Believe Housing Limited

Annual Report and Financial Statements
for the year ended 31 March 2020

Co-operative and Community Benefits Society registered number: 8076

Regulator of Social Housing registered number: 5071

Contents

Board Members, Executive Directors, Advisors and Bankers

Registration numbers

Co-operative and Community Benefit Society registration number	8076
Regulator of Social Housing registration number	5071

Registered office

- To 7 April 2020	First Floor, Spectrum 6 Spectrum Business Park Seaham SR7 7TT
- From 7 April 2020	Coast House Spectrum Business Park Seaham SR7 7TT

Board members

The following individuals served as Board Members from 1 April 2019:

Judith Common (Chair)
Douglas Ross (Vice Chair)
David John Boyes
Hazel Dale
Gurpreet Singh Jagpal
John Marshall (appointed 17 September 2019)
Beverley Ann Tindale
Kevin Joseph Shaw
Kevan Joseph Wales

The following individuals served as Executive Board members from 1 April 2019:

Bill Fullen
Alan Smith

Chief Executive	Bill Fullen
Executive Directors	Alan Smith, Executive Director of Investment, Growth and Performance Nicola Turner, Executive Director of Communities and Customer Services (from 24 June 2019)
Secretary	Andrew Traynor (up to 17 April 2020) Andrew Coates (Acting Secretary from 25 March 2020)

Board Members, Executive Directors, Advisors and Bankers (continued)

Solicitors	Trowers & Hamlins LLP 3 Bunhill Row London EC1Y 8YZ
Bankers	Lloyds Bank Grey Street Branch 4th Floor 102 Grey Street Newcastle upon Tyne NE1 6AG
Independent auditors	Grant Thornton UK LLP Registered Auditors and Chartered Accountants No1 Whitehall Riverside Leeds LS1 4BN

Report of the Board

The Board of Believe Housing Limited are pleased to present the Annual Report and Financial Statements for the year ended 31 March 2020.

Strategic Report

Corporate structure and business model

Believe Housing Limited ('believe housing / the Association') is a charitable Co-operative and Community Benefit Society and was registered with the Financial Conduct Authority ('FCA') on the 1 April 2019. Following a statutory amalgamation process under section 109 of the Co-operative and Community Benefits Society Act 2014. County Durham Housing Group Limited, East Durham Homes Limited, Dale & Valley Homes Limited and Durham City Homes Limited were amalgamated to form believe housing.

Under this process all property of the combining entities automatically vested into believe housing without any need for conveyance, novation or assignment. All business activities of County Durham Housing Group Limited, East Durham Homes Limited, Dale & Valley Homes Limited and Durham City Homes Limited have been carried out by believe housing from 1 April 2019.

All assets, liabilities and contractual arrangements were automatically vested with believe housing on 1 April 2019. The comparative information set out in these financial statements represents the consolidated information reported in the County Durham Housing Group Limited statutory accounts for the year ending 31 March 2019.

Believe housing is a registered provider of social housing and is regulated by the Regulator of Social Housing ('the Regulator'). The Association meets the definition of public benefit entities as set out in Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ('FRS 102') and the Housing Statement of Recommended Practice 2018 ('SORP').

At the 31 March 2020, believe housing owned and managed 18,076 homes (2019: 17,994) which represents around 40% of all social housing stock in the County Durham area with a turnover of £66.111m (2019: £66.563m) and a total tangible fixed asset base of £232.056m (2019: £182.371m).

Objectives and strategy

We operate over a large geographical area, stretching from the remote rural Pennine area of outstanding natural beauty in the west of the county, through Durham City and out to the more densely populated heritage coastline in the east.

Our corporate plan sets out our vision and values as follows:

We believe in life without barriers
If everyone expects more they can achieve more and we can transform lives together. It is this power of 'more' that will let people realise what is possible – change perceptions, raise aspirations and create inclusive, vibrant communities.

At believe housing we agree that our core values are simple. We all agree to:

Do the right thing:

For our people

For our customers

For our business

These values are supported by a behavioural framework to embed the values across the business.

Our Objectives

Our Corporate Plan 2019 – 2022 was approved by the Board on the 27 March 2019 and set out the following objectives linked to our corporate pillars of Customer, People, Business:

- Improving the customer experience to be reliable, consistent and provide quality;
- Being an innovative and creative organisation, don't stand still;
- Creating thriving places and homes people want to live in;

- Building our relationship with our customers;
- Being a sound, secure organisation ready to take opportunities;
- Collaborating with others and sharing our success;
- Investing in and celebrating our people; and
- Protecting and respecting our environment.

These strategic objectives are underpinned by a detailed action plan, setting out actions and the performance measures and targets in place to determine if we are achieving our objectives.

What does value for money mean to us

Value for money and optimising our resources is part of our Corporate Plan and embedded into all policies and procedures, so it remains at the forefront of key decisions and forms an integral part of how we work.

Our approach to value for money is supported by our Added Value Framework which was approved by the Board in April 2019. To further embed value for money into our performance management, the Performance Management Framework and the Added Value Framework were combined into one framework. This new Performance Management and Added Value Framework was approved by the Board in May 2020.

The Board is updated throughout the year on value for money actions and achievements through the quarterly performance report, which includes a mid-year Corporate Plan update, and an annual report.

Following the successful completion of the Regroup transformation programme in 2017/18, our focus has been to build on this foundation and streamline our governance arrangements, structures, IT systems and processes. The achievement of annual recurring cost savings of £4m over a three-year period to March 2018, has provided a lower operating cost base to allow for investment in our corporate priorities. The statutory amalgamation to combine the four legacy organisations and create believe housing was the final step to align the corporate structure with the operational structures and the way in which services were managed and delivered.

The following key areas were identified as priorities for 2019/20:

- Digital investment - during 2019/20 there has been a focus on how to improve our digital offering to both customers and staff to achieve a target of 80% of customer led transactions being self-service by 2022. Direct costs of investment in the year totalled £0.327m. A key project in 2019/20 has been the development of the Tenant App which was released in May 2019 and a Smarter Homes pilot.

- Agile working and accommodation – investment in our new office accommodation has been a driver to implementing ‘working the believe way’, agile working to improve process efficiency, service delivery and customer experience and the wellbeing of staff. This meant ensuring that all teams had the necessary equipment and training to be able to work in a more flexible way. This has proven to be a timely investment during the Covid-19 pandemic which has resulted in closure of our offices and all teams working from home if they are able to do so. Our new office accommodation project is explained further at page 26.

- Repairs and maintenance – delivery of all repairs and maintenance services through the internal Property Repairs team following the insourcing of the contract for the East area on 1 July 2019. Following the successful completion of the insourcing project, which resulted in 76 people transferring across to believe housing, the focus has been on implementing a single Repairs Policy across the organisation and setting up a new team structure. The Property Repairs project continues to be a key priority and part of the Corporate Plan projects for 2020/21.

- Place based plans and development - we have invested in Hometrack to enhance our knowledge of the local market and enable data led decisions to be made. A research study for Brandon and Seaham has been completed to identify localised demand, socio-economic factors and any regeneration or growth opportunities. Work has continued to progress on the longer-term Development Strategy and the funding capacity of the organisation to deliver longer term development ambitions. This will continue into 2020/21 as part of the Homes for 2050 Corporate Plan project.

- Pensions - during 2019/20 work has progressed on developing our pension offering to provide our staff with greater flexibility and choice alongside our existing pension arrangements.

- Restructuring of the senior management team - in December 2018 the Board approved a new senior management structure investing in a strong framework to manage the organisation and plan for the future. During 2019/20 the new senior management structure was appointed to, establishing a more resilient and robust structure which has strengthened the leadership capacity and capability across the organisation.

- Customer experience - we have completed a number of customer journey mapping exercises to understand the customer experience when accessing different service areas across the business. This has led to the creation of a New Customer Corporate Plan project for 2020/21 to pilot different ways of working with our new customers, incorporating any learnings from the Covid-19 crisis into our pilot.

- Developing our culture and our brand - completion of the culture audit in December 2019 has provided us with a clear action plan to establish a culture of innovation across the innovation. Culture catalysts have been identified from teams across the organisation to help drive our cultural and behavioural change.

- The green agenda - developing our green plan has been a key priority in 2019/20 and has links into other projects, including the new office accommodation project and working in an agile way. We have obtained energy performance data for our housing properties to enable us to make informed investment decisions for our housing stock. The Green Plan has been identified as a Corporate Plan project for 2020/21.

In addition to these priorities there has been a focus on maintaining a consistent level of service to customers and incorporating value for money considerations into day-to-day operations and thinking, rather than being an ‘add-on’ considered in isolation.

Achievement of value for money is also incorporated into staff objectives and development plans, confirming that it is the responsibility of everyone, not just senior staff and executives. An added value league has been used for teams to submit their added value achievements for the year and we will share details of the entries across the organisation to promote learning in the coming months to provide all teams with details of the key achievements in the year.

Linking our strategic objectives and performance metrics

The delivery of our strategic objectives is monitored by the Senior Leadership Team, comprising of the Executive Management Team and Directors. The corporate performance scorecard metrics are compared to targets set and discussed with the Senior Leadership Team before being reported through the quarterly performance reports to the Performance and Standards Committee and the Board.

Historic performance is reviewed as well as comparing performance with our peers to help identify trends in performance and drive development of our services. Benchmarking of performance is done through Housemark to understand how our service areas compared to other organisations of a similar size and scope. The peer group used for benchmarking performance has been agreed with Housemark, taking into consideration a variety of factors such as stock size, region, organisation type and services provided.

The criteria typically used is Housing Associations throughout England (excluding London), with a stock size of between 10,000 – 20,000. However, we can also use different groups or tailor who we compare ourselves to depending on the service area we are reviewing.

The trend in performance is also monitored to identify key changes year on year.

Performance indicators are developed based on the Corporate Plan objectives to allow the Board to measure achievement of our objectives and are based on the following principles:

- They reflect the objectives set out in the Corporate Plan.
- Provide insight into the quality of service provision and outcomes for customers, communities and the business.
- They ensure the health of the business is being monitored.
- Inform the scrutiny of services with the Values Group[1] and formulation of recommendations to Board.

We regularly review our Corporate Scorecard in line with our Corporate Plan and associated activities to make sure that our measures are relevant, whilst also ensuring that we retain some indicators year on year to ensure there is some consistency and we can track performance over longer time periods.

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[1] The Values Group reports to the Performance and Standards Committee and is made up of tenants / leaseholders. It has responsibility for customer insight, service or scrutiny reviews and ensuring assurance over health and safety.

The value for money metrics are monitored and reported each quarter to the Performance and Standards Committee and the Board through the management accounts and the performance report.

Our performance metrics 2019/20

The following performance indicators have been monitored during 2019/20 to assess our performance against the corporate objectives set out in our Corporate Plan 2019 – 2022.

