programme saving £4.9 million over the lifetime of the bond.

2. We said that we would invest efficiencies in the development of 268 properties over 2 years through the establishment of a subsidiary, Rise Partnership Developments.

   Rise Partnership Developments was established in the year and 75 new homes were delivered.

3. 2016-17 was the second year of the implementation of the "customer first" initiative to improve services

   Technology was introduced in the year to allow Customer Account managers to provide a more mobile service to customers rather than being office based.

4. We said that we would adopt the Vanguard approach to repairs and maintenance to improve the ability to deliver services "right first time" to drive out unnecessary waste and hence improve value for money.

   This method was utilised in the management of some empty properties and other maintenance services are currently being rolled in.

5. Building Blocks – a support to work programme. We were successful in the first stage of a Big Lottery Fund bid and planned to use the £1.7 million fund to work with vulnerable clients to reduce barriers into employment.

   We were unsuccessful in the second stage of this bid, despite this we continue to provide services to customers through our job club and learning and development courses in partnership with the local authority at "the Learning Box".

6. Integration of Independence Trust. We said that we would continue to integrate services into HHL and improve total wellbeing.

   We managed resources prudently in Independence Trust to ensure the viability of the company and maintain wellbeing services for our customers

7. To maintain services following the rent cuts over 4 years, we said that we would reduce operating costs by 10% in 2016-17.

   Budgets set to deliver the 10% were delivered in 2016-17

8. We said that we would challenge our back-office functions to deliver efficiencies.

   A review was undertaken benchmarking our back-office services in 2016-17 with results analysed by our Finance and Fisk committee.

Understanding our assets

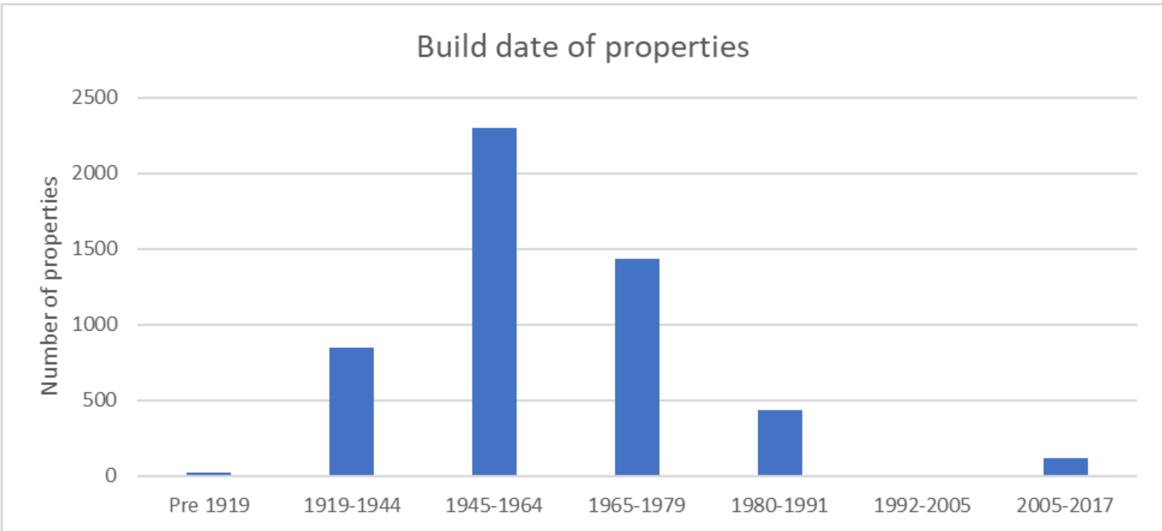
Our objective is to use our assets as efficiently as possible. We continue to explore opportunities for disposal, replacement or redevelopment based on the assessment of cost to run the homes for our customers, the costs to rectify the worst performing homes, those homes which perform the least well for us financially and the suitability of homes for our customers.

Our biggest financial asset is our 5,300 social housing homes with our largest area of expenditure being repairs and maintenance of those homes – £10.0 million was spent in 2016-17 compared to £10.6 million in 2015-16.

The majority of our homes are traditionally built with brick and block under a pitched roof. However, at the end of March 2017 there were approximately 1,200 properties that are of non-traditional construction (reduced from 2016 following the demolition and regeneration of the Oval scheme).

Most of the non-traditional properties are of two construction types – Cornish and Wimpey No Fines. The Cornish properties are constructed of reinforced concrete columns with concrete panels fixed between them. They are of a good standard of accommodation. The Wimpey No Fines are constructed of concrete poured between shuttering to form the walls and have been targeted for improvements to sustain the properties. Following the successful regeneration of the Oval, consultation is being undertaken with customers about a similar regeneration (and replacement of non-traditional homes) in the Beattie Avenue area of Hereford.

The ages of properties run from early 1900s through to new builds:



Understanding the return on our assets.

HHL has an asset management strategy in place which outlines our approach to ensure that we optimise the future return on our assets.

Our strategy for managing our assets spans development, improvement and repair, disposal and rationalisation. We understand the condition of our homes and that the non-traditional homes are costly to maintain, but are still popular with our customers. We have therefore remodelled schemes to improve their sustainability ensuring that the investment made was an efficient use of resources and seek to keep these records accurate and up to date through data capture via inspections and through stock condition surveys.

In 2015-16 we created an Area Asset Review Group (AARG) with a wide remit to ensure that the return on our assets is optimised, both from a financial and customer service focus.

A sustainability assessment model derived from Keystone software was used to enable us to identify the high risk and medium risk schemes in our property portfolio. This was initially provided at property level and then analysed by area, type of property and construction type.

The sustainability model uses quantitative data including repairs, improvements and void costs to produce a NPV (net present value of income), satisfaction and feedback data from customers and management teams, and neighbourhood information regarding crime statistics, health and education to compare with rent charged to produce a score per property.

The Group identified 31 neighbourhoods across Herefordshire as a priority for review and has an undertaken a sustainability review on each. This includes the age of properties, construction type, future improvement works required and potential solutions for each. The Beattie Avenue neighbourhood, for example, is an area of 39 homes close to the city centre of Hereford. These homes are of non-traditional construction, being built in 1954. They are estimated to have a remaining life of up to 5 years. They have been over clad with an insulated system in the past but are of poor construction and in need of demolition and replacement. Following a financial appraisal consultation is underway on the construction of up to 70 new homes on the site.

We ensure that a dialogue is maintained between our Housing Management and Property Management teams to ensure that customers' consultation is considered as well as financial, social and environmental returns in prioritising major repairs and option appraisals.

HHL is currently subject to a "clawback" arrangement whereby a proportion of sales proceeds from disposals of properties are repaid to the local authority should option appraisals identify that selling is the most viable option for individual properties. However, in 2017, the Director of Housing and Development worked in partnership with the local authority to have the clawback waived on disposals on specific individual properties on the understanding that the proceeds are reinvested into the development of new homes. This has enhanced our ability to dispose of non-performing assets.

Procurement

Our Group Standing Orders and Financial Regulations contains a section on procurement to ensure that we get the best value from buying our goods and services whilst ensuring that quality and social value are included in the decision making process. Our procedures ensure that we are compliant with the EU procurement requirements. Our procurement strategy was updated in 2015-16 and central to that is to improve our relationships with key suppliers including looking at alternative delivery models, improve use of technology in procurement and ensuring that our both quality and cost are included in procurement decisions. Amongst the financial savings this year are those through our purchasing consortium, CHIC (Central Housing Investment Consortium) of which HHL is a founder member and £665,000 identified and recorded through various procurement savings in the year.

Understanding our costs

Our high level 5 year performance is illustrated in the table below (*FRS102 from 2015):

	2017	2016	2015	2014	2013
	£'000	£'000	£'000	£'000	£'000
Turnover	30,284	30,875	29,563	25,807	24,782
Operating Costs	(19,170)	(20,763)	(20,661)	(16,842)	(17,662)
Surplus/(deficit) on disposal of fixed assets	1,338	1,005	312	209	(8)
Operating Surplus	**12,452**	**11,117**	**9,214**	**9,174**	**7,112**
Exceptional items	-	-	(1,056)	(152)	(131)
Operating surplus after exceptional items	**12,452**	**11,117**	**8,158**	**9,022**	**6,981**

Interest receivable and other income	31	62	120	4	1
Interest and financing costs	(3,721)	(3,651)	(3,219)	(3,385)	(2,927)
Financing costs - loan breakage costs	-	-	(14,076)	-	-
Financing income/(expenditure) on pension scheme	-	-	102	120	4
Tax	(120)	(66)	-	-	144
Surplus/(deficit) for the year	**8,642**	**7,462**	**(8,915)**	**5,761**	**4,203**
Actuarial (loss)/gain in respect of pension schemes	(1,041)	689	(2,910)	-	-
Total comprehensive income for the year	**7,601**	**8,151**	**(11,825)**	**5,761**	**4,203**
Operating costs as a % of turnover	63.3%	67.2%	69.9%	65.3%	71.3%
Interest payable as a % of turnover	12.3%	11.8%	10.9%	13.1%	11.8%
Gross margin (operating surplus as a % of turnover)	41.1%	36.0%	31.2%	35.5%	28.7%
Net margin (surplus/deficit) for the year excluding loan breakage costs and pension gain/(loss) as a % of turnover	28.5%	24.2%	17.5%	22.3%	17.0%
Net margin (surplus/deficit for the year as a % of turnover)	28.5%	24.2%	(30.2%)	22.3%	17.0%
Interest cover (operating surplus plus depreciation/net interest payable)	464.5%	432.4%	445.8%	385.5%	357.6%

Operating expenditure as a percentage of turnover has reduced from 2016 while gross margin and net margin have increased each year since 2015. Operating costs have reduced in 2017, while turnover has also reduced but to a lesser extent.

Turnover is down in 2017 due to rents reducing by 1% and the expiry of contracts in the Independence Trust subsidiary.

Operating costs are down partly because of the ending of Independence Trust contracts but also because of increased efficiency by delivery of a 10% cut in operating cost budgets. Interest cover has increased to 428.2% in 2017 despite the sale of £5 million retained bonds in the year.

This performance exceeds that approved by the Board in the Long Term Financial Plan in 2016.

Our costs this year are illustrated in more detail in the table below (with 2 prior year comparisons and a forecast based on the approved budget for 2018)

Social housing lettings- costs per average home

In 2016, our regulator, the HCA, provided Registered Providers with calculations of costs per home for the 2014-15 year compared to the RP sector as a whole. We have followed this up by creating a table (below) showing our actual costs per unit for the last 3 years and a forecast for the current year based on the board approved budget.

Year	2018 Budget	2017 Actual	2016 Actual	2015 Actual
Closing units	5,357	5,300	5,250	5,377
	£000	£000	£000	£000
Total Social Housing cost per unit	3.24	3.12	3.31	3.54
Management cost per unit	1.11	1.01	1.05	1.00
Service charge cost per unit	0.16	0.15	0.17	0.17
Maintenance cost per unit	0.80	0.74	0.84	1.06
Major repairs cost per unit	1.07	1.14	1.17	1.11
Other social housing cost per unit	0.11	0.08	0.08	0.20

HHL's total management cost per unit for 2017 demonstrates a year on year reduction since 2015. Management costs include all management for social housing except that which can be allocated directly to the other headings shown here.

Management

Management costs are often thought of as just overheads. However, they also include the direct cost of providing housing management services to customers (including the cost of our customer service centre) and expenditure on (for example) ICT equipment to improve efficiency across all our services. The 2017 reduction reflected strong management of vacancies. A full complement of colleagues is budgeted for in 2018.

Services

Service charge costs per home have reduced from £170 to £150 per home between 2016 and 2017. Services are provided to customers at HHL, such as grounds maintenance, but because of the nature of our properties (i.e. no high rise and relatively low number of flats) costs per home are low. With the blocks being demolished at the Oval, this is likely to continue to reduce further over time.