A target has been set for 2019/20 based on the longer-term target set out by the Corporate Plan to be achieved by the end of 2022.

Where possible the historic performance indicator is also included in the table below, however this is not possible for all of the indicators as not all of this information has been collected previously.

Objectives and Supporting Indicators	Target 2019/20	Actual 2019/20	Actual 2018/19	Actual 2017/18
Improving the customer experience to be reliable, consistent and provide quality				
Proportion of customer led self-serve transactions	38%	**39.79%**	n/a	n/a
Average number of contacts made by customers to resolve an issue with repairs	1	**1.36**	n/a	n/a
Net promotor score – overall	49%	**48.5%**	48.5%	54.6%
Net promotor score – repairs	49%	**49.8%**	n/a	n/a
Overall customer satisfaction score	86%	**86%**	85.6%	86.3%
Customer satisfaction with repairs	8.6	**8.7**	7.8	n/a
Average time taken to complete a routine repair	12 days	**12 days**	15 days	n/a
Percentage of repairs right first time (new)	90.0%	**79.0%**	70.3%	n/a
Percentage of self-appointed repairs	10.0%	**n/a**	n/a	n/a
Being an innovative and creative organisation, don't stand still				
Suggestions made by employees through our innovation scheme	No target	**18**	33	n/a
Creating thriving places and homes people want to live in				
Number of new homes contractually committed	681	**333**	n/a	n/a

Objectives and Supporting Indicators	Target 2019/20	Actual 2019/20	Actual 2018/19	Actual 2017/18
Number of new homes delivered since transfer	313	**348**[2]	81	54
Building our relationship with customers				
Number of evictions for rent arrears	0	**55**	60	31
Expected social value from approved community projects	No target	**£622,028**	n/a	n/a
Actual social value from completed projects	No target	**£2,088,698**	n/a	n/a
Being a sound and secure business ready to take opportunities				
Rent collection	98.08%	**98.81%**	98.08%	99.59%
% of people on direct debits	36.0%	**37.41%**	n/a	n/a
Investing in and celebrating our people				
Average days sickness per employee	3 days total	**4.96 days short term 4.10 days long term**	3.45 days short term 3.58 days long term	6.71 days (no split between short term and long term)
Number of staff involved in volunteering	No target	**40**	n/a	n/a
Protecting and respecting our planet				
Baseline measures of mileage (claimed business miles)	791k miles	**375,870**	879,509	n/a

The performance indicators set out in the table below are based on information taken from our housing management system, HR system and the HACT[3] Value Insight system. These figures are not derived from the financial statements as they are reported based on the performance period end (week 53 of the year) rather than the financial year end.

There are no specific performance indicators for the objective 'collaborating with others and sharing our success' as the objective focusses on us working more closely with other organisations and businesses and contributing to the wider debate on national policy. The following paragraphs explain further our performance for the year.

[2] Completed in total since transfer

[3] Housing Association's Charitable Trust

Improving the customer experience

There has been significant progress against this objective in the current year and the performance metrics in the table above set out how we have monitored and measured this progress during the year. The following points are highlighted:

- Our net promoter score for 2019/20 was 48.5% which was lower than the target figure of 49%. This score was achieved in spite of significant changes in the repairs service during the course of the year with the insourcing of the Mears contract for the East area and therefore, whilst it is lower than the target set, it is still considered to be a positive outcome for the year. The believe customer experience projects for 2020/21 are underpinned by detailed action plans which will have the outcome of improving the customer experience and net promoter performance indicators. The progress of these projects will be monitored throughout 2020/21. In addition, the Values Group have been commissioned to carry out a satisfaction review for a specific customer group which was identified as having the lowest satisfaction levels as part of the 2019/20 survey. This work will be carried out in the first half of 2020/21 and findings and proposed actions will be reported back to the Performance and Standards Committee.

- By the end of the year the proportion of customer led self-serve transactions was 39.79% with 45.7% of transactions taking place digitally, meeting the target set for this year. We recognise that in order to meet the 80% target by 2022, we will need to use the full launch of the app and other means to make substantial shifts in how people routinely access our services. We are currently looking at opportunities arising from the Covid-19 crisis to understand changes in customer behaviour and how we can build on the progress we have had to make to ensure customers can continue to access services during this period.

- Our new customer app is a key tool for us to be able to increase the proportion of customer led transactions to being self-service with a stretching target set for the end of the Corporate Plan of 80%. The launch of i-appoint during the year meant that customers for the first time could make appointments for repairs. Registrations with our new customer app increased during the year with 2,732 people registered at the end of March 2020. We paused our planned full launch of the app at the end of the year due to Covid-19, resulting in a reduction in our services to customers. This meant that i-appoint was removed as an option on the app following the move to essential repairs services as a result of Covid-19 and therefore at the end of the year this performance indicator is reported as ‘n/a’ as this functionality was not available. In the meantime, we continue to use opportunities to raise awareness of our digital offering with customers and encourage sign up to the app.

- Our performance scorecard focusses on the property repairs service delivered to customers as this is the most common service accessed by customers. The following key points are highlighted:

    - Following the insourcing of the repairs contract in the East area from 1 July 2019, all property repairs services are now delivered by our internal team. This has enabled us to focus on consolidating and streamlining the repairs service, with a new Repairs Policy in place from January 2020 which established a consistent approach to repairs for the business.

- The average number of contacts to resolve repairs issues increased slightly in the final quarter of the year to produce an overall value of 1.36 for the year which was higher than the target of 1. Customer satisfaction feedback suggests that almost a third of customers had a repair completed but had to contact us again as they still had the same problem. These repairs have been investigated and we will continue to monitor recalled jobs. We have also introduced a new quality framework which consists of work in progress and post inspections on a % of repairs to ensure our works are completed to a high standard. This metric is linked to the proportion of repairs right first time which is commented on below.

- Whilst the average figure for the proportion of repairs right first time was 79% it has increased during the course of the year, moving from 73% in quarter one to 84.2% by quarter four. However, this metric is lower than the annual target of 90% and is an area of focus for us. The new schedule of rates has had a positive impact on this metric, however, there is some further work ongoing around correct diagnosis of repairs and the availability of materials to ensure the repairs are completed first time. The Property Repairs project has a detailed action plan with performance indicators incorporated into the 2020/21 Performance Scorecard to monitor the progress of these plans and will be a key focus for the forthcoming financial year.

- Customer satisfaction with the repairs service was 8.7 for the year which is a significant improvement on 7.8 since 2018/19 and exceeds the annual target set at 8.6. This an area for close scrutiny as we emerge from the Covid-19 lockdown period in 2020/21.

- The net promotor score within repairs is a new performance metric that we started to collate in 2019/20. At the end of the year the net promotor score was 49.8% which exceeds the annual target of 49%.

- The average days taken to complete a repair reduced during the course of the year, starting at 14 days in quarter one to 10 days in quarter four to achieve the annual target of 12 days. Work has been ongoing since Autumn 2019 to reduce average days for repairs in particular, introducing performance targets and measures for the team and operatives to improve productivity, specific emphasis on reducing time for the next available appointment in diaries and monitoring follow on appointments. January 2020 saw the introduction of the repairs policy which created the ‘next convenient’ appointment and new repairs timescales.

Innovative and creative organisation

We have taken a number of steps towards developing our culture to help us be creative and innovative and achieve our ambitions. The following highlights set out our progress in this area:

- Following our first culture audit, we have been using the results to start shaping the believe culture. We have updated our culture wheel for 2020/21 and this has informed our first behaviours framework which will underpin how we attract, recruit, retain and performance manage within our business going forward.

- We identified a group of change catalysts within the business to support our culture activity and support colleagues and have delivered a series of training events for the senior leadership team and change catalysts on storytelling, communication and leading change to support the next stages of the culture project.

- We have partnered with an organisation to provide a people platform that will allow us to measure performance of our people and our business against milestones set from the corporate plan. This will be developed and gradually rolled out during 2020/21.

- We used the Think Differently campaign to encourage new ideas and suggestions and this has led to some different ideas being trialled.

Create thriving places and homes people want to live in

- Of the total 700 new homes approved by the Board as part of the 2019 Business Plan, 348 units have been completed, with a further 333 committed to and either in progress or in the pipeline at the end of the year.

- We have started the development of masterplans for key areas, starting with Brandon to create a full oversight of these areas and use this to shape our approach to investment, development, management and community investment.

Building our relationship with customers

During the year our work to develop our relationship with customers and communities has continued with the following points to highlight:

- The social value generated this year from live projects stands at £2,088,698 which has been achieved through 18 projects across our communities with 1,756 people benefitting. We have invested in a wide range of projects from providing food packs to tackle holiday hunger to a craft café to tackle social isolation.

- At the end of the year, 4.55% of starter tenancies had ended within 12 months, equating to 57 tenancies. This is an improvement on this metric compared to prior year and reflects the work that has taken place during the year to review and carry out customer journey mapping on the support and engagement with new tenants and rent collection.

- There were a total of 55 evictions for rent arrears across the year compared to 60 during 2018/19. Whilst the reduction in the number of evictions is positive our aim is to minimise evictions with an initial performance target of zero proposed to the Board. The Board have requested that a specific target is set to reduce this figure further as part of working towards a longer-term lower target figure. This target has not yet been determined as we need to understand the full impact of Covid-19 on our rent collection processes before it is set. A target will be established in 2020/21 for the Board's approval.

- The Values Group have undertaken a review of the complaints process in the year and reported their findings to the Performance and Standards Committee in March 2020. These findings have informed a review of the complaints policy and have helped shape a new one-page flyer to clearly outline our complaints process.

Being a sound and secure business ready to take opportunities

Rental income makes up over 95% of our total income, therefore rent collection is a key performance metric to ensure we continue to be a financially robust and effective organisation which is able to support our Corporate Plan ambitions. The following points are highlighted in relation to this objective:

- Rent collection for the year was 98.81% exceeding our target (and prior year performance) of 98.08% with arrears £0.161m lower at the end of week 52 compared to the same point in 2018/19. This improvement has been achieved against a background of a reducing housing benefit and increasing numbers of tenants in receipt of Universal Credit.

- The rent recovery process is constantly being reviewed to ensure resources are allocated to the correct priorities. This has had a positive impact in 2019/20 and in particular has resulted in a reduction in the number of tenants with arrears of £1,000 or more.

Invest in and celebrate our people

Empowered and motivated employees are key to delivering a great service and continues to be a Corporate Plan priority. The following points are highlighted:

- The average days sickness has increased compared to last year at 9.06 days compared to 7.03 days in 2018/19. This was also higher than the target set of 3 days which was recognised by management and the Board as a challenging target. Whilst we still remain lower than the median for our peer group, which was 9.37, this is an area that is being kept under close scrutiny. We are now monitoring absence on a weekly basis to understand our absence levels as a result of Covid-19 as well as tracking any changes to sickness levels overall as a result of our different working environment. We recognise that may be an unrealistic target and therefore the Board have requested that management review this target for 2020/21.

- We have launched a campaign for both physical and mental health awareness with the provision of links to on-line exercise classes and sign posting to mental health support provision. We will continue to monitor our absence levels to see whether these activities have a positive impact on this.

- We have developed an equality @ believe three-year strategy ‘our three-year plan to make a difference’ to set the direction and a focussed 100-day plan of what we will aim to achieve to be a fully inclusive and diverse employer.

- During the year we had 40 people undertaking volunteering in a range of roles with some of these employees using the days gifted by the organisation to be able to do this. At the end of March, we carried out a survey of employees to find out how many of employees were either already volunteering in relation to Covid-19 or would be willing to do so. This showed that seven employees had signed up to the NHS Goodsam scheme, 16 were volunteering through local community initiatives and 78 people would be willing to volunteer. Our strategic project on corporate social responsibility will help us to build on this during 2020/21.

Collaborating with others and recognising our success

We have continued to look for opportunities to share our successes and gain external recognition for our work and the following points are highlighted for 2019/20:

- In November, our new build programme won in the Housing Category at the Guardian Public Service Awards.
- The Auckland Games, a project we funded to help tackle anti-social behaviour, won at the Durham Constabulary awards recognising the positive impact on the area the project had.
- We have successfully gained accreditation through the Domestic Abuse Housing Alliance accreditation scheme which provides a benchmark for how housing providers should respond to domestic abuse.
- In February we were shortlisted for the Heart of the Community Awards at the North East Business Awards Event. This was based on the work going on across the business embedding social responsibility throughout every part of our activities.
- Our employees and the Chair of the Board attend a number of regional benchmarking and partnership groups to share skills and expertise and look for opportunities for collaborative working. These roles have also resulted in our staff speaking at conferences and seminars to share good practice.

Respecting and protecting our planet

We have continued to develop our approach on the green agenda in 2019/20 with the following key highlights:

- We have achieved Silver in the SHIFT[4] Environmental Accreditation based on our performance against 21 environmental indicators.
- At the end of this year 375,870 business miles were claimed compared to 879,509 in 2018/19, a 57% reduction. Whilst for the last two weeks of 2019/20 our workforce were predominantly working from home due to Covid-19, this reduction is mainly linked to the focus in the last 12 months on working flexibly. This approach to how we work, combined with the introduction of technologies to support remote working has significantly reduced the need for people to travel for work purposes.

Value for Money Metrics

In April 2018 the Regulator issued the value for money metrics and the new Value for Money Standard and Code of Practice. Our performance for each of the value for money metrics has been set out alongside a comparison against a bespoke peer group based on providers matching our key defining characteristics of size, location and activities. Specifically, our peer group contains providers who:

- Own between 10,000 and 20,000 social housing units (believe housing = 18,076);

[4] SHIFT is the sustainability standard for the housing sector

- Operate primarily in regions with an Annual Survey of Hours and Earnings (ASHE) regional wage index of 0.92 or below (believe housing = 0.90);
- Are large scale voluntary transfer (LSVT) organisations, with no limit on the length of time since the transfer occurred (believe housing = 5 years ago);
- Have less than 7.5% of their social housing stock designated as housing for older people (believe housing = 0%); and
- Have less than 1.0% of their social housing stock designated as supported housing (believe housing = 0%).

This has given us a bespoke peer group containing the following registered providers: Rochdale Boroughwide Housing, First Choice Homes Oldham, One Manchester, Beyond Housing, Knowsley Housing Trust and Wythenshawe Community Housing Group. The comparison looks at our target and actual performance data for 2019/20 and our actual performance data for 2018/19, 2017/18 and 2016/17 alongside the peer group data for 2018/19, which is the most current data publicly available.

The following metrics have been calculated based on the Annual Accounts ('FVA') return that is submitted to the Regulator.

	believe housing					***Peer Group***
Value for Money Metric	**Target 2019/20**	**Actual 2019/20**	**Actual 2018/19**	**Actual 2017/18**	**Actual 2016/17**	***Actual 2018/19***
Reinvestment	23.04%	23.27%	14.41%	13.68%	12.01%	*7.60%*
We have exceeded our reinvestment target for the year and for the fourth consecutive year we have increased our reinvestment metric. This has been driven by our continued commitment to investing in improvements to our existing properties and also in delivering the new homes our communities need. We have seen the largest annual increase in this metric between 2018/19 and 2019/20, and this has primarily been as a result of the investment we have made in our existing properties and new build developments and acquisitions. Total investment in 2019/20 was £53.262m compared to £26.245m in 2018/19. As in previous years, our reinvestment metric continues to be higher than the median of our peer group and this reflects the prominence that investment, both in new and existing homes, takes in our corporate plan.						
New supply delivered - non-social housing units	0%	0%	0%	0%	0%	*0%*
We have no current plans to develop non-social housing units, which is consistent with our core strategic aims that focus on the provision and development of social housing units.						

	believe housing					***Peer Group***
Value for Money Metric	**Target 2019/20**	**Actual 2019/20**	**Actual 2018/19**	**Actual 2017/18**	**Actual 2016/17**	***Actual 2018/19***
New supply delivered - social housing units	0.76%	1.17%	0.45%	0.20%	0.10%	*0.42%*
As noted above, we have exceeded our target for the year and increased our investment in building and acquiring new homes by more than three-fold from 2018/19 to 2019/20. Correspondingly, we have seen our new supply delivered metric also increase for the fourth year in a row, more than doubling from 0.45% in 2018/19 to 1.17% in 2019/20. 2019/20 has marked a step-change in the momentum of our new build development plan, with a total of 213 properties completed during the year. Since 2015, we have now delivered a total of 348 new homes, with funding in our latest 30-year business plan for a further 417 homes over the next two years. Our new supply delivered metric is higher than our peer group median, demonstrating our focus on developing new homes that meet the needs of our customers. It also shows the scale of our ambition; to leverage the resources we have at our disposal to maximise the delivery of the right homes in the right areas for the greatest benefit to our communities.						
Gearing	46.89%	47.78%	45.31%	51.85%	67.74%	*41.46%*
Our gearing ratio has increased by around 2.5 percentage points in 2019/20 and is higher than our target for 2019/20 and our gearing in 2018/19. This increase is the result of an increase in our net debt position arising from a significant reduction in our cash balance (around 85% lower at 31 March 2020) rather than any additional borrowing being taken out. While our fixed asset base has also increased by around 25% during 2019/20, the increase in our net debt position, at 32.5%, is proportionally larger and so has the overall effect of increasing our gearing ratio. The utilisation of a large part of our cash reserves was intentionally built into our financial forecasts and business planning as we funded key investments across the organisation, in particular our new build development programme. The achievement of over £4m worth of efficiency savings through the Regroup programme of 2015-18 allowed us to build up our cash reserves for future investment, and it is during 2019/20 that we have really seen this investment take shape. Our gearing ratio is higher than the median of our closest peers and will continue to be so while we focus our efforts on investing sustainably in the long-term future of our business. We feel that utilising our available funding and cash reserves to make this investment is the right thing to do and accept that, as a result, we will have a higher gearing ratio than some of our peers.						
Headline social housing cost per unit	£3,899	£3,308	£3,214	£2,921	£3,121	*£3,431*
Our headline social housing cost per unit for 2019/20 is lower than target reflecting the overall performance against budget where in general there has been an underspend compared to budgeted costs. Our operating costs have increased by only around 2% overall in 2019/20 compared to 2018/19. This reflects the balance we are aiming for between continued investment in the key corporate projects for our business and strong budgetary control that provides the stable foundations for sustainable growth. Our headline social housing cost per unit for 2019/20 is commented on further in the How our costs compare to others section on pages 22 through to 24.						

	believe housing					***Peer Group***
Value for Money Metric	**Target 2019/20**	**Actual 2019/20**	**Actual 2018/19**	**Actual 2017/18**	**Actual 2016/17**	***Actual 2018/19***
EBITDA MRI[5]/Interest cover	-104.6%	100%	107%	244%	184%	*185%*

Our EBITDA MRI interest cover ratio has reduced again during 2019/20, from 107% to 100%, however it much higher than our target which was a negative percentage of 104.6%.

Our target reflected the impact of initial investment in our corporate priorities in year one of our Business Plan and did not reflect the longer-term benefits and savings associated with these priorities.

The reduction in our EBITDA MRI compared to 2018/19 is primarily as a result of our operating surplus falling by around £2.7m (12%) since the prior year. The majority of this reduction can be attributed to a fall in the gain we made on the sale of fixed assets, which reduced by close to £1.7m (34%) in 2019/20, due to a decline in the number of Right to Buy and Right to Acquire property sales that completed during the year.

However, even when allowing for the smaller gain on sale of fixed assets, our underlying operating surplus still fell by £1.05m (6%) in 2019/20. This fall is made up of a decrease of around £0.45m in our turnover for the year, which primarily represents the impact of the final year of the Government's 1% social rent reduction on our income, and an increase in our operating expenditure of close to £0.6m.

The increase in operating expenditure covers a number of areas of inflationary price increases, as well as a staff pay award of 2% made during the year.

Our EBITDA MRI interest cover is 100% in 2019/20 and our business planning suggests that it will increase over the next two years and continue to grow from 2022/23 onwards. The past couple of years have seen us make sustained investment in our business operations at a time when our primary income stream has been reducing by 1% per year. This has inevitably led to us generating a reduced operating surplus and, consequently, having a reduced EBITDA MRI interest cover.

Our EBITDA MRI interest cover metric is some way below the median of our peer group, which is 185%. The main reason for this is the significant difference between our level of capitalised major repairs expenditure and that of the majority of our peer group. The median level of capitalised major repairs within our peer group is around £7.3m for 2018/19. At £16.4m, our expenditure figure is more than £1.8m higher than even the next closest organisation in our peer group. In part this is because our status as a more recent stock transfer organisation means that our properties require more investment that those of organisations that have been established for longer (and so have already completed the type of works we are currently undertaking).

Our capital investment programme is driven by the stock condition information we hold on our properties and surveys completed on these properties. We will continue to make investment in improvement works for as long as our homes require us to do so.

Our long-term business plan reflects the information from a stock condition survey completed in December 2019 by an external third party who have estimated the long term investment needs of our housing stock.

[5] Earnings Before Interest, Tax, Depreciation and Amortisation with Major Repairs Included

<table>
<tr><th></th><th colspan="5">believe housing</th><th>Peer Group</th></tr>
<tr><th>Value for Money Metric</th><th>Target 2019/20</th><th>Actual 2019/20</th><th>Actual 2018/19</th><th>Actual 2017/18</th><th>Actual 2016/17</th><th>Actual 2018/19</th></tr>
<tr><td>Operating margin - social housing lettings</td><td>25.52%</td><td>25.15%</td><td>26.20%</td><td>40.20%</td><td>34.24%</td><td>20.13%</td></tr>
<tr><td colspan="7">Our operating margin on social housing lettings (SHL) was slightly lower than the target set out in our Business Plan and equating to around £0.35m difference between the reported operating surplus and the target set out in the Business Plan. There is a key difference in the deprecation charge which is lower in the Business Plan than the financial statements. This is due to the method of calculation in the Business Plan which is not as detailed as the financial statements. The impact of this offsets the impact of underspends in other areas of our cost base and hence impacts on the social housing lettings operating margin.