Maintenance

Maintenance costs per home have reduced from £884 per home in 2016 to £740 in 2017. We are in the process of implementing the "Vanguard" customer service approach. The maintenance budget has reduced by 3% in 2018 but is higher than the actual costs in 2017.

Major Repairs

Major repairs per home have reduced from £1,170 per home in 2016 to £1,140 per home in 2017. The nature of the construction of a significant proportion of these (pre-cast reinforced concrete construction – "PRC") means that we have taken the decision to invest in these significantly since transfer.

All organisations will be doing component replacement (kitchens, bathrooms, doors, heating etc.) so the construction type of our properties will make our costs higher than the average but we also choose to invest in our properties and neighbourhoods to provide a better living environment for our customers and maintain asset values. For 2016-17 for example, the following was undertaken:

a) Energy measures - £2.1 million was spent on external wall insulation, rendering and "enabling works" i.e. moving and re-fixing fences, aerials/satellite dishes, alteration to gas pipes etc. A further £1.1 million was spent on roof and window replacements.

b) Refurbishment to "Pods" – A further £646,000 of structural repairs and installation of external wall insulation and window work was carried out to first floor bathroom extensions known as "pods" in Hereford homes.

Other social housing

These costs are relatively insignificant.

Future trends

Although it is important to understand actual costs and cost drivers it is also helpful to understand future trends. Whilst costs have per home been reducing over the last 2 years, we have budgeted for an increase in 2018 although costs per unit will remain less than 2016.

Understanding our performance

Operational indicators

Our operational indicators are measured on balanced scorecards and scrutinised by our Boards and Committees.

The year-end performance of the significant performance indicators are shown in the table below:

	Description of performance indicator	2017	2016	2015
Rents	Current customer rent arrears as a % of rent charged	1.01%	0.98%	1.33%
	Former customer rent arrears as a percentage of rent charged	0.43%	0.35%	0.45%
Lettings & Voids	Average number of days to re-let a property	16.1	16.4	13.9
	Satisfaction with lettings process	95%	91%	98%
	Average void repair cost per property	£1,227	£1,459	£2,359
	Rent loss due to void properties as a % of rent due	0.70%	0.99%	1.35%
ASB	ASB cases resolved by early intervention	78%	83%	88%
Repairs & Improvements	% of responsive repairs completed at first visit	94.7%	87.8%	87.2%
	Customer satisfaction with responsive repairs	90.4%	85.5%	91.7%
	% of homes meeting the Decent Homes Standard	100%	100%	100%

Note – green indicates better than target, red indicates worse than target, while yellow indicates that we are within 10% of our target.

Current customer rent arrears continue to be below the 2% target only showing a slight increase year on year from 0.98% to 1.01% despite the impact of welfare benefit reform. Former customer arrears remain under 0.5%

Average number of days to re-let a property has reduced slightly, but is still higher than our current target. This has been due mainly to the number of void properties which have required additional work to bring them up to a lettable standard, and to the reluctance of customers to rent properties out of Hereford city

ASB cases are more easily resolved by early intervention – in 2016-17, 78% of cases were resolved this way. This has reduced over the last 2 years

More repairs have been completed at first visit has shown a steady increase over the last 2 years Customer satisfaction with repairs has increased in 2016-17. The rolling in of the Vanguard project to improve customer service and reduce unnecessary waste is likely to have a further positive impact on this in 2017-18.

External Benchmarking

Herefordshire Housing is a member of the Housemark benchmarking club. Housemark is the market leader for benchmarking in the housing sector with over 390 organisations taking part in contributing their data on an annual basis to compare with others.

We benchmark our costs and performance and review the outcomes of the analysis at our Quality and Performance Group and implement changes as required. Data is input into the Housemark system once the financial statements have been audited so for this report, only information up to the financial year 2015-16 is available.

We have a clear understanding of our costs and for the vast majority of our costs, performance and satisfaction compare favourably with our peers and nationally. Our peers are organisations where the homes were previously owned by the local council and have been transferred on a large scale to a not-for-profit company. There are 26 organisations in the peer group with between 3,000 and 10,100 homes and turnover of between £14 million and £51 million. Twenty-one organisations (including Herefordshire Housing) have their own direct labour team to do repairs and maintenance. The last three year's comparisons with other LSVTs are shown below where data is available:

Performance Table - Housemark Comparison with our peers

	2013 -14	2014 -15	2015 -16
Responsive Repairs & voids - total cost per property	UQ	MUQ	**MUQ**
Overhead costs as a % of turnover	LQ	MUQ	**MUQ**
% of homes that are non-decent	UQ	UQ	**UQ**
Average number of calendar days taken to complete repairs	UQ	MUQ	**MID**
Average re-let times in days	UQ	UQ	**MUQ**
% of anti-social behaviour cases resolved successfully	MUQ	UQ	**UQ**
total cost per property of housing management	**MLQ**	MID	**MLQ**
current customer arrears as a % of rent due	UQ	UQ	**MLQ**
% of customers satisfied with the neighbourhood as a place to live.	MLQ	LQ	**LQ**

Key:

Upper Quartile (UQ)	UQ
Middle Upper Quartile (MUQ)	MUQ
Median of the peer group (MID)	MID
Middle Lower Quartile (MLQ)	MLQ
Lower Quartile (LQ)	LQ

- At £737.14 Responsive Repairs and Voids works – total cost per property continues to be middle up quartile and has reduced from £789.48 in 2014-15. The median in 2015-16 is £797.38.
- At 11.9%, overhead costs as a % of turnover are in the lower quartile (median for peers 12.19%) and have shown a slight increase (from 10.97%). This reflects significant investment in ICT services. However, back office benchmarking has been undertaken in 2016-17 to understand our overhead costs further to minimise waste.

- Percentage of dwellings that are non-decent (upper quartile). Herefordshire Housing continues to be ranked 1st within the peer group and demonstrates that all homes are maintained to at least the standard defined by the Government as a 'Decent Home'.
- Average number of days to complete repairs is exactly on the median of our peer group in 2015-16 at 7.61 days.
- Average re-let times increased significantly between 2014-15 and 2015-16 from an average of 13.71 days to an average of 23.29. Nevertheless, we remain above the median for our peer group which is 24.62. Voids and relets have been the first areas where we have been piloting the Vanguard approach in 2016-17. Whilst it is important that we let vacant properties as soon as we can, it is also important that they are let to a standard that the prospective customer expects. Whilst the Vanguard method will help us reduce waste, relets may therefore take slightly longer if more work is completed while the property remains vacant.
- Anti-social behaviour resolution rate (at 96.46%) was just below our peers (96.62%) and showed a slight reduction from the 97.87% achieved in 204-15. ASB cases are complex and we will not close a case until we are convinced that it is resolved.
- Total cost per property for housing management at £428.64 has been held at virtually the same level as 2013-14 (£428.83) per property but for 2014-15 is now below the median for our peer group (£423.73). Our Board have made a positive decision to maintain services to customers at current levels.
- Current customer rent arrears as a 1.01% of rent due at is a reduction on 2014-15 (1.65%) and is at upper quartile performance against our peers (median 1.73%). This validates our decision in recent years to invest in housing management to deal with impact of welfare reform changes.
- Percentage of customers satisfied with their neighbourhood as a place to live has increased from 79% in 2013-14 to 82.72% in 2015-6. Whilst it is good news that this performance measure has increased in the year, it remains in the lower quartile of performance against our peers (median 87.97%). Surveys indicated that the reason for the dissatisfaction was not as a result of the services that we provide, but for external factors. We continue to maintain close relationships with our customers to improve our neighbourhoods.
- Benchmarking information is one source of information that we use to understand our service performance but we are careful to ensure that a variety of other insight tools are used to provide a balanced approach.

Progress on delivery of Corporate objectives

Our Statement of Strategy 2016-20 identifies 3 areas with specific goals we aim to achieve by 2020. Progress on each of the key measures (at end of March 2017 unless otherwise stated) is discussed below:

Customer Services

Net Promoter Score exceeding 60

- *Net promoter score for responsive repairs and gas maintenance 48.89*

Incoming telephone calls resolved at first point of contact -90%

- *62.04% by Customer Services team for 2016-17*

Re-let times for void properties below 10 days

- *Average of 16.1 days during 2016-17*

Rent arrears below 2%

- *Current customer arrears 1.01%*

Housing assets

The improvement programme will be maintained at a minimum of £6 million per year

- *£6.06 million 2016-17*

Property repairs right first time – 90%

- *Average of 94.74% responsive repairs completed right first time in 2016-17*

We will concentrate new housebuilding in Herefordshire

- *75 new properties were completed (all in Herefordshire) in 2016-17 (2015-16: 67).*

Property for outright sale will not exceed 60 at any one time

- *8 properties for outright sale currently under construction.*

By 2020 we will have built 1,000 properties and own over 6,000 properties

- *142 new homes completed from April 2015 to end March 2017. A further 290 under construction.*

By 2018 the Oval regeneration will be completed and the area transformed.

- *The last block demolished in May 2017. On track for completion of transformation.*

Corporate

The operating margin on social housing activities will not fall below 30%

- 42.6% for 2016-17

We will retain 18 months of liquid assets at all times.

- 18 months liquid assets in place.

Delivering value for money now and in the future

Performance on VFM continues to be strong throughout the Group at HHL. Our focus for 2017-18 is to improve our resilience in an ever more difficult financial environment while maintaining high quality services. To do this we are currently in negotiations with a Registered Provider of housing (RP) in Shropshire (Shropshire Housing Group, consisting of 2 RPs) to forming a merger so that we can be stronger together. Some of the specific VFM outcomes we are aiming from this merger are detailed below.

Financial

By combining our two organisations we are aiming for long term recurring efficiencies of over 5% per year from year 3 and 6.3% from year 5.

Development, services and growth

If successful, the efficiencies we make would enable us to either reinvest an additional £1.9 million net per annum in services or build additional new homes. The merger will thus provide the new organisation with opportunities and clear business choices. Merging will also strengthen our combined finances and borrowing power.

Resilience

HHL has had to withstand the impacts of rent reduction and welfare reform and strengthening our ability to cope with further shocks is essential. The Housing White paper confirms that the existing rent reductions will remain in place to 2020 and suggests that after that date certainty on rent setting will be conditional on the sector responding positively to the Government's growth agenda and helping to resolve the housing crisis. Bringing the two Groups together will strengthen our financial resilience and enable the combined business to expand our core rental business and support customers to weather any future financial storm

Efficiency

Sharing back office services would mean that more of our customers' money can be spent on new homes and services that directly benefit customer.

Expertise and employment

One of the limiting factors for an organisation the size of HHL can be that the capacity to attract, develop and retain the best colleagues is limited. The geographical remoteness of the Marches and our wider operating area has sometimes proven to be a barrier for colleagues seeking career development by perhaps joining the business as an apprentice and building a career path. With a combined workforce of over 500, this merger would improve our capacity to attract, train, develop and deploy our colleagues in more effective ways

Engagement and enterprise

As a larger, but still very "locally focused", organisation with greater financial resources we will have significant spending power and contributor to the local economy and we will be better placed to work with our key strategic partners to problem solve, make a difference, and get things done

This VFM Self-Assessment which is available on our website at the end of September 2017 on [NEW WEB ADDRESS TO BE ADDED END JUNE]

Financial Review

Accounting Policies

The principal accounting policies are set out in note 2 to the financial statements on pages 42 to 51.

Capital Structure and Treasury Policy

The Group's financial instruments comprise borrowings, some cash and liquid resources and various items such as trade debtors, creditors etc. that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations. It is the Group's policy to not trade in financial instruments. The main risk arising from the Group's financial instruments is liquidity risk. The Board reviews and agrees policies for managing this risk, details of which are summarised below. The policy was implemented following the refinancing in November 2014.

Treasury activities are controlled and monitored by the Director of Resources, with the assistance of external consultants as required, and are carried out in accordance with policies and strategies approved by the Board. The Board undertakes regular reviews of treasury management activity and covenant compliance. The Company has adopted a policy that balances the need to keep cash levels necessary only to meet immediate business requirements but also protecting the long-term position by taking advantage of long-term rates, when the opportunity arises.

The overall aim is to manage the Company's exposure to interest rates and have a debt profile that supports the needs of the business.

The Group finances its operations through a mixture of retained profits and bond finance at fixed rates of interest. The Group has funding in place in the form of a 35 year bond for £120 million, of which £30 million is in retained bonds yet to be issued. At 31st March 2017, borrowings stood at £90,000,000 (2016: £85,000,000), with undrawn facilities of £30,000,000 (2016: £35,000,000). At the year-end 100% of borrowings were at fixed rates.

All borrowings are at fixed rates in GBP and the Group has no currency exposures. Any movements in interest rates will therefore not impact on the surplus before tax.

The Group does not hold any derivative financial instruments.

The table below provides an analysis of when the debt falls due for repayment:

	2017	2016
	£'000	£'000
After five years	90,000	85,000
Interest rate basis:		
Fixed	100%	100%
Floating	-	-

The maturity profile of finance lease liabilities shown in the Group and Company Balance sheet is set out in Note 19.

The weighted average percentage of financial liabilities is 4.19% in 2017. (2016: 4.19%).

Fair Value of Financial Assets and Liabilities

The fair value of the issued bond with a carrying value of £90 million at 31st March 2017 is £107,687,869 (2016: £93,825,444). This has been determined by reference to prices available from the markets on which the instruments are traded. The movement in valuation from £93,825,444 at 31st March 2016 is driven by:

(i) an increase in notional of £5m, and
(ii) a 57bps movement in the gilt curve from 2.29% to 1.72%.

For short-term debtors and creditors there is no significant difference between the book value shown in the balance sheet and the fair value.

Cash Flow

Cash inflows and outflows for the year ended 31st March 2017 are set out in the cash flow statement on page 41. Net cash inflows from operating activities are from the management of housing stock. Returns on investment and servicing of finance are due to interest income and interest charges on loans.

The net cash outflow from capital expenditure is the spend on capitalised repairs on existing housing stock, spend on development of new housing stock which has been capitalised less grant and sales proceeds from properties sold under the 'Right to Buy scheme', plus spend on other fixed assets. The net movement in financing is the difference between loans repaid and new loans.

The Company experienced a net increase in cash and bank balances for the year ended 31st March 2017 of £1,014,000 (2016: £305,000 decrease).

Current Liquidity

The Group's policy has throughout the year been that, to ensure continuity of funding, 100% of borrowings should mature in more than 5 years. At the year-end 100% of the Group's borrowings are due to mature in more than 5 years. Cash and bank balances and short term investments at 31st March 2017 were £20.2 million (2016: £17.1 million). Additionally the Company has fully secured bond finance in place and security available to borrow a further £30 million. The Board does not consider that there are any seasonal effects on the borrowing requirements. The main factor influencing the amount and timing of borrowings is the pace of the Planned Maintenance and Improvement and New Development programmes. This has a significant impact according to the timing of payments to contractors and receipt of any capital grants.

Statement of compliance

The Board confirms that this Strategic Review has been prepared in accordance with the principles set out in the Housing SORP 2014 Statement of Recommended Practice for registered social housing providers. Herefordshire Housing is fully compliant with the Governance and Viability standard following the independent governance review undertaken during the year.

Statement of the responsibilities of the Board

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the surplus or deficit for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

Statement as to disclosure of information to auditors

The Board Members who held office at the date of approval of these financial statements confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware. Each Board Member has taken all the steps that they ought to have taken as a Board Member to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

The Report of Board, the Strategic Report and the financial statements were approved by the Board on 27 July and signed on its behalf by:

Ruth Cooke

Ruth Cooke
Chair
27 July 2017

Independent Auditor's report to the members of Herefordshire Housing Limited

We have audited the financial statements of Herefordshire Housing Limited ("the Company") for the year ended 31 March 2017 set out on pages 38 to 86. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and section 128 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to the Company'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 Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Board Responsibilities Statement set out on pages 34 to 35, the directors are 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 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 affairs of the Group and the Company as at 31 March 2017 and of the surplus for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Companies Act 2006, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Independent Auditor's report to the members of Herefordshire Housing Limited (continued)

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Board Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Board report

- we have not identified material misstatements in those reports: and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns;
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Harry Mears (Senior Statutory Auditor)
for and on behalf of KPMG LLP,
Statutory Auditor
Chartered Accountants
One Snowhill, Snow Hill Queensway
Birmingham B4 6GH
Date:
4 August 2017

Statement of Comprehensive Income

	Note	Group 2017 £ 000	Group 2016 £ 000	Company 2017 £ 000	Company 2016 £ 000
Turnover	3	30,284	30,875	28,970	28,673
Operating expenditure	3	(19,170)	(20,763)	(17,890)	(18,472)
Gain on disposal of PPE	5	1,338	1,005	1,346	1,005
Operating Surplus	3,4	12,452	11,117	12,426	11,206
Interest receivable and other income	7	31	62	33	61
Interest and financing costs	8	(3,721)	(3,651)	(3,771)	(3,658)
Surplus before tax		8,762	7,528	8,688	7,609
Taxation	9	(120)	(66)	(120)	(66)
Surplus for the year		8,642	7,462	8,568	7,543
Actuarial (loss)/gain in respect of pension schemes	29	(1,041)	689	(1,041)	689
Total comprehensive income for the year		7,601	8,151	7,527	8,232

All results derive from continuing operations. There is no material difference between the deficit or surplus on ordinary activities before taxation and the deficit or surplus for the financial year stated above and their historical cost equivalents.

Statement of Financial Position
as at 31 March 2017

	Note	Group 2017 £ 000	Group 2016 £ 000	Company 2017 £ 000	Company 2016 £ 000
Fixed Assets					
Tangible Fixed Assets	12,13	119,956	109,064	119,936	109,018
Investment in subsidiaries	31	-	-	13	13
		119,956	109,064	119,949	109,031
Current assets					
Properties held for sale	14	2,535	1,497	2,535	1,497
Stock	14	121	114	121	114
Trade and other debtors	15	2,709	2,027	18,935	16,770
Short term investments	26	17,691	15,632	691	1,453
Cash and cash equivalents		2,516	1,502	839	1,276
		25,572	20,772	23,121	21,110
Creditors: amounts falling due within one year	16	(6,528)	(6,682)	(5,162)	(7,180)
Net current assets/liabilities		19,044	14,090	17,959	13,930
Total assets less current liabilities		139,000	123,154	137,908	122,961
Creditors: amounts falling due after more than one year	17	(98,472)	(91,445)	(97,653)	(91,445)
Provisions for liabilities					
Pension provision	29	(8,577)	(7,104)	(8,577)	(7,104)
Other provisions	22	(104)	(359)	(89)	(350)
Total net assets		31,847	24,246	31,589	24,062
Reserves					
Income and expenditure reserve		31,847	24,246	31,589	24,062
Total reserves		31,847	24,246	31,589	24,062

The financial statements were approved and authorised for issue by the Board on 27 July 2017.

Ruth Cooke
Ruth Cooke
Chair

Richard Johnston
Vice Chair

Richard Woolley
Company Secretary

Consolidated Statement of Changes in Reserves

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Balance as at 1 April 2016	24,246	16,095	24,062	15,830
Surplus/(deficit) from Statement of Comprehensive Income	7,601	8,151	7,527	8,232
Balance as at 31 March 2017	**31,847**	**24,246**	**31,589**	**24,062**

Consolidated Statement of Cash Flow

	Note	2017 £000s	Restated 2016 £000s
Net cash generated from operating activities	23	**16,601**	**16,176**
Cash flow from investing activities			
Purchase of tangible fixed assets	12	(16,060)	(10,730)
Purchase of other tangible fixed assets	13	(604)	(681)
Purchase of short term investments		(2,059)	(1,573)
Grants received	18	1,271	253
Interest received	7	31	62
		(17,421)	(12,669)
Cash flow from financing activities			
Interest paid	8	(3,681)	(3,614)
New secured loans	25	5,643	-
Capital element of finance lease repayments	25	(128)	(198)
Net Cash Inflow		1,834	(3,812)
Net change in cash and cash equivalents		1,014	(305)
Cash and cash equivalents at the beginning of the year		1,502	1,807
Cash and cash equivalents at the end of the year		**2,516**	**1,502**

The restatement of the position for 2016 reflects the change in reporting of gain on disposal of PPE which is now included within operating activities.

Notes to the Financial Statements

1. Legal status

The Company, Herefordshire Housing Limited, is a private Company Limited by Guarantee, incorporated under the Companies Act 1985 (now updated to the Companies Act 2006), and is registered with and regulated by the Homes and Communities Agency as a social housing Registered Provider. The Company was registered as a charity on 16th September 2004.

2. Accounting policies

The following accounting policies have been adopted as being appropriate to the Group's circumstances with regard to giving a true and fair view and have been applied consistently in dealing with items which are considered to be material in relation to the Groups' financial statements.

a. Basis of Accounting

The financial statements have been prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP) including Financial Reporting Standard 102 (FRS102) and the Housing SORP 2014: Statement of Recommended Practice for social housing providers and comply with the Accounting Direction for Private Registered Providers of Social Housing 2015.

The individual subsidiaries of the Group (with the exception of Herefordshire Capital Plc.) have adopted the following disclosure exemption:

- The requirement to present a statement of cash flows and related notes

b. Going concern

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

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

c. Significant judgements and estimates

The preparation of the financial statements requires management to make significant judgements estimates and assumptions that affect the amounts reported for assets and liabilities as at the Statement of Financial Position date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes may differ from those estimates. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognized in the financial statements.

- Property, plant and equipment
  The Group has undertaken a review of the intended use of all housing properties. In determining the intended use, the Group has considered if the asset is held for social benefit or to earn commercial rentals. The Group has determined that market rented property, as it is developed are investment properties. The Group has determined that the small number of shops held, due to their nature and low level of rentals charged are held as property, plant and equipment are held for their social benefit.

- Capitalisation of property development costs
  The Group capitalises development expenditure in accordance with the accounting policy described within these notes. Initial capitalization of costs is based on management's judgement that development scheme is likely to proceed. Costs capitalised in this way are regularly reviewed and any costs identifies as abortive are charged to the Statement of Comprehensive Income. The total amount capitalised is disclosed in the notes.

- Impairment
  The Group has identified a cash generating unit for impairment assessment purposes during development and construction at a programme level, with subsequent impairment assessment once in management at a property level.

Estimation uncertainty
Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below.

Useful lives of depreciable assets
Other than investment properties, tangible fixed assets are depreciated over their useful lives. Management reviews the useful lives of depreciable assets at each reporting date based on the expected utility of the assets. Uncertainties in these estimates relate to technological obsolescence that may change the utility of certain software and IT equipment and changes in homes standards which may require more frequent replacement of key components.

The key judgements and estimates applied in respect of housing property are contained within these notes and include:

- The useful economic life of properties
- That properties have no residual value at the end of useful life.

c. Significant judgements and estimates (continued)

These are conservative assumptions that have been aligned with general practice followed by registered housing providers.

Defined benefit obligation (DBO)
The cost of defined benefit pension plans are determined using actuarial valuations. The DBO is based on a number of critical underlying assumptions such as standard rates of inflation, mortality, discount rate and anticipation of future salary increases provided by the pension's administrators and actuaries. Variations in these assumptions may significantly impact the DBO amount and the annual defined benefit expenses.

Fair value measurement
Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices. The Group does not have any financial instruments that require fair value to be applied however the fair value of the bond is disclosed in the notes.

Impairment of non-financial assets
Reviews for impairment of housing properties are carried out when a trigger has occurred and any impairment loss in a cash generating unit is recognized by a charge to the Statement of Comprehensive Income.