Our SHL has fallen slightly from 2018/19 and continues the trend of a reduced margin for a second year. However, an operating surplus of over 25% still represents a strong financial performance and provides us with funds that we can invest in our business in future years.

As discussed above, the primary reasons for the reduction in our SHL operating surplus in 2019/20 has been a £0.45m reduction in our income and a concurrent £0.55m increase in our operating expenditure on social housing. The former is as a result of the impact of the final year of the Government’s 1% cut to social housing rents, whilst the latter is due to a mix of external inflationary pressure on non-pay expenditure and a 2% pay award made to our staff during the year that has also increased our pay costs.

A SHL operating margin of over 25% means that our performance is above the median of our peer group, which stands at just over 20%. As in previous years, it is, in part, our comparatively low depreciation charge that helps to keep our operating surplus higher than that of many of our peers.</td></tr>
<tr><td>Operating margin - overall</td><td>24.77%</td><td>24.68%</td><td>26.08%</td><td>41.11%</td><td>34.69%</td><td>19.70%</td></tr>
<tr><td colspan="7">Our overall operating margin is slightly below our social housing lettings operating margin and lower than the target set for the year. As noted above this is mainly due to the impact of the depreciation charge which offsets the impact of underspends in other areas of our cost base and hence impacts on the overall operating margin.

Our overall operating margin has also fallen in comparison to 2018/19. This is because our activities outside of social housing lettings, such as investment in community initiatives, often result in us incurring expenditure without generating a corresponding income. However, the scale of our non-social housing activities is limited and so the impact of these activities on our overall operating margin is small.

Our overall margin has fallen from 2018/19 to 2019/20 and this is due to the reduction in the underlying margin on SHL, as well as an increase some areas of non-social housing expenditure.</td></tr>
</table>

	believe housing					*Peer Group*
Value for Money Metric	**Target 2019/20**	**Actual 2019/20**	**Actual 2018/19**	**Actual 2017/18**	**Actual 2016/17**	***Actual 2018/19***
Return on capital employed ('ROCE')	9.78%	8.45%	10.68%	16.63%	16.51%	5.35%
Our ROCE is below the target for the year of 8.45%. This is due to the financial statements reporting a higher figure for total assets less current liabilities than the Business Plan forecast. This difference is mainly driven by the higher net book value of our housing property assets of £228.933m in the financial statements compared to the forecast in the Business Plan of £211.347m. In 2019/20 we have brought forward some of our development plans which were forecast in the Business Plan to be started in 2020/21 to take advantage of the opportunities available to us. This has resulted in an increase in our housing properties net book value and is consistent with our corporate ambition and objectives. Our ROCE has reduced again from 2018/19 to 2019/20, and this is because for a second year in succession we have increased our level of investment in our existing properties, new build development programme and in other key corporate projects that will streamline our operations and provision of services to our customers. The additional investment we're making means we have generated a lower surplus in 2019/20 than we have in the previous year. Our ROCE is higher than our peer group's median and this is due to our low housing property asset value, which is much lower than other associations with a similar number of properties. This means our operating surplus, which is not influenced by the value of our properties, is larger as a proportion of this asset value than other providers.						

The metrics show that we have maintained a strong financial performance in 2019/20 with an operating margin and return on capital employed higher than our peer group. This has allowed us to make significant reinvestment back into our business, primarily in the form of developing new homes and improving our existing ones. Whilst this drive to reinvest has meant a reduction in our EBITDA MRI interest cover and an increase in our gearing this year, we know that, by investing now, we are strengthening the financial position and sustainability of organisation for years to come.

We have also worked hard during the year to maintain tight control of our underlying operating costs and this is reflected in our headline social housing cost per unit, which has only seen an inflationary increase of around 2% in 2019/20. Keeping our day-to-day operating costs closely controlled is fundamental because it provides us with the stable financial base from which we can develop and grow our business.

Forecast value for money metrics

The value for money metrics are part of the overall performance framework and targets set are based on the Business Plan (2020 – 2050) which was approved by the Board in March 2020 as follows:

	2020/21	**2021/22**	**2022/23**	**2023/24**	**2024/25**
Reinvestment	19.6%	9.8%	5.0%	4.8%	4.7%
New supply delivered - social housing units	1.4%	0.8%	0.0%	0.0%	0.0%
New supply delivered - non-social housing units	0%	0%	0%	0%	0%
Gearing	46.2%	43.3%	38.5%	33.6%	28.6%
EBITDA MRI	48.0%	131.2%	244.6%	287.4%	338.0%
Headline social housing cost per unit	£3,749	£3,574	£3,350	£3,376	£3,415
Operating margin - social housing lettings	21.0%	21.1%	22.5%	24.6%	26.1%
Operating margin - overall	20.8%	21.0%	22.4%	24.5%	25.9%
Return on capital employed	7.5%	7.0%	7.2%	7.6%	7.8%

Investment in properties

- There are no plans to develop for commercial sale or develop non-social housing units and therefore the non-social housing new supply metric is 0% which is consistent with our current strategic development plans.

- The reinvestment ratio decreases over the first five years which reflects the phasing of our short-term development plans covering 2020/21 and 2021/22. A long-term Development Strategy is being progressed in 2020/21 to establish our ambitions for delivery of new properties from 2021 onwards.

- The delivery of new supply of social housing units reflects our current development programme and plans and reflects the delivery of the remainder of the 765 new units. As noted above our longer-term development plans will be set out in our Development Strategy.

Financial performance

- EBITDA MRI is below 100% in 2020/21, however from 2021/22 it increases to over 130% and, thereafter, continues to increase to in excess of 300%. The lower percentage in 2020/21 is impacted by the level of initial investment we're making in our business and in our existing housing stock. The benefit of this investment is not assumed within our forecasts until 2022/23.

- The headline social housing cost per unit is at its highest in 2020/21 as it incorporates the initial investment needed to support our corporate objectives. In future years the headline social housing cost per unit falls, reflecting the one-off nature of these growth bids. The forecast rise in the headline social housing cost per unit from 2022/23 reflects the impact of cost inflation combined with the loss of income from properties that have been sold and no new properties being delivered.

- Our operating margin is lowest in 2020/21 as a result of the one-off expenditure noted above. After this, the margin increases reflecting the one-off nature of these costs and the impact of costs savings that we will realise from making these initial investments.

- Return on capital employed reduces from 2020/21 to 2021/22, before recovering with annual increases for the next three years. This again reflects the impact of the initial profile of expenditure on our overall operating surplus, with increased investment initially giving a lower return, before the impact of corporate efficiency savings boosts the return in the three years to 2024/25.

How our costs compare to others

Our headline social housing cost per unit for the year ending 31 March 2020 was £3,308 (2019: £3,214), which is lower than the 2018/19 housing sector median of £3,690 and the peer group median of £3,431.

Further analysis of the headline social housing cost per unit shows the following:

	believe housing				**Housing Sector median**	**Peer Group median**
	2019/20	**2018/19**	**2017/18**	**2016/17**	**2018/19**	**2018/19**
Headline social housing cost per unit	**3,308**	**3,214**	**2,921**	**3,121**	**3,690**	***3,431***
Management cost per unit	1,110	1,020	864	1,018	1,004	*1,100*
Service charge cost per unit	48	76	92	58	395	*262*
Maintenance cost per unit	1,069	1,174	971	1,113	1,013	*920*
Major repairs cost per unit	1,030	906	994	932	794	*860*
Other social housing cost per unit	51	38	0	0	245	*242*

- Our management cost per unit has increased by £90 per unit (9%) when compared to 2018/19. At £1,110 per unit, our cost per unit is around 10% higher than the sector median, but just above the median for our peer group. Around £28 per unit of the increase seen in 2019/20 can be attributed to the decision to recategorise the cost of our intensive housing management (IHM) service from service charge costs to general management costs – more detail on this is provided in the bullet point below. In addition to this, we have recognised additional costs in 2019/20 relating to external inflationary pressures on non-pay costs as well as the impact of a 2% pay award to our staff. We have also continued to make investments in our operations, including in new technology such as our customer app, and in streamlining our internal structures and processes – this has included a restructure of both our senior management structure and our property repairs team. In addition our management costs also include one off costs for demolition of selected properties in line with our strategic asset management plans. These investments have all added to our management cost per unit in 2019/20 but provide us with the foundations from which to achieve efficiency savings on our management cost in future years.

- Our service charge cost per unit has fallen for a third consecutive year, from £76 in 2018/19 to £48 in 2019/20. The large reduction seen this year is almost entirely due to the decision we took to ‘mainstream’ our intensive housing management (IHM) service in 2019/20 so that, rather than being an additional service we provided to customers who needed it, but for which we made and additional charge, it became part of our core service offer to all customers for which no additional charge was levied. For this reason, the costs relating to our IHM service, which represented around £0.5m (or £28 per unit) in 2018/19, are no longer recorded under the service charge cost category, but are now simply included within our general management cost category. The remaining expenditure contributing to the service charge cost per unit is simply the cost to us of providing those services to customers and leaseholders. Once the impact of removing the IHM service costs is taken into account, it can be seen that the underlying cost of providing the other services has remained the same in 2019/20 as it was in the previous year. Our service charge cost per unit is much lower than that of the wider housing sector and peer group median, which reflects the fact we only have a limited number of services that we levy additional charges for and a comparatively small number of properties that require services for which an additional charge is made.

- Our maintenance cost per unit, covering both responsive repairs and planned maintenance, has reduced by £105 (9%) from 2018/19 to 2019/20. During 2019/20 we completed the insourcing of our repairs team, with the service in the east of the region being brought in-house from 1 July 2019. Having all of our responsive repairs and maintenance carried out by our own workforce means we now have full control over the service, including its cost and performance. Work has been underway throughout the year to consolidate and streamline the repairs service, creating one team from the three legacy teams we brought together. Since bringing a unified team together, we have seen improvements in a number of areas of performance including average days taken to complete repairs and proportion of repairs completed right first time. This improvement in performance has begun to impact upon the cost of the service and hence the repairs cost per unit has reduced. Despite this reduction our cost per unit is still above the sector median of £1,013, and also remains higher than our peer group median of £920 per unit. This indicates the work we still have to complete within our Property Repairs team to finish its reorganisation and put in place processes and performance measure that will drive operational efficiency. Once these changes have been embedded, we would expect to see our cost per unit reduce and look more favourable when compared to the performance of our peers and the wider social housing sector. There is a Property Repairs Corporate Plan project in place for 2020/21 to implement a series of improvements to this service which will be monitored closely.