The Group has determined that the most appropriate level of assessment for impairment, based on the cash generating units is to base the recoverable amount of the asset on the value in use – service potential (VIU-SP). This recognises that the assets are not held primarily to generate cash (in which the fair value, EUV-SH would be appropriate) but are also held to provide a social benefit. The basis for measurement will usually be depreciated replacement cost (DRC). The key judgement and estimates applied in this exercise relate to the replacement build costs which are based upon our current development costs. The Group has undertaken a review this year and concluded that there are no triggers or indicators of impairment this year.

Exemptions taken
The Group continues to apply the exemption permitted in relation to the SHPS Defined Benefit Scheme, a multi-employer scheme where it is not possible for the company to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore it accounts for the scheme as a defined contribution scheme subject to recognising as a liability contributions to pay for past deficits as set out in Note 29.

d. Basis of Consolidation

The consolidated financial statements incorporate the financial statements of Herefordshire Housing Limited and its wholly owned subsidiaries, Enterprise 4 Limited, Independence Trust Limited, Rise Partnership Developments Limited and Herefordshire Capital Plc.

e. Investment in subsidiaries

The consolidated financial statements incorporate the financial statements of the association and entities (including special purpose entities) controlled by the Group. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in total comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate using accounting policies consistent with those of the parent. All intra-Group transactions, balances, income and expenses are eliminated in full on consolidation.
Investments in subsidiaries are accounted for at cost less impairment in the individual financial statements.

f. Turnover and revenue recognition

Turnover represents rental income receivable in the year, income from shared ownership first tranche sales, and other services included at invoice value (excluding VAT where recoverable) of goods and service supplied in the year and revenue grants receivable in the year.
Government grants received for housing properties are included in turnover amortised over the expected useful life of the housing property structure.

Rental income is recognised from the point when properties under development reach practical completion or otherwise become available for letting, net of any voids. Income from first tranche sales of properties built for sale is recognized at the point of legal completion of the sale.

g. Accrued Income

Where goods or services are provided but not yet invoiced, that revenue is accrued for.

h. Deferred Taxation

Deferred tax is recognised in respect of all timing differences at the reporting date, except as otherwise indicated. Deferred tax assets are only recognized to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

i. Loan interest costs

Interest payable and similar charges include interest payable, loan fees, and finance leases recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial instrument to the net carrying amount of the financial liability.

j. Finance and issue costs

Costs directly connected with the raising of finance are deducted from loans and written off over the life of the loan to the Statement of Comprehensive Income (SOCI).

k. Preserved Right to Buy Income and Sales

Surpluses and deficits arising from the disposal of properties under the Preserved Right to Buy legislation are disclosed on the face of the Statement of Comprehensive Income after the operating result and before interest. On the occurrence of a sale a relevant proportion of the proceeds are clawed back by Herefordshire Council. The surplus or deficit is calculated by comparing the net proceeds received with the carrying value of the property sold.

l. Management Costs

Management costs are allocated to revenue accounts on the basis of an estimation of colleague time allocated, except for specific items of expenditure, which are allocated directly.

m. Reserves

The Group establishes restricted reserves for specific purposes where their use is subject to external restrictions.

n. Tangible Fixed Assets

Housing Properties

Housing properties are properties held for the provision of social housing or to otherwise provide social benefit. Housing properties are principally properties available for rent and are stated at historical cost less accumulated depreciation and impairment losses. The cost of properties represents the acquisition price of land and buildings, development costs, interest charges incurred in the development period, and expenditure incurred in respect of improvements.

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

n. Tangible Fixed Assets (continued)

Properties in the course of construction are stated at cost and are transferred into housing properties, when complete. Properties in the course of construction are not depreciated.

Donated land and other assets

Where land has been donated as part of an intended development, the land is recorded at its current value at the gifting date within cost of construction and the income treated as a grant if from a government body and as turnover if from a non-government body. Current value takes into account any restrictions on use.

o. Government Grants

Government grants include grants receivable from the Homes and Communities Agency (the HCA), local authorities, and other government organisations. Government grants received for housing properties are recognised in income over the useful life of the housing property structure and, where applicable, its individual components (excluding land) under the accruals method.

Grants relating to revenue are recognised in the Statement of Comprehensive Income over the same period as the expenditure to which they relate once reasonable assurance has been gained that the entity will comply with the conditions and that the funds will be received.

Grants due from government organisations or received in advance are included as current assets or liabilities.

Government grants received for housing properties are subordinated to the repayment of loans by agreement by the HCA. Government grants released on sale of a property may be repayable but are normally available to be recycled are credited to a Recycled Capital Grant Fund and included in the statement of financial position in creditors.

If there is no requirement to recycle or repay the grant on disposal of the asset, any unamortised grant remaining within creditors is released and recognised as income in the Statement of Comprehensive Income.

Where individual components are disposed of and this does not create a relevant event for recycling purposes, any grant which has been allocated to the component is released to the Statement of Comprehensive Income. Upon disposal of the associated property, the Group is required to recycle these proceeds and recognise them as a liability.

p. Other Grants

Grants received from non-government sources are recognised using the performance model. A grant which does not impose specified future performance conditions is recognised as revenue when the grant proceeds are received or receivable. A grant that imposes specific future performance-related conditions on the associations is recognised only when these conditions are met. A grant received before the revenue recognition criteria are satisfied is recognised as a liability.

q. Depreciation

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

A full year's depreciation is charged on all assets in the year of acquisition but no charge is made in the year of disposal.

The expected useful lives of assets identified separately are as follows:

Structure:	
Non-traditional	30 years
Pre 1974 construction	75 years
Post 1974 construction	100 years
Other Major Components:	
Roofs	60 years
Windows & doors	30 years
Heating systems	36 years
Wiring	40 years
Kitchens	20 years
Bathrooms	30 years
Boilers	12 years
Lifts	20 years
Leasehold Properties:	Remaining life of lease
Garages:	25 Years

Freehold land is not depreciated

Other tangible fixed assets

Tangible fixed assets other than housing properties are stated at cost (less grant) less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for intended use.

Depreciation (to residual value) is charged on a straight line over the expected useful life of the asset from the month of acquisition, at the following annual rates:

Computers and other equipment	15% - 33%
Vehicles, Plant and Equipment	20% - 33%
Furniture, fixtures and fittings	25%
Leasehold offices	Over the period of the lease

q. Depreciation (continued)

Depreciation on offices is calculated in compliance with the SORP, on a straight line basis over the following periods:

Newly constructed offices:	50 Years from the date of practical completion

r. Impairment

The Group's internal controls are designed to identify where the value of property, plant and equipment and work in progress held in the Statement of Financial Position is more than the lower of cost or net realisable value. Where there is evidence of impairment, fixed assets are written down to the recoverable amount, this is likely to be the value in use of the asset based on its service potential. The resulting impairment loss is recognized as expenditure in the Statement of Comprehensive Income. Where an asset is currently deemed not to be providing service potential to the association, its recoverable amount is its fair value less costs to sell.

s. Capitalisation of Development Overheads and Interest

Only specific and directly attributable costs are capitalised in line with the Statement of Recommended Practice

Interest on loans financing new development is capitalised up to the date of practical completion if it represents either:

- Interest on borrowings specifically financing the programme after deduction of interest on Social Housing Grant (SHG) in advance or
- Interest on borrowings of the company as a whole after deduction of interest on SHG in advance to the extent that they can be deemed to be financing the development programme.

t. Properties for sale

Shared ownership first tranches sales and completed properties for outright sale are disclosed as a current asset, stated at the lower of cost and net realisable value. Cost comprises materials, direct labour costs and other direct overheads, as identified above. Net realisable value is based on the estimated sales price after allowing for all further costs of completion and disposal.

u. Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of any transactional costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

v. Creditors

Short term trade creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest rate method.

w. Employee Benefits

Short-term employee benefits and contributions to defined contribution plans are recognised as an expense in the period in which they are incurred.

x. Finance Leases

Where the Group enters in to a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a “finance lease”. The asset is recorded in the Statement of Financial Position as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the Statement of Comprehensive Income, and the capital element which reduces the outstanding obligation for future instalments.

y. Operating Leases

Costs in respect of operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the lease term.

z. Stocks

The value of stock is shown at the lower of cost (the original purchase price) or net realisable value in accordance with accounting standards. Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for the costs of realisation. The value of stores stock is calculated using the weighted average method.

aa. Bad and doubtful debts

Provision is made for current and former tenant arrears, as well as other miscellaneous debts (service charges, community alarm income, and fees receivable for the provision of services) to the extent that recovery is considered doubtful.

bb. Leased Assets

Rentals paid under operating leases are charged to the Statement of Comprehensive Income in the period to which they related on a straight line basis.

cc. Provisions

Due to the numbers of properties and the establishment of regular programmes of repair and maintenance, the Group does not generally make a provision for future works. Actual costs are charged to the Statement of Comprehensive Income.

The Group will recognise provisions where it has a present obligation (legal or constructive) as a result of a past event or where a transfer of economic benefit will be required to settle the obligation and an estimate can be made.

cc. Provisions (continued)

Where properties are leased a provision will be made for dilapidations where specified in the terms of the lease based on the annual rent for that property.

The Group recognises a provision for annual leave accrued by employees as a result of services rendered in the current period, and which employees are entitled to carry forward and use within the next 12 months. The provision is measured at the salary cost payable for the period of absence.

dd. Pensions

Herefordshire Housing Limited participates in two defined benefit pension schemes - the Worcestershire County Council Local Government Pension Scheme and the Social Housing Pension Scheme, which is administered independently by the Pensions Trust. Pension costs are assessed in accordance with the advice of a qualified actuary.

The Group financial statements report pension obligations according to the requirements of FRS 17 – 'Retirement Benefits'. Multi-employer defined benefit schemes that identify individual employers' shares of underlying assets and liabilities are reflected in the Statement of Comprehensive Income and the Statement of Financial Position. The difference between the fair value of the assets held in the pension scheme and the scheme's liabilities are recognised in the Statement of Financial Position as a pension scheme asset or liability. Changes in the defined benefit pensions scheme asset or liability arising from factors other than cash contribution by the employer are charged to the Statement of Comprehensive Income or the Statement of Changes in Reserves.

For the SHPS it is not possible to identify the individual employer's share of underlying assets and liabilities of belonging to individual participating employers.

Contributions payable from the association to the SHPS under the terms of its funding agreement for past deficit are recognised as a liability in the Statement of Financial Position and the resultant expense in the Statement of Comprehensive Income.

Past service costs are recognised in the current reporting period. Interest is calculated on the net defined benefit liability. Re-measurements (actuarial gains and losses) are reported in other comprehensive income.

Independence Trust operates a defined contribution pension arrangement through Scottish Widows, and the NHS pension available to a limited number of employees who were TUPE transferred into the Trust in 2011/12.

Enterprise 4 L Limited has no employees so does not participate in a pension scheme.

In accordance with statutory obligations both Herefordshire Housing Limited and Independence Trust auto-enrol colleagues who are not members of the existing pension schemes into the Social Housing Pension Defined Contribution scheme.

ee. Corporation Tax

Herefordshire Housing Limited is recognised as an exempt charity for tax purposes and is therefore not liable to corporation tax on surpluses on its charitable activities.

Where the Group undertakes activities that are outside of its charitable purpose and exceed the permitted threshold corporation tax will be payable.

Independence Trust is recognised as an exempt charity for tax purposes and is therefore not liable to corporation tax on surpluses.

Enterprise 4Limited is a commercial company and its profits are liable to corporation tax.

ff. Value Added Tax

Herefordshire Housing Limited, Enterprise 4 Limited and Independence Trust are registered within the same VAT group. Rise Partnership Developments Limited has its own VAT registration. The Group charges VAT on some of its income and is able to recover part of the VAT it incurs on expenditure. The majority of income, being housing rents, and Right to Buy sales, is exempt for VAT purposes and this gives rise to a partial exemption calculation.