- Our cost per unit for major repairs has increased by £124 per unit (14%), from £906 in 2018/19 to £1,030 in 2019/20. This has partly been driven by an increase in our capitalised major repairs that is linked to work that was originally scheduled to be undertaken in 2018/19 but was delayed and instead completed in 2019/20. This meant the cost for the works was also recorded in 2019/20 and so this has inflated our cost per unit for this year and, in particular, when compared to 2018/19, when a lower figure than would have been expected was recorded. Our major repairs costs in 2019/20 have also been impacted by the completion of the insourcing of our Property Repairs team, as explained more fully in the previous bullet point. We have reallocated staff costs for our Assets team, who were originally involved in overseeing and managing the outsourced repairs contract but now work solely on our outsourced major repairs contract, from the maintenance to major repairs category to reflect the change in operational setup. As a result, the major repairs costs have increased this year. Our cost per unit is now higher than both the sector median of £794 and our peer group median of £860. This reflects the continued investment we are making in our existing homes to ensure that both Decent Homes Standards and compliance requirements are met, however is an area we will continue to monitor closely. Analysis by the Regulator suggests that recent LSVTs tend to have higher costs relating to major repairs. In being one of the most recent LSVTs in the sector, this will influence our overall performance when compared to the social housing sector as a whole and also our peers who, whilst all LSVTs, are all older stock transfer organisations than we are.

- We began classifying some of our revenue costs relating to our new build development team and our expenditure on community investment to the ‘other’ category in 2018/19. We have seen an increase in our cost per unit in this category in 2019/20 and this is primarily due to increased expenditure on our new build development team, to support our expanded new homes programme. At £51 per unit, our cost in this area is still significantly lower than both the sector and peer group medians and this reflects the fact that, unlike other registered providers, our core offering to customers remains primarily our social housing lettings, with little diversification into ancillary services beyond this.

What value for money achievements have we made in 2019/20?

We have maintained a close focus on delivering value for money throughout 2019/20 and the hard work of our people has resulted in cost savings being achieved and additional value being created for our customers and our business. We have captured hundreds of value for money achievements throughout the year and these include:

- Working with a company to repair broken double-glazing units rather than simply replacing them. This has produced a number of benefits including an annual financial saving and an increase in the number of double-glazing jobs completed first time. There are also environmental benefits with an estimated eight tonnes of waste glass and over eight tonnes of CO_2 emissions avoided.

- Providing support and guidance to customers to allow them to carry out small works in their home. This has had the benefit of upskilling customers and also reducing the number of repairs allowing the property repairs team to focus on providing a quicker response to more difficult or complex jobs.

- Working with our development contractors to provide a better internal specification for our new homes, with additional or improved features for customers at the same or lower cost to us.

- Creating many of our communications in-house, from design to production. This has helped to develop the skills of our people and reduces our expenditure on costly external suppliers.

- Collaborating with our choice-based lettings platform Durham Key Options to improve their website to allow customers to electronically upload their documents rather than handing in or posting hard copies. This has made applications easier for our customers, has reduced the risk of documents being lost in the post and has made processing applications easier for our people.

What did we do with the savings

The efficiencies we've achieved have supported our investment in corporate projects and priorities as follows in 2019/20:

- Investment of £27.552m in new housing properties as part of our development programme;

- Investment in a new senior management structure to create a strong framework to manage the organisation and plan for the future and improve the resilience of the organisation;

- Investment in digital projects such as the customer app;

- Investment in our new office accommodation to support agile working across the organisation following the success of our agile working pilots;

- £0.075m investment in local community projects and grants awarded through our grant scheme;

- £0.167m to support the learning and development of our people; and

- Establishing a small budget to allow the tenancy sustainment team to assist customers.

Future investment priorities are linked to the future developments which are commented on further at pages 38 and 39 and include:

- Developing our digital offering to both our customer and our people to enhance their experience. Key projects for 2020/21 include development of our customer portal and app and investment in digital solutions for our property repairs team to improve efficiency and effectiveness of their working practices.

- Property repairs with the aim of delivering the objectives set out by the Board of providing a flexible and value for money repairs to our customers.

- Establishing our long-term Development Strategy with the Homes for 2050 project confirming our long term aims, objectives and funding requirements so support these plans.

- Establishing a performance management system and leadership development programme which will develop our leaders and our culture.

- Investing in data warehousing to ensure that we have the data that we need across all areas of the business to make informed decisions.

We have incorporated a savings target in our 2020-2050 Business Plan totalling £2m staggered across three years from 2022/23 which will be achieved from the investment being made in our corporate priorities. The value for money impact of our Corporate Plan projects, including the progress made in achieving the cost savings target established will be monitored through our Performance and Added Value Framework. Achievement of the cost savings target identified is one of the key measures of success that will be monitored throughout the delivery of our Corporate Plan projects.

New office accommodation

During 2019/20 we took the decision to consolidate our office accommodation following a review of our existing office capacity compared to our future needs. The Board consider the options available for our office accommodation and the decision was taken to consolidate the five existing office buildings into two buildings.

This has resulted in the closure of Meridian Court at Peterlee and Thomas House and Lumley House in Durham.

A new office lease was agreed for an empty building at Spectrum Business Park in Seaham in October 2019 and the office at Bishop Auckland has been retained. Both offices have undergone a substantial refurbishment aimed at providing our staff with the facilities and technology they need to work flexibly and deliver our services to customer in the most effective and efficient way.

Our new offices were opened at the end of February 2020. The financial statements include provision for dilapidations payable under the lease agreements with the landlords of the offices where we have terminated the lease.

New build development

During 2019/20 we have continued to make progress in delivering new homes with a total of 213 completed in the year, including schemes at Bishop Auckland and Seaham along with a number of off the shelf acquisitions. Our new build programme was recognised at the Guardian Public Services Awards in November 2019 and we have been shortlisted at the UK Housing Awards 2020 for Housebuilder of the Year.

In addition this year we have completed the first of our ‘Rent to Buy’ properties which will allow people to rent at an affordable level for five years and then acquire their home should they wish to do so.

Our new build programme and pipeline is made up of a mixture of:

- our current Homes England Shared Ownership and Affordable Homes Programme (2016-2021);

- bidding for properties developed as part of section 106 planning agreements;

- acquisition of 'off the shelf' units from local developers, supported by grant funding from Homes England; and

- development of our current land holdings and land option sites.

Financial performance of all developments is monitored through the quarterly management accounts which are scrutinised by the Performance and Standards Committee and Board. The management accounts report the actual and forecast position compared to the agreed budget to ensure that Board are fully informed of progress, and forecast variances, with our development programme.

Review of the business

Reported surplus

For the year ended 31 March 2020 we report a surplus before taxation of £13.814m (2019: £16.661m) and total comprehensive income of £8.517m (2019: £19.157m).

The reported surplus is impacted by the following:

- The final year of the 1% reduction in social housing rental income;

- Costs increasing in line with inflation, in particular a 2% increase in pay costs;

- One off costs incurred to support our Corporate Plan objectives including, the insourcing of the repairs contract in the East and the subsequent restructuring of the property repairs team; and

- A reduction of £1.697m in the gain on sale of fixed assets as the number of properties sold through right to buy decreased in line with our forecast assumptions.

The remeasurement movement relating to the pension scheme impacts the reported total comprehensive income of £8.517m (2019: £19.157m). For the year ended 31 March 2020 there was a loss of £5.297m compared to a gain of £2.496m in the previous year.

Statement of Financial Position

The Statement of Financial Position reports a net current liabilities position of £1.836m (2019: net current assets of £24.932m) and a total net assets position of £53.969m (2019: £45.452m). The decrease in cash from £31.404m at the end of March 2019 to £4.715m at the end of March 2020 is the main contributing factor to the Statement of Financial Position reporting a net current liabilities position at the end of the financial year. This is commented on further below.

The key balances within the Statement of Financial Position are fixed assets, pensions and loans which are commented on further below.

Fixed assets

Our fixed assets are stated at cost and at the 31 March 2020 are reported at a net book value of £233.498m (2019: £183.895m). This is made up of intangible assets, housing properties and other fixed assets.

Housing properties are categorised as tangible fixed assets as their intended use is for the social benefit they provide. The net book value of housing properties, which is the main component of the fixed assets at 31 March 2020, is £228.933m (2019: £182.171m). The increase in our housing properties reflects both the investment in our existing properties and the impact of our new development programme which has continued to increase throughout 2019/20. This net book value compares to a valuation for loan security purposes of £286.000m (2019: £199.500m) at the same date. This valuation was based on an existing use valuation for social housing purposes and is prepared for loan security purposes only.

Intangible fixed assets have a net book value of £1.442m at the 31 March 2020 (2019: £1.524m), which relate mainly to the computer software for the housing management system.

Pensions

The Statement of Financial Position incorporates the pension liability for the Durham County Council Pension Fund ('the Pension Fund') of £52.655m (2019: £44.962m).

This represents the actuarial estimation, prepared for the purposes of statutory accounts as required by FRS 102, of the net liability at the 31 March 2020 under the Pension Fund. A key contributor to the increase in the net pension liability is the remeasurement loss recognised for the assets and liabilities which totalled £5.297m at the end of March 2020.

The latest triennial valuation of the Pension Fund was as at 31 March 2019 and has resulted in an increase in employer contribution rates from 16.1% to 21.6% from 1 April 2020. The impact of this increase will be offset to some extent by a decrease in the pension deficit funding costs payable to the Pension Fund.

Loans

The Statement of Financial Position includes outstanding loans with Barclays Bank plc ('Barclays') and M&G Investments Limited ('M&G') at an amortised cost of £114.091m (2019: £113.942m). This balance relates to the £150m loan facility that was agreed in April 2015 and consists of a £75m facility with M&G and a £75m facility with Barclays.

The loans have been accounted for as basic financial instruments under FRS 102 and are therefore measured at amortised cost. This is explained further in the accounting policies.

Interest rate risk

We manage our exposure to movements in interest rates by entering into fixed interest rate arrangements, which are an option available under the loan facility agreement. All drawn down loans at 31 March 2020 and 31 March 2019 were at fixed rates. Details of the terms and conditions of our funding arrangements are set out in note 23.

The 31 March 2020 marked the expiry of one of our fixed rate arrangements with Barclays Bank plc on £10m of our drawn funding. This borrowing moved to a variable rate of borrowing from 1 April 2020 based on LIBOR.

Statement of Cash Flows

At 31 March 2020 we report a cash position of £4.715m (2019: £31.404m). There has been no draw down of funding or repayment of funding in the financial year. The decrease in our cash balances during the year was consistent with our budget and Business Plan and reflects increased activity in our new development programme. On 2 April 2020 a further £10m was drawn down from our revolving credit facility with Barclays Bank plc to provide us with additional cash resources in light of the Covid-19 pandemic.