The financial statements include VAT to the extent that it is suffered and not recoverable from HM Revenue & Customs. The balance recoverable or payable at the year-end is included as a current liability or asset.

gg. Financial instruments

Financial instruments which meet the criteria of basic financial instrument as defined in Section 11 of FRS102 are accounted for under an amortised historic cost model.

Basic financial instruments are recognised at amortised historical cost.

Non-basic financial instruments are recognised at fair value using a valuation technique with any gains or losses reported in surplus or deficit.

hh. Investments

Investments are stated at market value and the increase or decrease in value at the end of the year is taken to or deducted from reserves.

ii. Liquid resources

Liquid resources are readily disposable current asset investments. They include some money market deposits, held for more than 24 hours that can only be withdrawn without penalty on maturity or by giving some notice of more than one working day.

Notes to the financial statements

3. Turnover, operating costs and operating surplus

Group 2017	Turnover £'000	Cost of Sales £'000	Operating Costs £'000	Operating Surplus £'000
Social Housing Lettings	24,939	-	(14,316)	10,623
Other Social Housing Activities				
Current asset property sales	423	(384)	-	39
Other support services	286	-	(404)	(118)
Non-social housing activities				
Enterprise4	292	-	(290)	2
Independence Trust	1,736	-	(1,653)	83
Garage Lettings	659	-	(329)	330
Shops	144	-	(72)	72
Other	1,805	-	(1,722)	83
Total from Social and Non-Social Housing Activities	**30,284**	**(384)**	**(18,786)**	**11,114**
Gain on disposal of PPE				1,338
Total Operating Surplus				**12,452**

Group 2016	Turnover £'000	Cost of Sales £'000	Operating Costs £'000	Operating Surplus £'000
Social Housing Lettings	25,062	-	(15,065)	9,997
Other Social Housing Activities				
Current asset property sales	379	(256)	-	123
Other support services	324	-	(406)	(82)
Non-social housing activities				
Enterprise4	369	-	(381)	(12)
Independence Trust	2,141	-	(2,210)	(69)
Garage Lettings	620	-	(310)	310
Shops	143	-	(71)	72
Other	1,837	-	(2,064)	(227)
Total from Social and Non-Social Housing Activities	**30,875**	**(256)**	**(20,507)**	**10,112**
Gain on disposal of PPE				1,005
Total Operating Surplus				**11,117**

Notes to the financial statements

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

Company 2017	Turnover £'000	Cost of Sales £'000	Operating Costs £'000	Operating Surplus £'000
Social Housing Lettings	24,939	-	(14,316)	10,623
Other Social Housing Activities				
Current asset property sales	423	(384)	-	39
Other support services	286	-	(404)	(118)
Non-social housing activities				
Provision of services to Group undertakings	412	-	(405)	7
Garage Lettings	659	-	(330)	329
Shops	144	-	(72)	72
Other	2,107	-	(1,979)	128
Total from Social and Non-Social Housing Activities	28,970	(384)	(17,506)	11,080
Gain on disposal of PPE				1,346
Total Operating Surplus				12,426

Company 2016	Turnover £'000	Cost of Sales £'000	Operating Costs £'000	Operating Surplus £'000
Social Housing Lettings	25,062	-	(15,065)	9,997
Other Social Housing Activities				
Current asset property sales	379	(256)	-	123
Other support services	324	-	(406)	(82)
Non-social housing activities				
Provision of services to Group undertakings	307	-	(307)	-
Garage Lettings	620	-	(310)	310
Shops	143	-	(71)	72
Other	1,838	-	(2,057)	(219)
Total from Social and Non-Social Housing Activities	28,673	(256)	(18,216)	10,201
Gain on disposal of PPE				1,005
Total Operating Surplus				11,206

The group and companies activities consist solely of social housing and non-social housing activities within the UK.
The cost of sales relate directly to the share of the low cost home ownership properties sold.

Notes to the financial statements

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

Particulars of Income and Expenditure from social housing lettings:

Group	General Needs Housing	Supported Housing and Housing for older people	Temporary Social Housing	Low cost Home Ownership	Total 2017	Total 2016
	£'000	£'000	£'000	£'000	£'000	£'000
Rent receivable	19,389	4,488	96	38	**24,011**	24,212
Service Charges Receivable	275	468	15	7	**765**	695
Amortised government grants	94	-	-	-	**94**	87
Other revenue grants	69	-	-	-	**69**	68
Turnover from social housing lettings	19,827	4,956	111	45	**24,939**	25,062
Management	(4,065)	(1,234)	(19)	(10)	**(5,328)**	(5,507)
Services	(540)	(255)	(18)	(1)	**(814)**	(886)
Routine maintenance	(3,125)	(661)	(22)	-	**(3,808)**	(3,851)
Planned maintenance	(7)	(88)	(9)	-	**(104)**	(579)
Bad debts	(68)	(15)	-	-	**(83)**	(87)
Depreciation of housing properties	(3,434)	(532)	(6)	(9)	**(3,981)**	(3,633)
Impairment of housing properties	-	-	-	-	**-**	(113)
Pension operating costs	(162)	(36)	-	-	**(198)**	(409)
Operating costs on social housing lettings	(11,401)	(2,821)	(74)	(20)	**(14,316)**	(15,065)
Operating surplus on social housing lettings	8,426	2,135	37	25	10,623	9,997
Void losses	(88)	(33)	(12)	(4)	(137)	(171)

Notes to the financial statements

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

Particulars of Income and Expenditure from social housing lettings:

Company	General Needs Housing	Supported Housing and Housing for older people	Temporary Social Housing	Low cost Home Ownership	Total 2017	Total 2016
	£'000	£'000	£'000	£'000	£'000	£'000
Rent receivable	19,389	4,488	96	38	**24,011**	24,212
Service Charges Receivable	275	468	15	7	**765**	695
Amortised government grants	94	-	-	-	**94**	87
Other revenue grants	69	-	-	-	**69**	68
Turnover from social housing lettings	19,827	4,956	111	45	**24,939**	25,062
Management	(4,065)	(1,234)	(19)	(10)	**(5,328)**	(5,507)
Services	(540)	(255)	(18)	(1)	**(814)**	(886)
Routine maintenance	(3,125)	(661)	(22)	-	**(3,808)**	(3,851)
Planned maintenance	(7)	(88)	(9)	-	**(104)**	(579)
Bad debts	(68)	(15)	-	-	**(83)**	(87)
Depreciation of housing properties	(3,434)	(532)	(6)	(9)	**(3,981)**	(3,633)
Impairment of housing properties	-	-	-	-	**-**	(113)
Pension operating costs	(162)	(36)	-	-	**(198)**	(409)
Operating costs on social housing lettings	(11,401)	(2,821)	(74)	(20)	**(14,316)**	(15,065)
Operating surplus on social housing lettings	8,426	2,135	37	25	10,623	9,997
Void losses	(88)	(33)	(12)	(4)	(137)	(171)

Notes to the financial statements

4. Operating Surplus

	2017 Group £'000	2016 Group £'000	2017 Company £'000	2016 Company £'000
Operating surplus is arrived at after charging:				
Depreciation and Impairment				
Depreciation of housing properties	3,981	3,633	3,981	3,633
Restatement of property impairment	-	113	-	113
Depreciation of other tangible fixed assets	618	513	678	488
Depreciation of finance lease assets	88	142	590	142
Operating lease rentals				
Office equipment	25	25	29	29
Auditor's remuneration				
- for external audit services	48	49	29	29

Impairment of housing properties in 2016 related to development abortive costs incurred.

Notes to the financial statements

5. Surplus on Disposal of Property, Plant and Equipment

	2017 Group £'000	2016 Group £'000	2017 Company £'000	2016 Company £'000
Disposal Proceeds	2,318	2,037	2,318	2,037
Carrying value of fixed assets	(980)	(1,032)	(972)	(1,032)
Surplus on disposal of fixed assets	1,338	1,005	1,346	1,005

Disposal proceeds includes £585,000 in respect of overage payments (2016: £333,000). Of these amounts £171,000 is accrued income (2016: 333,000).

6. Accommodation in Management

	2017 Number	2016 Number
Social housing		
General housing - social rent	3,994	4,005
General housing - affordable rent	319	265
Supported housing	971	969
Low cost home ownership	16	11
Social housing owned	5,300	5,250
Leasehold market rent properties	7	7
Leasehold properties	390	386
Other		
Garages	1,991	1,995
Shops	29	29
Other owned	2,020	2,024

7. Interest receivable and other Income

	2017 Group £'000	2016 Group £'000	2017 Company £'000	2016 Company £'000
Interest receivable from deposits and investments	31	62	33	61

Notes to the financial statements

8. Interest and financing costs

	2017 Group £'000	2016 Group £'000	2017 Company £'000	2016 Company £'000
Interest payable on loans	3,637	3,574	3,637	3,574
Interest on finance leases	2	9	2	9
Other charges	42	31	86	38
	3,681	**3,614**	**3,725**	**3,621**
Pension finance costs	247	231	247	231
Interest payable capitalised on housing properties under construction	(213)	(204)	(213)	(204)
Loan amortisation	12	10	12	10
Bond premium amortisation	(6)	-	-	-
	3,721	**3,651**	**3,771**	**3,658**
Capitalisation rate used to determine the finance costs capitalised during the financial year:	**4.19%**	**4.19%**	**4.19%**	**4.19%**
Accumulated costs capitalised	**1,043**	**830**	**1,043**	**830**

During the year loan arrangement fees of £182,000 were incurred in respect of the retained bond which have been capitalised.

9. Taxation

Herefordshire Housing Limited is an exempt charity for tax purposes and is therefore not liable to corporation tax on surpluses on its charitable activities. However, during the year it has undertaken a number of activities that are outside of its charitable purpose and has exceeded the £50,000 permitted threshold.

	2017 Group £'000	2016 Group £'000	2017 Company £'000	2016 Company £'000
UK Corporation tax on surplus for the year	120	66	120	66
Total current tax	**120**	**66**	**120**	**66**

Tax paid during the year in respect of the prior year amounted to £65,000.

Notes to the financial statements

9. Taxation (continued)

Analysis of charge in the period

The tax charge on the surplus/(deficit) on ordinary activities for the year was as follows:

	2017 Group £'000	2016 Group £'000	2017 Company £'000	2016 Company £'000
Current tax:				
UK Corporation Tax charge / (credit) for the year	120	66	120	66
Under/(over) provision in the previous years	-	(1)	-	(1)
Total current tax	120	65	120	65

Surplus/(deficit) on ordinary activities before tax	8,762	7,528	8,688	7,609
Surplus/(deficit) on ordinary activities multiplied by standard rate of corporation tax in the UK of 20%	1,732	1,506	1,738	1,522
Effects of:				
Capital allowances in excess of depreciation	(14)	(14)	(14)	(14)
Adjustment in respect of prior years	-	11	-	11
Surplus relating to charitable entities	(1,598)	(1,426)	(1,604)	(1,442)
Group relief received	-	(12)	-	(12)
	120	65	120	65

Notes to the financial statements

10. Employees

Average monthly number of staff (including the Chief Executive), employed during the financial year:

	2017 Group Number	2016 Group Number	2017 Company Number	2016 Company Number
Housing management	52	56	52	56
Property and maintenance	113	122	113	122
Care & Support	161	163	36	45
Management	63	64	57	52
	389	405	258	275

Average monthly number of employees expressed in 35-hour full-time equivalents (full-time staff actually work 37 hours):

	2017 Group Number	2016 Group Number	2017 Company Number	2016 Company Number
Housing Management	50	53	50	53
Property and Maintenance	117	121	117	121
Care & Support	105	114	25	30
Management	61	61	56	52
	333	349	248	256

Employee costs:

	2017 Group £'000	2016 Group £'000	2017 Company £'000	2016 Company £'000
Salaries	7,810	8,483	6,107	6,557
Social security costs	649	572	540	457
Other pension costs	809	850	731	760
	9,268	9,905	7,378	7,774

Employee numbers are calculated on the basis of the average number of colleagues employed at the end of each quarter.