Asset sales through right to buy transactions and other asset disposals have contributed £4.348m (2019: £6.432m) of cash to the business. These cash surpluses will be used to invest in our existing housing properties and new developments.

Going concern

We are a large scale voluntary stock transfer organisation that was established in April 2015. Our business activities are focussed on the provision of social and affordable housing customers and supporting our local communities. Our business activities, current financial position and factors likely to affect our future development are set out in further detail within the Report of the Board. We have long-term debt facilities in place, which provide sufficient resources to finance committed reinvestment and development programmes, along with our day to day operations.

Our funding facilities are split between £75m long term funding arrangement with M&G Investments and £75m of revolving credit facilities with Barclays Bank plc. Our revolving credit facilities have three tranches which expire on 31 March 2022, 31 March 2025 and 31 March 2027. We agreed an extension to the first tranche of our revolving credit facilities with Barclays which was due to expire on 31 March 2020 during 2019/20. This means we have the £20m Tranche B1 facility with Barclays available to us until the 31 March 2022. A review of our treasury and funding arrangements is in progress with a timetable in place to have funding in place well in advance of the expiry of the first tranche of the Barclays revolving credit facility.

At 31 March 2020 we had drawn £115m of our total £150m funding facility leaving £35m undrawn and immediately available if required.

Our Statement of Financial Position reports a net current liabilities position at the end of March 2020 of £1.836m compared to a net current assets position at the end of March 2019 of £24.932m. This year end position is due to the decrease of £26.341m in our cash balances during the year, which was expected and in line with our original Business Plan forecasts. Our cash balances have increased steadily since 2015/16 and had been earmarked to fund our future capital investment and development programmes. The cash flow statement shows that our investment in assets has increased from £26.309m in 2018/19 to £56.372m which reflects the investment in our existing and new housing properties in the year. This is the key driver for the decrease in cash which was consistent with our expectation and Business Plan. As noted above, we had undrawn funding facilities with Barclays totalling £35m at the end of the financial year. This facility is available to be drawn down within 24 hours if required. In April 2020 we took the decision to draw down a further £10m from our revolving credit facility with Barclays to increase our cash balances and mitigate the potential impact of Covid-19 which at the time was unclear. This additional funding has not been required to date but continues to be held as part of our overall cash balances with counterparties where we have immediate access to our funds.

We produce a 30 year Business Plan each year which helps us to understand our long term financial position. The Business Plan is developed based on a number of key economic assumptions as follows:

- Inflation rates
- Voids, arrears and bad debts
- Interest rates
- Right to buy sales
- Other asset disposals and demolitions

Our approved annual operating budget provides the starting position as year one off the 30 years and the Business Plan incorporates our anticipated investment and savings from the corporate projects set out in our Corporate Plan.

Our latest Business Plan was approved by the Board on the 25 March 2020 and it showed that we are able to service our debt facilities whilst continuing to comply with our financial covenant requirements. The Board have been monitoring the impact of Covid-19 on this Business Plan through the Treasury Covid Scorecard. This scorecard provides a weekly update on our cash position and compares our forecast cash income and expenditure to that of the Business Plan, highlighting any key variances. This information has been discussed at each meeting of the Board, the Covid-19 Committee and the Performance and Standards Committee since April 2020. The Business Plan is in the process of being updated to meet the deadlines set by the Regulator and our funders of the 30 September 2020.

Our Business Plan was subjected to a series of stress test scenarios linked to our strategic risks which look at the financial impact of specific risks materialising and their impact on the Business Plan. These stress test scenarios were developed prior to Covid-19 and help us to identify the areas of greatest sensitivity and the mitigating actions that would be required if a stress test scenario or something similar occurred. A separate Covid-19 stress test scenario was also developed and run against the Business Plan to identify any specific sensitivities and mitigating actions that may be required. This was reported to the Board as part of the Business Plan report in March 2020.

The stress test scenarios that require significant mitigating actions to reduce our annual expenditure on a recurring basis are:

- changes in government rent policy which result in a reduction in social housing rent;
- introduction of a new standard for decent homes which requires significant investment in our housing properties with no reciprocal grant funding available to support the programme of works; and

- a macro economic shock as set out in the latest Bank of England stress test for Brexit which results in significant increases in property related costs such as capital investment, repairs and maintenance and development with no change to our income base.

We monitor our key economic assumptions that have the greatest impact on the Business Plan on a monthly basis to ensure prompt mitigating action can be taken if necessary.

Following the announcement from the World Health Organisation on the 11 March 2020 that a new coronavirus, Covid-19, was a pandemic, countries around the world have put in place a series of measures to try and control the virus. As a business we successfully enacted our business continuity plans and made the decision to move to an essential repairs service on the 23 March 2020, prior to the government announcement of lockdown, to protect both our customers and our people. Our people immediately moved to working from home, having already been provided with the equipment necessary to work in a more agile and flexible way as part of the new accommodation project completed in February 2020. We adapted our ways of working to ensure services to customers continued where possible.

A weekly Covid-19 performance scorecard and a Covid-19 risk register has been developed to monitor the impact of Covid-19 on our people, our customers and our business. This information is monitored closely by the Board and the Senior Leadership Team to understand the impact on our financial position and operational service delivery. The ongoing challenges and uncertainty emerging from the pandemic also present a number of cross cutting new and strategic risk exposures at least for the medium term and, therefore, an additional strategic risk has been added to our register to identify the exposure and the mitigating controls that have been developed. In addition, as noted previously, a Treasury Covid Scorecard is in place to provide a weekly update on the financial position of the business and how this compares to the original approved Business Plan.

We have been working hard to support our customers and communities during the Covid-19 pandemic and up to the 15 June 2020 we achieved the following:

In May 2020 we started to consider how best to restart our all of our services to customers and developed five tests that had to be met before any service recommenced. Risk assessments must be signed off by the Executive Directors prior to any service restarting to ensure the correct personal protective equipment ('PPE') is available and there are appropriate safeguards in place to manage risks identified.

Over the months of May and June 2020 we restarted:

- property inspections;
- viewings of properties
- gardening services;
- visits and inspections of our development sites;
- works to void properties to make them ready for new tenants;
- external improvement works on homes; and
- urgent aids and adaptations.

From July 2020 we restarted our non-essential repairs services, prioritising the repairs jobs that were due to be scheduled to be completed when lockdown started and as a result had to be put on hold.

Whilst our long-term Business Plan was prepared prior to Covid-19, the Covid-19 stress test scenario developed to show the potential impact of the pandemic noted that no mitigating actions were required based on this initial scenario. The impact of Covid-19 continues to be monitored through the Treasury Covid Scorecard which reports the actual cash flows of the business compared to the original pre Covid-19 Business Plan. We have adjusted our cash flow forecasts from those originally set out in the Business Plan to reflect the following:

- areas of increased cost, such as Personal Protective Equipment and fogging works in the next 12 months
- a reduction in income to show the potential impact of increasing arrears and falling rent collection in the next 12 months

All other expenditure and investment is assumed to 'catch up' over the course of the next 12 months and has not been reduced in our cash flow forecasts.

This information is compared to our cash flow covenant target which is the financial covenant that is reset each year based on the approved Business Plan. The cash flow covenant target for 2020/21 will not be reset until our Business Plan is approved and signed off by funders. Therefore, we are monitoring our compliance with our cash flow covenant target based on the latest Business Plan approved (2019 – 204 Business Plan). This ensures that in the event of the financial covenant target for 2020/21 not being reset and approved we will continue to meet all of our financial covenants without exception. Our latest cash flow forecasts show significant headroom in meeting the latest approved cash flow covenant target for 2020/21.

This information has been reported to the Board as part of the going concern assessment.

Our work is ongoing to formally update our Business Plan to reflect the impact of Covid-19 and this will be presented to Board on the 23 September 2020 alongside an update of our Corporate Plan. Our updated Business Plan will be submitted to the Regulator and our funders for sign off before the 30 September 2020.

In addition to the review of our financial forecasts, we have reviewed our going concern assessment alongside the new Covid-19 risk register to assess the impact of the risks identified on our ability as a business to continue as a going concern. We have not identified any of these risks impacting on our going concern assessment. Our business activities are focussed on the provision of social and affordable homes and supporting our local communities and there is no reliance on the property sales market in our Business Plan. The impact of Covid-19 on demand for our services is likely to be higher than it has been previously due to the wider impact of the pandemic on the local and national economy,

The principal risks and uncertainties as a result of Covid-19 which impact on our business relate to:

- ensuring continued collection of our rental income;
- supply of PPE to ensure continued service delivery; and
- supply chain risk in the event that a supplier is in financial difficulty or cannot source required materials.

We are managing these risks as follows:

- We monitor our rent collection and rent arrears position closely and have teams in place to provide our customers with the support they may require, for example our Universal Credit team supports customers moving on to Universal Credit for the first time.
- We have established good relationships with suppliers of PPE and are now looking to advance order based on our experience of usage during the period of lockdown. An additional performance indicator has been developed to identify the number of days' supply we have to ensure the delivery of critical services.
- All key suppliers are monitored to ensure any financial challenges are identified promptly. We have considered business continuity arrangements for all key suppliers and the alternative options if there were any issues with our supply chain. We have moved to immediate payment on approval of invoice for our small and medium sized suppliers to help support their financial position and sustainability.

The financial impact of these risks has been assessed through our stress test scenarios and the impact of these on our business does not affect our going concern assessment.

A further principal risk and uncertainty is the impact of Covid-19 on government policy and any changes that impact on rent policy for social housing. Changes to rent policy is one of the stress test scenarios already run against the current Business Plan and therefore we have a clear indication of the mitigating actions required in the event this transpires.

We have reviewed and updated our going concern assessment, taking into consideration the current and potential future impact of Covid-19 on the business plan and its assumptions. This assessment has included consideration of any significant judgements, estimates and uncertainties that could impact on the long-term business plan and the going concern assumption. There are no changes in assumptions or significant judgements, estimates and uncertainties identified from this work which impact on the going concern assumption basis for the preparation of the financial statements. This updated going concern assessment was reported to the Audit Committee on the 10 June 2020 and the Board on the 8 July 2020.

On the basis of this information, the management and the Board have a reasonable expectation that there are 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, the going concern basis has been adopted for the preparation of the financial statements.

Principal risks and uncertainties

The Risk Management Framework sets out our approach to risk management, including a policy statement, strategy, the Board Risk Attitude Statement and roles and responsibilities for managing risk. The Risk Management Framework is reviewed annually by the Risk Management Working Group (‘RMWG’) and the Audit Committee before being recommended for approval by the Board.

Our strategic risk register is monitored and reviewed by the RMWG and reported to the Executive Management Team, Audit Committee and the Board on a quarterly basis.