Notes to the financial statements

10. Employees (continued)

Remuneration bandings for all employees earning over £60,000:	2017 Group Number	2016 Group Number	2017 Company Number	2016 Company Number
£140,000 to £150,000	1	1	1	1
£130,000 to £140,000	-	-	-	-
£120,000 to £130,000	-	-	-	-
£110,000 to £120,000	1	1	1	1
£100,000 to £110,000	-	-	-	-
£90,000 to £100,000	1	3	1	3
£80,000 to £90,000	-	-	-	-
£70,000 to £80,000	2	1	2	1
£60,000 to £70,000	2	2	2	2
	7	8	7	8

In addition to the above £75,600 was payable to a third party in relation to management services provided by an Interim Head of Operations within the Property and Assets team.

11. Board Members and Executive Directors

The Directors of the Group are defined as the Chief Executive and any other person who is a member of the Senior Management Team, or its equivalent, of the Registered Provider. There are 3 Executive Directors all of whom accrue benefits under either the SHPS or the WCCPF pension scheme.

	2017 Group £'000	2016 Group £'000	2017 Company £'000	2016 Company £'000
Aggregate Emoluments paid to Non-Executive Directors (Board Members)	58	51	58	51
Aggregate Emoluments paid to Executive Directors	312	409	312	409
Pension payments relating to services as Executive Directors	38	41	38	41
Consideration payable to third parties in relation to Director services provided	11	85	11	85
	419	586	419	586

The emoluments of the highest paid Director, the Chief Executive, excluding pension contributions, were £128,346 (2016: £127,075). The Chief Executive is a member of the Social Housing Pension Scheme. He is an ordinary member of this pension scheme, and no enhanced or special terms apply. The Company did not make any further contribution to an individual pension arrangement for the Chief Executive.

No compensation was payable to past Directors in relation to the period of account in respect of loss of office (2016:£51,938).

Notes to the financial statements

11. Board Members and Executive Directors (continued)

Director	Position	Date appointed	Date resigned	Salaries £'000	Taxable benefits £'000	Pension £'000	**Total 2017 £'000**	Total 2016 £'000
Peter Brown	Chief Executive	29/10/2007		128	-	14	**142**	141
Richard Woolley	Director of Resources	18/08/2008		91	9	13	**113**	112
Christine Duggan	Director of Property & Development	19/06/2015		76	8	11	**95**	73
Paula Kennedy	Managing Director, Herefordshire Housing Limited	02/03/2009	19/06/2015	-	-	-	-	24
Peter Steel	Managing Director, Independence Trust	01/04/2014	31/07/2015	-	-	-	-	100
				295	17	38	350	450

In 2016, the amounts above included total contractual payments of £71,000 made to P Steel as a result of changes to the structure of the Executive Board.

In addition to the above, a further £10,832 was payable to third parties in (2016: £85,066) in relation to Director services provided by Dawn Matthews-Smith, Interim Director of Health and Well Being whose contract ended in May 2016.

Board Member	Date appointed	Date resigned	**2017 £'000**	2016 £'000
Ruth Cooke	28/09/2010	-	9	9
Richard Johnston	28/09/2010	-	5	5
Jon Land	04/06/2013	-	4	4
David Lincoln	28/09/2010	-	5	5
Michael McCarthy	04/06/2013	-	5	5
Rebecca McGuirk	12/05/2015	-	4	3
Michael Parkes	28/09/2010	-	5	5
Paul Rone	27/07/2011	-	4	4
Allison Taylor	28/09/2010	-	5	5
			46	45

Twelve members of the Board of Management, subsidiary Boards and Committees received emoluments tota

Board Member	Date appointed	Date resigned	**2017 £'000**	2016 £'000

Notes to the financial statements

Ruth Cooke	28/09/2010	-	9	9
Richard Johnston	28/09/2010	-	5	5
Jon Land	04/06/2013	-	4	4
David Lincoln	28/09/2010	-	5	5
Michael McCarthy	04/06/2013	-	5	5
Rebecca McGuirk	12/05/2015	-	4	3
Michael Parkes	28/09/2010	-	5	5
Paul Rone	27/07/2011	-	4	4
Allison Taylor	28/09/2010	-	5	5
			46	45

Twelve members of the Board of Management, subsidiary Boards and Committees received emoluments totalling £58,000 (2016: £51,000)

Board Member	Date appointed	Date resigned	2017 £'000	2016 £'000
Ruth Cooke	28/09/2010	-	9	9
Richard Johnston	28/09/2010	-	5	5
Jon Land	04/06/2013	-	4	4
David Lincoln	28/09/2010	-	5	5
Michael McCarthy	04/06/2013	-	5	5
Rebecca McGuirk	12/05/2015	-	4	3
Michael Parkes	28/09/2010	-	5	5
Paul Rone	27/07/2011	-	4	4
Allison Taylor	28/09/2010	-	5	5
			46	45

Notes to the financial statements

12. Tangible fixed assets - Housing Properties

	Housing properties held for letting £000s	Housing properties in the course of construction £000s	Completed shared ownership properties £000s	Shared ownership under construction £000s	Total £000s
Cost					
At 1st April 2016	119,565	7,278	654	375	127,872
Properties acquired	-	8,167	-	1,953	10,120
Works to existing properties	6,053	(113)	-	-	5,940
Interest capitalised	-	170	-	34	204
Schemes completed	6,986	(6,986)	466	(466)	-
Transfer to current assets	(84)	(65)	-	(886)	(1,035)
Disposals – Other	(1,071)	(105)		(22)	(1,198)
At 31st March 2017	131,449	8,346	1,120	988	141,903
Depreciation					
At 1st April 2016	24,099	-	12	-	24,111
In the Year	3,846	105	9	21	3,981
Impairment	-	-	-	-	-
Released on disposal	(835)	(105)	-	(21)	(941)
At 31st March 2017	27,110	-	21	-	27,131
Net Book Value					
At 31st March 2017	104,339	8,346	1,099	988	114,772
At 31st March 2016	95,466	7,278	642	375	103,761

In addition to the £204,000 capitalised interest within Housing Properties a further £9,000 was capitalised in respect of properties for sale held within current assets.

Other disposals includes £886,000 in respect of assets transferred to current assets representing the shared ownership first tranche and £149,000 properties for outright disposal.

Housing properties and offices book value, net of depreciation comprises:

	2017 Group & Company £'000	2016 Group & Company £'000
Freehold land and buildings - housing properties	105,257	95,924
Long leasehold land and buildings	180	184
Offices, Legion Way	4,066	4,188
	109,503	100,296

Notes to the financial statements

12. Tangible fixed assets – Housing Properties (continued)

Expenditure on works to existing properties

	2017 Group & Company £'000	2016 Group & Company £'000
Components capitalised	6,053	6,145
Amounts charged to the income and expenditure account	3,912	4,430
	9,965	**10,575**

Social housing assistance

Total social housing and other capital grants:

	2017 Group & Company £'000	2016 Group & Company £'000
Social Housing Assistance		
Total accumulated grant received or receivable at 31 March	8,877	7,606
Recognised in the Statement of Comprehensive Income	506	412
Recognised in the Statement of Comprehensive Income - Disposal	11	6
Held as deferred income	8,360	7,188
At 31st March	**8,877**	**7,606**

Aggregate amount of finance costs included in the cost of housing properties:

	2017 Group & Company £'000	2016 Group & Company £'000
Aggregate Amount brought forward	830	626
Amount incurred in the year	213	204
At 31st March 2017	**1,043**	**830**

Notes to the financial statements

12. Tangible fixed assets – Housing Properties (continued)

Valuation

JLL Limited has undertaken a valuation of housing properties for the purposes of the bond security, in accordance with the conditions of the Company's funding agreement with the investors. The valuation, calculated on an existing use for social housing basis, was £138.3 million (for 4,230 properties) against the £120 million bond (£90 million drawn as at 31 March 2017).

The last full valuation of all housing properties was undertaken as at 31st March 2016. The valuation, calculated on an existing use for social housing basis, was £177.0 million.

Impairment

Herefordshire Housing assesses at each reporting date whether there is any indication that an asset (housing and non-housing) is impaired.

The following indicators of impairment must, as a minimum, be considered by a social landlord in assessing whether there is an indication that assets are impaired:

a) Contamination not identified as part of a development which results in a material increase in development costs
b) Change in government policy, regulation or legislation which has a material detrimental impact on the development scheme
c) Change in demand for a property
d) Material reduction in the market value of the property
e) Obsolescence of the property eg. Where it is probable that a plan to regenerate existing properties by demolishing them or replacing of components of existing properties will go ahead

HHL does not consider that any such indication exists and therefore it has not undertaken an exercise to estimate the recoverable amount.

Where a property is to be demolished or is unable to be let the net book value of these assets has been compared with the market value on disposal to determine whether impairment is required. In the case of Beattie Avenue Bungalows where plans are being prepared for the regeneration of the scheme and tenant consultation has commenced the land value is deemed to be in excess of the net realisable value and therefore there is no requirement to impair these assets.

In 2016 £113,000 of costs incurred to date on schemes that were no longer expected to be developed were identified and written off as impairment.

Notes to the financial statements

13. Other fixed assets

Group	Offices £'000	Furniture fixtures & fittings £'000	Computers & other equipment £'000	Vehicles, plant & equipment £'000	Total £'000
Cost					
At 1st April 2016	5,486	471	2,754	1,406	10,117
Restatement	6	-	6	-	12
Restated April 2016	5,492	471	2,760	1,406	10,129
Additions	15	13	545	31	604
Disposals	(342)	(92)	(394)	(126)	(954)
At 31st March 2017	5,165	392	2,911	1,311	9,779
Capital Grants					
At 1st April 2016	325	-	6	-	331
Received in year	-	-	-	-	-
Disposals	(325)	-	-	-	(325)
At 31st March 2017	-	-	6	-	6
Accumulated depreciation					
At 1st April 2016	973	340	2,154	1,016	4,483
Restatement	6	-	6	-	12
Restated April 2016	979	340	2,160	1,016	4,495
Charged in year	129	64	390	123	706
Disposals	(9)	(92)	(393)	(118)	(612)
At 31st March 2017	1,099	312	2,157	1,021	4,589
Net Book Value					
At 31st March 2017	4,066	80	748	290	5,184
At 31st March 2016	4,188	131	594	390	5,303

In April 2014, Independence Trust was incorporated into the HHL Group. The historic cost of assets held by the company on acquisition was £92,000 against which £84,000 accumulated depreciation had been charged, with a net book value of assets £8,000. The cost and accumulated depreciation for these assets was incorrectly reported in 2015-16 by £12,000 and have therefore been restated in the current year. There is no impact on the overall net book value.

Disposals in the year relate to assets written off following the closure of a number of offices across the Group following the introduction of mobile working into our services and the rationalisation of offices within Independence Trust. In addition to this a review of the asset register has been undertaken following the completion of the office refurbishment at Legion Way and substantial investment in ICT which has resulted in assets being disposed of.

Notes to the financial statements

13. Other fixed assets (continued)

Company	Offices	Furniture fixtures & fittings	Computers & other equipment	Vehicles, plant & equipment	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1st April 2016	5,415	429	2,707	1,406	9,957
Additions	15	13	535	31	594
Disposals	(325)	(92)	(394)	(126)	(937)
At 31st March 2017	5,105	350	2,848	1,311	9,614
Capital Grants					
At 1st April 2016	325	-	6	-	331
Received in year	-	-	-	-	-
Disposals	(325)	-	-	-	(325)
At 31st March 2017	-	-	6	-	6
Accumulated depreciation					
At 1st April 2016	941	298	2,114	1,016	4,369
Charged in year	108	64	383	123	678
Disposals	-	(92)	(393)	(118)	(603)
At 31st March 2017	1,049	270	2,104	1,021	4,444
Net Book Value					
At 31st March 2017	4,056	80	738	290	5,164
At 31st March 2016	4,149	131	587	390	5,257

Included within the Note 13 are vehicles, plant & equipment held under a finance lease with zero net book value (2016: £128,000) as the lease has expired however the contract has been extended as the vehicles are not being replace until 2018.

Notes to the financial statements

14. Stock and work in progress

	2017 Group 2017	2016 Group 2016	2017 Company 2017	2016 Company 2016
Stock and work in progress	**121**	**114**	**121**	**114**
Schemes developed for shared ownership disposal	935	452	935	452
Properties developed for outright sale	1,143	1,045	1,143	1,045
Property and land awaiting sale	457	-	457	-
Properties held for sale	**2,535**	**1,497**	**2,535**	**1,497**

15. Debtors

	2017 Group £'000	2016 Group £'000	2017 Company £'000	2016 Company £'000
Rent and service charges receivable	374	350	374	350
Less: Provision for bad and doubtful debts	(172)	(167)	(172)	(167)
Net rent arrears	**202**	**183**	**202**	**183**
Other debtors	449	599	332	369
Other grant receivable	-	97	-	97
Amounts owed by subsidiary undertakings	-	-	16,423	15,093
Other taxation and social security	-	8	-	5
Prepayments and accrued income	2,058	1,140	1,978	1,023
	2,507	**1,844**	**18,733**	**16,587**
	2,709	**2,027**	**18,935**	**16,770**

Intercompany debtors within Herefordshire Housing includes £17.0 million in respect of investments undertaken by Herefordshire Capital plc. on behalf of the Company (2016: £14.2 million).

Notes to the financial statements

16. Creditors: amounts falling due within one year

	2017 Group £'000	2016 Group £'000	2017 Company £'000	2016 Company £'000
Debt – finance leases	-	128	-	128
Trade creditors	2,523	3,052	2,153	3,052
Rent and service charges received in advance	622	689	619	687
Other taxation and social security	342	273	367	273
Accruals	1,353	890	788	837
Interest due	1,297	1,221	-	-
Other creditors	19	20	4	1
Deferred grant income	94	86	94	86
Inter-company creditors	-	-	859	1,900
Pension contributions payable	124	104	124	104
Receipts in advance	111	176	111	69
Other capital grants received in advance	43	43	43	43
	6,528	6,682	5,162	7,180

Payments to creditors

The Company aims to pay purchase invoices within 30 days of receipt, or earlier if alternative payment terms have been agreed. Creditor days during the financial year were 34 days (2016: 32 days).

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

	2017 Group £'000	2016 Group £'000	2017 Company £'000	2016 Company £'000
Loans	90,000	85,000	90,000	85,000
Less: issue costs	(823)	(657)	(823)	(657)
Finance Leases	-	-	-	-
Deferred income	14	-	-	-
Deferred grant income	8,266	7,102	8,266	7,102
Deferred bond premium	805	-	-	-
Pension deficit contributions	210	-	210	-
	98,472	91,445	97,653	91,445

Notes to the financial statements

18. Deferred income

	2017 Group £'000	2016 Group £'000	2017 Company £'000	2016 Company £'000
At 1 April 2016	7,188	7,028	7,188	7,028
Grant received in the year	1,271	253	1,271	253
Other income received	14	-	-	-
Disposals	(5)	(6)	(5)	(6)
Released to income in the year	(94)	(87)	(94)	(87)
At 31 March 2017	**8,374**	**7,188**	**8,360**	**7,188**
Amounts to be released within one year	94	86	94	86
Amounts to be released in more than one year	8,280	7,102	8,280	7,102
	8,374	**7,188**	**8,374**	**7,188**

19. Debt analysis

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Due after more than one year:				
Loans	90,000	85,000	90,000	85,000
Total borrowings	90,000	85,000	90,000	85,000

The Group refinanced its funding in November 2014. It has a 35 year bond for £120 million in place of which £35 million was in the form of retained bonds. The bonds have a 35 year maturity, amortising over the last 5 years. During 2016-17 Herefordshire Capital purchased £5 million of the £35 million retained bond.

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

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Five years or more	90,000	85,000	90,000	85,000
Total borrowings	90,000	85,000	90,000	85,000

Notes to the financial statements

19. Debt analysis (continued)

Obligations under finance leases

	31st March 2017 Group & Company £'000	31st March 2016 Group & Company £'000
Due within one year	-	128
Due after more than one year	-	-
Total obligations under finance leases	-	128

20. Reserves

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Balance as at 1 April	24,246	16,095	24,062	15,830
Surplus from Statement of Comprehensive Income	7,601	8,151	7,526	8,232
At 31st March	31,847	24,246	31,588	24,062

21. Financial Commitments

	31st March 2017 Group & Company £'000	31st March 2016 Group & Company £'000
Authorised expenditure not contracted	56,242	15,017
Authorised expenditure contracted	5,094	7,666
	61,336	22,683

The Corporate Strategy has been redefined to focus upon delivering 1,000 new homes over the next 5 years. The long-term financial forecast has been revised to reflect this resulting in a substantial increase in the financial commitments. The expenditure will be financed through £2.7 million grant, £17 million short term investments, £50 million loan financing and £50 million property sales.

Operating lease payments amounting to £19,000 (2016: £21,000) are due within one year. The leases to which these amounts relate expire as follows:

	31st March 2017 Group & Company £'000	31st March 2016 Group & Company £'000
Minimum future operating lease payments	34	44

Notes to the financial statements

22. Provisions for liabilities

The leave pay provision represents holiday balances accrued as a result of services rendered in the current period and which employees are entitled to carry forward. The provision is measured as the salary cost for the period of absence.

The dilapidations provision is the estimated cost of repairs potentially required to leasehold offices for Independence Trust Limited.

Group	SHPS obligation	Leave pay	Dilapidations	Total
	£'000	£'000	£'000	£'000
At 1 April 2016	277	73	9	359
Additions	6	16	6	28
Reversals	5	-	-	5
Utilised	(38)	-	-	(38)
Transferred to creditors	(250)	-	-	(250)
At 31 March 2017	-	89	15	104

Company	SHPS obligation	Leave pay	Dilapidations	Total
	£'000	£'000	£'000	£'000
At 1 April 2016	277	73	-	350
Additions	6	16	-	22
Reversals	5	-	-	5
Utilised	(38)	-	-	(38)
Transferred to creditors	(250)	-	-	(250)
At 31 March 2017	-	89	-	89

In 2016 the provision for liabilities included the SHPS past service deficit payments but for the current financial period this has been reclassified and accounted for within creditors.

Notes to the financial statements

23. Reconciliation of operating surplus to net cash flow from operating activities

	2017 £000s	Restated 2016 £000s
Operating surplus	**12,452**	**11,117**
Depreciation of housing properties	3,981	3,633
Depreciation of other fixed assets	706	655
Impairment	-	113
Carrying amount of tangible fixed assets disposals	1,143	697
Transfer of fixed assets to properties for sale	(1,036)	(1,223)
Movement in debtors	(682)	663
Movement in creditors	184	(70)
Movement in provisions	(255)	48
Pension cost less contributions payable	443	640
Other finance costs	(182)	-
Adjustments for investing or financing activities	6	(10)
Taxation paid in the year not provided for in prior year	(65)	-
Government grants utilised in the year	(94)	(87)
Net cash flow from operating activities	16,601	16,176

The restatement of the position for 2016 reflects the change in reporting of gain on disposal of PPE which is now included within operating activities.

The £981,000 carrying amount of tangible fixed asset disposals has been adjusted to allow for £333,000 overage payments received in the year relating to 2015-16 less £171,000 overage accrued for in the current year.

24. Reconciliation of net cash flow to movement in debt

	2017 £000s	2016 £000s
Increase / (decrease) of cash in the year	1,014	(305)
Cash flow from (decrease) / increase in liquid resources	2,059	1,573
Cash flow from (decrease) / increase in debt	(4,690)	198
Increase / decrease in net debt from cash flows	(1,617)	1,466
Net debt at 1st April	(67,314)	(68,780)
Net debt at 31 March	(68,931)	(67,314)

Notes to the financial statements

25. Analysis of changes in net debt

Group	1st April 2016 £'000	Cashflow £'000	31st March 2017 £'000
Cash at bank and in hand	1,502	1,014	2,516
Overdraft	-	-	-
Cash	1,502	1,014	2,516
Short term investments	15,632	2,059	17,691
	17,134	3,073	20,207
Debt (loans)	(85,000)	(5,000)	(90,000)
Debt (finance leases)	(128)	128	-
Issuance costs	680	182	862
	(67,314)	(1,617)	(68,931)

26. Financial assets and liabilities

Other than short-term debtors, financial assets held are cash deposits at bank or placed on money markets at call or invested in sterling gilts. They attract interest at variable rates and amounts held are shown below:

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Sterling	691	1,453	691	1,453
UK Sterling Gilts	-	5,984	-	-
Money Market Sterling Liquidity Funds	17,000	8,195	-	-
Total financial assets	**17,691**	**15,632**	**691**	**1,453**

Financial liabilities excluding trade creditors

	2017 £'000	2016 £'000
After five years	90,000	85,000
Interest rate basis:		
Fixed	100.0%	100.0%
Floating	-	-

The Group has £30 million of retained bond financing in place which is fully secured.

Notes to the financial statements

27. Financial Instruments

Fair values of Financial Instruments

The fair values of all financial assets and liabilities by class together with their carrying amounts are shown in the balance sheet as follows:

	Carrying Amount £'000	Fair Value £'000
Financial assets		
Other loans and receivables	90,000	107,688
Financial liabilities measured at amortised costs		
Other interest-bearing loans and borrowings	90,000	93,825

The fair value of trade and other receivables is estimated as the present value of future cashflows, discounted at the market rate of interest at the balance sheet date if the effect is material.

The Group has no financial instruments measured at fair value, so fair value hierarchy disclosure requirements do not apply.

All financial assets held by the Group (Loans and Receivables) qualify to be held at amortised cost, therefore the requirement to disclose the effect of changing the inputs in calculation of fair values is not considered applicable.

At 31 March 2017, the fair value of the Group's long term debt was £107.7 million (2016: £93.8 million. The movement in valuation is driven by an increase in notional of £5m and the movement in the gilt curve. The fair value of financial liabilities is estimated as the present value of future cashflows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Financial risk management

Risk Management

The Corporate Finance team is responsible for the management of funds and control associated risks. Its activities are governed by the Group Board who are responsible for treasury issues in all Herefordshire Housing legal entities which include this Company.

Credit Risk

Herefordshire Housing Limited's (HHL) subsidiary, Herefordshire Capital plc. raises capital market financing and the proceeds are immediately on-lent to Herefordshire Housing Limited.

The credit risk is mitigated through a number of factors, including the housing asset security that stands behind the loan to HHL, the overall credit worthiness of the Group, the guarantees that HHL has issued to the Company and the contractual protections in the loan agreement itself.

Herefordshire Capital plc. is currently rated A2 (rating under review for a downgrade) by Moody's.

Notes to the financial statements

27. Financial Instruments (continued)

The aging of trade receivables at the balance sheet was not past due. The full amount is believed to be recoverable.

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group has robust Treasury Management policies in place to ensure there is sufficient liquidity to cover 18 months.

The contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements are in 33 years.

The debt is repayable as follows:

	2017 £'000
Lump Sum Repayments:	
In five years or more	90,000
	90,000

Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their Outstanding Principal Amount in ten equal instalments on the Interest Payment Dates falling on, and including, 28th May, 2045 to, and including, 28th November, 2049 (each an Instalment Redemption Date and the latter being the Maturity Date).

Interest rate risk
The Group currently borrows on a fixed rate basis from the capital market through Herefordshire Capital which then on-lends these funds to Herefordshire Housing Limited on a similar fixed rate basis.
The Group does not have any hedging activities and it does not have any derivatives.
The interest rate on all borrowings is fixed at 4.193% until 2049.