During 2019/20 the RMWG has kept under review the strategic risk register, considering internal and external developments and the Regulator’s Sector Risk Profile 2019. A comparison was undertaken between the Regulator’s Sector Risk Profile and our strategic risks to ensure there were no omissions in the identified strategic risks. It was agreed by the RMWG and the Board that the strategic risk register captures all the risk exposures identified in the Regulator’s Sector Risk Profile.

In addition, the Business Risk and Assurance team rolled out a Risk and Controls Self-Assessment process and toolkit across the organisation during the year, in line with the Risk Management Framework. The purpose of this process has been to establish baseline operational risk data and link it to the ongoing refresh of strategic risks enabling mitigating controls managed at an operational level to be referenced into strategic risk assessments.

A review of the Strategic Risk Register has been undertaken over the course of the financial year and a streamlined set of strategic risks were approved by the Board on the 25 March 2020. This exercise condensed the number of strategic risks from 16 to ten and this will be kept under review by the RMWG.

A further risk associated with global pandemic was added to the Strategic Risk Register following discussions with the RMWG. This additional risk was approved by the Audit Committee in June 2020 taking the total number of strategic risks to 11.

The following table summarises the changes made:

<table>
<tr><th>Original Strategic Risk</th><th>Revised Strategic Risk</th></tr>
<tr><td>Agile Business: We do not adapt quickly to insight on the changing operational environment leading to potential financial risk, missed opportunities and timely decision making.</td><td rowspan="2">Agile Business: believe housing do not create a transformational culture, innovation and digital platform to adapt quickly to a changing operational environment, resulting in people resistance, financial risk and unachieved opportunities.</td></tr>
<tr><td>Workforce Management: Poor management of workforce matters may result in poor employee relations, failure to retain key skills and experience and failure to deliver services effectively.</td></tr>
<tr><td>Political Uncertainty: Failure to understand the impact of political uncertainty and future political decisions on the Business Plan and service delivery.</td><td rowspan="2">Political Uncertainty: Failure to understand changes in Government policy and the effects of political uncertainty, restricts our ability to achieve the Corporate Plan and impacts on the Business Plan.</td></tr>
<tr><td>Welfare Reform: Failure to model the financial impact on income streams through welfare reforms results in an inability to deliver the business plan and services.</td></tr>
<tr><td>Asset Management: Inadequate asset management arrangements lead to poor investment decisions.</td><td rowspan="2">Asset Investment & Growth: Inadequate business intelligence and due diligence leads to poor decision making on capital investment and development, resulting in threats to customer safety, increased financial risk, poor product quality and reputational damage.</td></tr>
<tr><td>Development: Lack of due diligence, adequate funding and poor performance management lead to unnecessary development costs and reputational damage.</td></tr>
<tr><td>IT Infrastructure: IT systems are not secure and resilient leading to cyber security threats, poor customer services and ineffective business processes.</td><td>Cyber Threat & Business Resilience: Poor control frameworks for IT governance, cybersecurity and cloud-based services leads to an increased threat of cyber</td></tr>
</table>

Original Strategic Risk	Revised Strategic Risk
Business Continuity Arrangements: Business continuity arrangements are not sufficiently resilient resulting in being unable to operate effectively.	attacks, loss of data and business disruption, resulting in service delivery failure, financial cost and loss of reputation.
Robust Financial Management: Ineffective financial management leads to poor value for money, inability to ensure cash flow and covenant compliance, resulting in regulatory downgrading.	**Robust Financial Management:** Ineffective stress testing and financial management leads to inability to manage budgeted turnover, covenants and pension fund liabilities, resulting in regulatory downgrade. Ineffective planning and oversight of performance targets leads to poor value for money.
Pensions: Failure to clearly understand the local government pension scheme fund deficit and longer term financial and workforce impacts.	
Governance and Compliance: Insufficient skilled resource, technical infrastructure, and inappropriate governance arrangements leading to potential for data loss, financial loss, poor decision making, reputational damage or unsatisfactory regulatory grading.	**Governance & Compliance:** Failure to comply with laws and regulations relevant to believe housing and inappropriate governance arrangements leads to potential for financial loss, poor decision making, reputational damage or unsatisfactory regulatory grading.
Data Quality: Poor data quality results in being unable to determine accurate business performance and make properly informed business decisions.	**Data Quality:** Poor technology, data processing and information security lead to data integrity and quality risks, impacting on the reliability of performance monitoring and decision making which could pose a risk to customers.
Fraud: Internal or external fraud leads to financial loss and / or reputational damage.	**Fraud:** Internal or external fraud leads to financial loss and / or regulatory downgrade where failure in the system of internal control occurs. Damage to believe housing brand and critical implications for viability and delivery of corporate plan objectives.

Original Strategic Risk	Revised Strategic Risk
Health and Safety: Inadequate health and safety arrangements lead to injuries or illness, reduced productivity, and poor staff morale.	**Health & Safety Building Compliance:** Failure to comply with consumer standards and statutory health, safety and environmental legislation as a result of poor decisions on stock quality, inadequate compliance reporting and deficient management controls, resulting in risk to customer safety, significant fines, loss of reputation and regulatory downgrade.
Procurement and Contract Management: Ineffective procurement or contract management prevents us from meeting its business objectives.	Moved to an operational risk.
Reputation: Lack of organisational commitment to effective Board and Management oversight, strong communication, and focus on quality and operational performance leads to poor reputation.	**Reputation:** Lack of organisational commitment to effective Board and Management oversight, strong communication, and focus on quality and operational performance leads to poor reputation of believe housing.
	Pandemic (Covid-19): Lack of appropriate operational and financial response during the pandemic to ensure continuity of essential customer services, leading to noncompliance with statutory and regulatory obligations.

Brexit

During the course of the year the RMWG have monitored the risk of Brexit and its potential impact on the business as part of the political uncertainty strategic risk. In September 2019 the Political Uncertainty strategic risk score was revaluated and revised, increasing the likelihood of this risk. A risk assessment exercise for each operational area of the organisation has been completed to help identify areas where Brexit may have the greatest impact and prioritise any actions required to mitigate this risk.

The ongoing uncertainty over Brexit means that long term financial plans do not incorporate any specific financial provision for the impact of Brexit. We have included in the stress testing of the Business Plan, the Bank of England Brexit scenario as a specific stress test scenario, enabling us to identify mitigations that would be required in the event of the latest economic impact of Brexit forecast by the Bank of England is realised.

The area of greatest risk is linked to our supply chain and the potential impact of Brexit on availability of materials from our suppliers. We are monitoring our supply chain closely and have ensured that for key materials we have alternative arrangements in place if necessary to mitigate the supply chain risk.

Governance arrangements

The Board consists of nine non-executives and two executive members. There are three Board sub committees, the Audit Committee, the Performance and Standards Committee and the Remuneration and Nominations Committee, whose membership is made up entirely of non-executive Board members. There is also a Values Group which is made up of tenants / leaseholders and has responsibility for customer insight, service or scrutiny reviews and ensuring assurance over health and safety. The Values Group reports into the Performance and Standards Committee.

In response to Covid-19 the Board approved the establishing of a Covid-19 Committee to meet as and when required during the Covid-19 crisis and taken timely decisions as necessary.

During 2019/20 we were subject to an In Depth Assessment by the Regulator. The outcome of this was a G1 (governance) / V2 (viability) rating which are both compliant ratings and remain unchanged from the previous year.

Future developments

In order to deliver the objectives we have set out in our Corporate Plan we have identified the following strategic projects for 2020/21 under each of our strategic pillars:

Believe customer experience

- Digital delivery and customer hub: to deliver a great customer experience, focussing on providing first time resolution and enhancing our digital offer to increase self-serve

- Customer journey and sustainment: to develop a holistic, customer focussed service to increase sustainment of tenancies and ensure that rental income is maximised

- Property and repairs improvement: to complete a business review and remodel of all areas of our strategic and operational delivery for repairs to deliver excellent customer experience, high performance, sustaining financial viability and to be fit for the future.

- Customer experience: lettings and marketing: to deliver improvements to our current approach to marketing and letting homes, develop new markets for our homes and look at options for new products to appeal to a broader range of customers.

- Placemaking: to bring together the key elements that make successful and sustainable communities such as management plans, new build and investment decisions, resident engagement and community investment to create a planned approach.

- Homes for 2050: to build upon our commitment to deliver 700 new homes by 2022 by completing further research and market analysis to define the type and tenure of homes we will be developing in future, as well as the products that enable us to respond to social, ethical and environmental drivers.

Believe people experience

- People experience and culture: to transform the HR and Organisation Development functions to form a team which will be the engine for change, simplifying policies/processes to focus energy on making a real difference.

- Corporate Social Responsibility: to maximise the impact of our corporate social responsibility days for employees to make a difference in our communities.

Believe business experience

- Green plan: to better understand the environmental impact of our business and our assets and look at ways to improve energy efficiency, reduce waste and reduce our carbon footprint.

- Service charges: to provide a consistent approach to service charges across the organisation

- Data strategy and warehouse: to become a place where data is used throughout the organisation to inform decisions, predict future needs or impacts and drive innovation to be more responsive to customer and employee needs.

Each project is underpinned by a detailed plan setting out the objectives, milestones and performance measures and targets which link to our Corporate Performance Scorecard and will be monitored throughout 2020/21.

We have reviewed our Corporate Plan projects and objectives in light of Covid-19 and at the current time there are no changes to our future plans.

Internal controls statement

Assessment of the effectiveness of internal controls

The Board is our ultimate governing body and is responsible for the system of internal control and for reviewing its effectiveness. The system of internal control is designed to manage risk and to provide reasonable assurance that key business objectives will be met. It also exists to give reasonable assurance about the preparation and reliability of financial and operational information and the safeguarding of our assets and interests. The Board recognises that no system of internal control can provide absolute assurance or eliminate all risk.

The Board delegates the ongoing review of internal controls to the Audit Committee and receives annual reports from the Audit Committee. Day to day management of the business is the responsibility of the Executive Management Team.

Scope of Assurance

The Board understands that the internal controls system is designed to manage rather than eliminate all risks. The internal control framework is designed to manage and mitigate, as far as possible, the significant risks that may threaten its ability to meet strategic objectives. It can only provide reasonable, not absolute, assurance against material misstatement or loss.

The process for identifying, evaluating and managing the significant risks we face is ongoing and has been in place throughout the financial year commencing 1 April 2019 up to the date of approval of the Annual Report and Financial Statements.