28. Contingent liabilities

As at 31st March 2017 the Company had the following contingent liabilities:

- £1,644,103 estimated potential employer debt should the Company cease to participate in the Social Housing Pension Scheme. The figure is based on the financial position of the Scheme as at 30th September 2016 (2016: £1,202,756). Note 29 provides additional information.

Notes to the financial statements

29. Pensions

All the Company's employees are eligible for membership of the Worcestershire County Council Pension Fund or the Social Housing Pension Scheme (SHPS). Further information on each scheme is given below.

Social Housing Pension Scheme

Herefordshire Housing Limited participates in the scheme, a multi-employer scheme which provides benefits to some 500 non-associated employers. The scheme is a defined benefit scheme in the UK. It is not possible for the company to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore it accounts for the scheme as a defined contribution scheme.

The scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and Technical Actuarial Standards issued by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.

The scheme is classified as a 'last-man standing arrangement'. Therefore the company is potentially liable for other participating employers' obligations if those employers are unable to meet their share of the scheme deficit following withdrawal from the scheme. Participating employers are legally required to meet their share of the scheme deficit on an annuity purchase basis on withdrawal from the scheme.

A full actuarial valuation for the scheme was carried out with an effective date of 30 September 2014. This actuarial valuation was certified on 23 November 2015 and showed assets of £3,123m, liabilities of £4,446m and a deficit of £1,323 million. To eliminate this funding shortfall, the trustees and the participating employers have agreed that additional contributions will be paid, in combination from all employers, to the scheme as follows:

Deficit contributions

Tier 1 From 1 April 2016 to 30 September 2020:	£40.6m per annum (payable monthly and increasing by 4.7% each year on 1st April)
Tier 2 From 1 April 2016 to 30 September 2023:	£28.6m per annum (payable monthly and increasing by 4.7% each year on 1st April)
Tier 3 From 1 April 2016 to 30 September 2026:	£32.7m per annum (payable monthly and increasing by 3.0% each year on 1st April)
Tier 4 From 1 April 2016 to 30 September 2026:	£31.7m per annum (payable monthly and increasing by 3.0% each year on 1st April)

Notes to the financial statements

29. Pensions (continued)

Note that the scheme's previous valuation was carried out with an effective date of 30 September 2011; this valuation was certified on 17 December 2012 and showed assets of £2,062m, liabilities of £3,097m and a deficit of £1,035 million. To eliminate this funding shortfall, payments consisted of the Tier 1, 2 & 3 deficit contributions.

Where the scheme is in deficit and where the company has agreed to a deficit funding arrangement, the company recognises a liability for this obligation. The amount recognised is the net present value of the deficit reduction contributions payable under the agreement that relates to the deficit. The present value is calculated using the discount rate detailed in these disclosures. The unwinding of the discount rate is recognised as a finance cost.

Present value of provisions

	31 March 2017 (£000s)	31 March 2016 (£000s)	31 March 2015 (£000s)
Present value of provision	250	277	246

Reconciliation of opening and closing provisions

	Period Ending 31 March 2017 (£000s)	Period Ending 31 March 2016 (£000s)
Provision at start of period	277	246
Unwinding of the discount factor (interest expense)	5	4
Deficit contribution paid	(38)	(31)
Remeasurements - impact of any change in assumptions	6	(2)
Remeasurements - amendments to the contribution schedule	-	60
Provision at end of period	250	277

Statement of Comprehensive Income Impact

	Period Ending 31 March 2017 (£000s)	Period Ending 31 March 2016 (£000s)
Interest expense	5	4
Remeasurements – impact of any change in assumptions	6	(2)
Remeasurements – amendments to the contribution schedule	-	59
Contributions paid in respect of future service*	81	78
Costs recognised in income and expenditure account	92	139

*includes defined contribution schemes and future service contributions (i.e. excluding any deficit reduction payments) to defined benefit schemes which are treated as defined contribution schemes.

Notes to the financial statements

29. Pensions (continued)

Assumptions

	31 March 2017 % per annum	31 March 2016 % per annum	31 March 2015 % per annum
Rate of discount	1.33	2.06	1.92

The discount rates shown above are the equivalent single discount rates which, when used to discount the future recovery plan contributions due, would give the same results as using a full AA corporate bond yield curve to discount the same recovery plan contributions.

The Company has been notified by the Pensions Trust of the estimated employer debt on withdrawal from the Plan based on the financial position of the scheme as at 30th September 2016. As of this date the estimated employer debt for the Company was £1,644,103 (2016: £1,202,756).

Worcestershire County Council Pension Fund (WCCPF)

The WCCPF is a multi-employer scheme with more than one participating employer, which is administered by Worcestershire County Council under the regulations governing the Local Government Pension Scheme (LGPS), a defined benefit scheme.

Triennial actuarial valuations of the pension scheme are performed by an independent, professionally qualified actuary using the projected unit method. The last actuarial valuation was completed as at 31 March 2016.

The market value of the overall scheme assets at 31st March 2017 was £2,367 million.
The market value of the Company's share of the scheme assets at 31st March 2017 was £23,447,000 (2016: £18,671,000) representing a funding level of 73% (2016: 72%) (based on liabilities valued on actuarial assumptions). Liabilities had a market value of £32,024,000 (2016: £25,775,000).

Employers' contributions to the WCCPF by the Company for the year ended 31st March 2017 were £679,000 (2016: £714,000). The Company's employer's contribution rate was 14.0% during the financial year (2016: 14.0%).

Following the outcome of the valuation, the overall average employer contribution rate will be 15.1% of pensionable pay, plus £36.3 million per annum increasing at 3.7% per annum on the basis that deficits are recovered over 18 years. In the absence of other factors, the contributions at the above level would mean a gradual improvement so that the Fund would have increased to 100% at the end of the 18 years.

In practice, each employer's position is assessed and separate employer contribution rates are set based on individual employer circumstances.

There is no provision for unitising the assets of the WCCPF under the Local Government Pension Scheme Regulations. The above assets as a whole are allocated to participating bodies on a consistent and reasonable basis and overall investment performance is attributed to employers on a pro-rata basis (i.e. a notional individual employer investment strategy that is identical to that adopted for the Scheme as a whole).

Notes to the financial statements

29. Pensions (continued)

Assumptions

The principal assumptions at the balance sheet date are:

	2017 % per annum	2016 % per annum
CPI inflation	2.3	2.0
Future salary increases	3.8	3.5
Future pension increases	2.3	2.0
Discount rate	2.6	3.6

	2017 No. of Years	2016 No. of Years
Post retirement mortality assumptions:		
Current pensioners - Male	22.6	23.5
- Female	25.6	25.9
Future pensioners - Male	24.8	25.8
- Female	27.9	28.2

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

	2017 £'000	2016 £'000
Current service costs	840	1,048
Employer contribution	(679)	(714)
Administration expenses	15	17
Curtailments	14	-
Amounts charged to operating costs	190	351

	2017 £'000	2016 £'000
Interest on pension liabilities	924	844
Expected return on assets	(682)	(617)
Total pension gain charged to other finance income	242	227

Notes to the financial statements

29. Pensions (continued)

Statement of total recognised surpluses and deficits:

	2017 £'000	2016 £'000
Remeasurements (liabilities & assets)	(1,041)	689
Cumulative actuarial loss recognised in reserves	(6,912)	(5,871)

Analysis of the amount recognised in the balance sheet:

Year ended 31 March

	2017 £'000	2016 £'000
Present value of funded benefit obligations	32,024	25,775
Fair value of plan assets	(23,447)	(18,671)
Deficit related to the Company	8,577	7,104
Net liability to the Company	8,577	7,104

Change in benefit obligation during financial year to 31 March

	2017 £'000	2016 £'000
Opening scheme liabilities	25,775	25,591
Current service cost	840	1,048
Interest on pension liabilities	924	844
Member contributions	262	281
Re-measurements – loss: experience	(3,224)	(1,649)
Re-measurements – gain: assumptions	7,973	-
Curtailments	14	-
Benefits paid	(540)	(340)
Present value of benefit obligation at end of the year	32,024	25,775

Notes to the financial statements

29. Pensions (continued)

Change in plan assets during financial year to 31 March

	2017 £'000	2016 £'000
Opening fair value of plan assets	18,671	18,376
Interest on plan assets	682	617
Remeasurements (assets)	3,708	(960)
Administration expenses	(15)	(17)
Employer contributions	679	714
Member contributions	262	281
Benefits/ transfers paid	(540)	(340)
Closing fair value of plan assets	**23,447**	**18,671**

The actual return on the plan assets was £4,841,000 (2016: £343,000).

Analysis of plan assets

The major categories of plan assets as a percentage of total plan assets are:

	2017 %	2016 %
Equities	85.3	84.4
Other bonds	5.4	6.2
Property	4.2	4.6
Cash/Liquidity	2.4	1.1
Other	2.7	3.7

The company expects to contribute £653,000 to its defined benefit pension plan in 2017-18.

History of experience gains and losses (WCCPF)

	2017 £'000	2016 £'000	2015 £'000	2014 £'000	2013 £'000
Defined benefit obligation	(32,024)	(25,775)	(25,591)	(20,175)	(20,394)
Plan assets	23,447	18,671	18,376	15,833	15,460
(Deficit)	**(8,577)**	**(7,104)**	**(7,215)**	**(4,342)**	**(4,934)**
(Losses)/gains on plan liabilities	(4,749)	1,649	(3,900)	1,411	(2,420)
Gains/(losses) on plan assets	3,708	(960)	990	(547)	1,132

Notes to the financial statements

30. Related parties

During the year there was one tenant who served as an ordinary member of the Board, Richard Johnston. His tenancy is on normal terms and he is not able to use his position to his advantage.

There was one councillor on the Board during the year ended 31st March 2017. This was Cllr Paul Rone. He is not able to use his position as an advantage. All the Group's transactions with the council are on a commercial basis.

During the year, the Chief Executive, Director of Resources and other colleagues of Herefordshire Housing resigned from the Board of Money Box Credit Union (MBCU), a local independent charity providing savings accounts and low cost loans to its members. Work was previously undertaken by Herefordshire Housing colleagues on a voluntary basis. During this financial year Herefordshire Housing has made no donations to MBCU (2016: £46,936).

31. Disclosure of Group activity

Herefordshire Housing Limited is the Parent Company of the Group entities. It is a Charitable Company Limited by Guarantee. It is also a Registered Provider of social housing, registered with the Homes and Communities Agency. It is required to produce Group accounts. Its principal activity is the provision of social housing.

The members of the Herefordshire Housing Group are:

Name of undertaking	Nature of Business
Enterprise4 Limited (Formerly Enterprise Herefordshire Limited)	Property maintenance and other non-charitable activities
Independence Trust Limited	Wellbeing, support and care services
Herefordshire Capital Plc.	Treasury and financing services on behalf of Herefordshire Housing Limited
Rise Partnership Developments Limited	Development on behalf of Herefordshire Housing

Subsidiaries are entities over which, either directly or indirectly, the Company has control through the power to govern financial operating policies so as to obtain benefit from their activities.

The Company has invested a £1 share in the wholly owned subsidiary Enterprise 4 Limited, £1 share in the wholly owned subsidiary Rise Partnership Developments Limited and £12,500 £1 shares in Herefordshire Capital Plc.

Notes to the financial statements

31. Disclosure of Group activity (continued)

Intra Group Transactions

Herefordshire Housing Limited provides accounting, IT and management services to other group entities.
Herefordshire Housing Limited recharges Enterprise4 Limited a management recharge of 20% of direct costs.
Herefordshire Housing Limited recharges Independence Trust Limited for the provision of Director Services.
Independence Trust Limited provides Care and Support Services to Herefordshire Housing Limited for which costs are fully recharged.
Herefordshire Capital Plc. recharges its interest and other loan administration costs to Herefordshire Housing Limited.
Rise Partnership Developments Limited provides design and build services to Herefordshire Housing Limited.

In accordance with FRS102, the Group has taken advantage of the exemption from disclosing transactions or balances with entities which form part of the Group.