Assurance on the efficiency, economy and effectiveness of our services and operations is obtained by placing reliance on the existing internal control framework, which encompasses the following key elements:

- A streamlined governance structure with clear, Board-approved terms of reference and a scheme of delegation for the Audit Committee, Performance and Standards Committee and Remuneration, Nominations and HR Committee;
- A Values Group predominantly made up of tenants which reports into the Performance and Standards Committee and is responsible for customer insight, service or scrutiny reviews and ensuring assurance over health and safety and compliance matters;
- A clear forward plan for each Board and Committee and a compliance calendar setting out regulatory and similar returns that must be submitted for monitoring by the governance team and reported through to the Board;
- Robust strategic business planning processes linked to our Corporate Plan and supported by detailed financial budgets and forecasts;
- A Risk Management Framework with an updated Board statement of risk attitude and tolerance, together with a risk management policy statement, principles, process and specific roles and responsibilities. The Framework is reviewed annually by the RMWG, Audit Committee and Board;
- A RMWG that meets on a quarterly basis throughout the year and monitors strategic risks to make recommendations to Audit Committee and Board;
- Clear strategic risks aligned to our strategic objectives;
- Quarterly review of strategic risks and mitigating actions by the Audit Committee and the Board;
- Consideration of impact of Board discussions and decisions on strategic risks at each Board meeting;
- A robust approach to treasury management with an annual plan approved by the Board which is subject to a mid-year and annual review that is reported to Board;
- Monitoring and reporting of performance indicators by the Senior Leadership Team which consists of the Executive Management Team and Directors.
- Quarterly performance reports presented to the Performance and Standards Committee and the Board, setting out the progress of performance against targets and any issues or trends identified which require management focus;

- Review and update on progress with the action plan identified from the fraud risk assessment and controls gap analysis which is reported to the Audit Committee and monitored throughout the year;

- Up to date policies on whistle blowing, anti-fraud and corruption and anti-money laundering approved by the Audit Committee;

- An Annual Fraud Report presented to the Audit Committee setting out the work done throughout the year in relation to fraud and fraud prevention and a standing item on the Audit Committee agenda to discuss fraud;

- Private meetings between the external auditors, internal auditors and Audit Committee members at least once a year to allow for discussion of matters without management present;

- A Board approved code of conduct for Board, Committee and Values Group members and employees and a probity policy for staff;

- Annual appraisal of Board and Committee members and implementation of a training and development plan for members;

- Regular monitoring of loan covenants and forecasting of cash flows and future funding requirements;

- A robust stress testing approach, developing in conjunction with the Audit Committee and Board, linking to the strategic risk register with a corresponding mitigation strategy;

- Regular scenario testing and stress testing of the Business Plan to understand the impact of different development opportunities;

- Financial Regulations which set out the overall control framework for all financial transactions supported by detailed policies and procedures in each service area;

- Board approval, due diligence and appraisal of all significant new initiatives, strategic decisions and capital commitments, such as the new build development schemes;

- An outsourced internal audit service delivering a risk-based approach to develop the annual and three-year risk based internal audit plan which is approved and monitored by the Audit Committee;

- Ongoing monitoring of forthcoming legislative and regulatory changes to ensure compliance with any new requirements, for example gender pay gap reporting; and

- An Assets and Liabilities Register supported by a Board approved policy and manual which is updated quarterly by management. The Assets and Liabilities Register was the subject of an internal audit review in 2019/20 with the outcome of a low risk report highlighting two low priority and one advisory recommendation which have all been actioned.

Effectiveness of the Key Control Framework

We draw upon a number of sources of assurance on an ongoing basis to establish the effectiveness of key controls which include:

- Internal and external audit reports;
- Assessment by external and regulatory bodies;
- Industry accreditations;
- Stakeholder feedback;
- Risk management reports;
- Performance management information;
- Financial performance information;
- Self-assessment against industry standards and best practice.

The Internal Audit Annual Report was presented to Audit Committee on 10 June 2020 highlighting the results of the 2019/20 internal audit work on our system of governance, risk management and control. The Internal Auditors stated that:

'Our work identified low, medium and high risk rated findings. No critical risk rated findings were identified during the year. Based on the work completed, we believe that these are isolated to the following and when taken in aggregate are not considered pervasive to the system of internal controls as a whole:

Two high risk reports were issued during 2019/20 for Human Resources (HR) and Operations Compliance.

For HR, two individual high risk findings were identified in relation to checking of HR information and learning and development.

For Operations Compliance, three individual high risk findings were identified in relation to asbestos management procedures, fire risk assessments, and tenant asbestos arrangements.

The Annual Report also stated *'we also identified a number of areas where few weaknesses were identified and/or areas of good practice.'*

Internal audit recommendations are followed up internally by managers every quarter to provide assurance that actions are being implemented. The Audit Committee receive an annual, evidence based follow up review from the internal auditors to provide independent assurance on the progress of implementation of recommendations in the year.

There is an ongoing process to identify, evaluate and manage key strategic risk exposures and this has been in place throughout the 2019/20 financial year.

The Board has reviewed the effectiveness of the system of internal control for the accounting period commencing 1 April 2019 up to the date of approval of the Annual Report and Financial Statements. It has not identified any weaknesses which resulted in material losses or contingencies or other uncertainties which require disclosure in the financial statements.

National Housing Federation Code of Governance (2015)

The adoption of the 2015 National Housing Federation Code of Governance ('the Code') was reaffirmed at the Board meeting in May 2020 along with an action plan to ensure and enhance continued compliance with the Code.

An annual report on compliance against the Code of Governance was received by the Board in September 2019 and May 2020 which identified no areas of non-compliance.

Merger, Group Structures and Partnerships Code

We have adopted the voluntary code for Mergers, Group Structures and Partnerships published by the National Housing Federation.

In 2019/20 there has been no activity to report under this code.

Compliance with Governance and Financial Viability Standard

The Regulator's Governance and Financial Viability Standard (the Standard) was updated in April 2015. This was accompanied by a new Code of Practice, which provides guidance to registered providers to ensure compliance with the Standard.

The Standard requires registered providers to assess their compliance with it at least annually and Boards are required to report their compliance with the Standard within their annual accounts.

Compliance with the Regulator's revised Governance and Financial Viability Standard is monitored by management and is formally reviewed by the Board annually. The Board received a report setting out compliance with the Governance and Financial Standard on the 4 September 2020 alongside these financial statements. We confirm our compliance in full with the requirements of the Governance and Financial Viability Standard.

Employee engagement and involvement

We are committed to engaging and involving our employees and keeping them up to date with business developments. We use Workplace by Facebook as the main method of communication with staff across the organisation. Workplace incorporates regular updates from different service areas across the business as well as updates from the Executive Management Team.

There are also regular team meetings and a magazine publication which is distributed to all employees and provides updates on key developments across the business.

'Your Development Programme' is available to all staff and provides a programme which supports personal development, building knowledge, skills development, professional development and the aspiring leaders programme. The programme covers a range of topics from business writing and interview skills to understanding stress and resilience.

Our Wellbeing Policy was approved by the Board in March 2019 setting out our approach to ensuring the wellbeing of our staff and building on the outputs of the wellbeing pilot project completely previously. We continue to provide access to occupational health services for all staff and have provided mental health awareness training and access to additional mental health support during the Covid-19 crisis.

During 2019/20 we established our Moving Forward team to support the new accommodation project. This involved staff members from across the business working on this key corporate project, with a key part of their role being liaison with staff to understand any concerns or challenges and helping the business to address them.

Our report on our gender pay gap can be found at our website: www.believehousing.co.uk.

Equal opportunities

We are committed to equal opportunities and this is demonstrated through our approach to recruitment and selection through to accessing training and career development.

Our Equality, Diversity and Inclusion policy supports our commitment to removing all direct and indirect discrimination and eradication of any harassment or victimisation that may occur. Our policy is that less favourable treatment of anyone on the grounds of age, sex, race / ethnicity / origin, disability, religion, sexual orientation, marital status or familial / caring responsibilities will not be tolerated.

We aim to ensure that prospective and current employees are afforded equal and fair treatment in relation to recruitment, selection, terms and conditions or employment, training and promotion. All recruitment, development and promotion opportunities are based on fair and equitable job related criteria.

Employees with disabilities

Our policy is that people with disabilities should have full and fair consideration for all vacancies and where it is possible, reasonable adjustments will be made to meet the needs of disabled employees.

Statement of Board members' responsibilities

The Board are responsible for preparing the Annual Report and financial statements in accordance with applicable law and regulations.

Co-operative and Community Benefit Society legislation requires the Board to prepare financial statements for each financial year. Under that law the Board have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland. Under the Co-operative and Community Benefit Society legislation the Board must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and surplus or deficit of the Association for that period. In preparing these financial statements, the Board are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice (SORP) Accounting by Registered Housing Providers 2018, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Association will continue in business.

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Association and enable it to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing (January 2019). It is also responsible for safeguarding the assets of the association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Disclosure of information to auditors

In case of each Board member in position at the date the Report of the Board is approved, that:

(a) in so far as each member is aware, there is no relevant audit information of which the auditors are unaware; and

(b) each member has taken all the steps that he/she ought to have taken as a member to make himself/herself aware of any relevant audit information and to establish that the auditors are aware of that information.

The Report of the Board, including the Strategic Report, reporting on Value for Money and the Statement of Board members responsibilities, was approved on the 4 September 2020 and signed on behalf of the Board by:

Judith Common

Chair of the Board

Independent auditor's report to the members of Believe Housing Limited

Opinion

We have audited the financial statements of Believe Housing Limited (the 'Association') for the year ended 31 March 2020, which comprise the Statement of Comprehensive Income, Statement of Changes in Reserves, Statement of Financial Position, Statement of Cash Flows and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including Financial Reporting Standard 102; The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Association's affairs as at 31 March 2020 and of its income and expenditure for the year then ended;

- have been properly prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008, and the Accounting Direction for Private Registered Providers of Social Housing 2019.

Basis for opinion

We have been appointed as auditor under the Co-operative and Community Benefit Societies Act 2014 and report in accordance with regulations made under that Act. We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company associated with these particular events.

Conclusions relating to going concern

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

- the boards' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the board have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the boards' conclusions, we considered the risks associated with the societies business, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Other information

The board is responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

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

- a satisfactory system of control over transactions has not been maintained; or

- the Association has not kept proper accounting records; or
- the financial statements are not in agreement with the books of account; or
- we have not received all the information and explanations we need for our audit.

Responsibilities of the board for the financial statements

As explained more fully in the Statement of Board's Responsibilities set out on pages 44 and 45, the board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the board is responsible for assessing the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board either intend to liquidate the Association or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

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

Use of our report

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

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Leeds
4 September 2020

Statement of Comprehensive Income

	Note	2020	2019
		£'000	£'000
Turnover	3	66,111	66,563
Operating expenditure	3	(49,798)	(49,205)
Gain on disposal of fixed assets	3/7	3,257	4,954
Operating surplus	6	19,570	22,312
Interest receivable	8	169	200
Interest and finance costs	9	(5,925)	(5,851)
Surplus on ordinary activities before taxation		13,814	16,661
Tax on surplus on ordinary activities	13	-	-
Surplus for the year		13,814	16,661
Remeasurement (loss) / gain in respect of pension scheme	25	(5,297)	2,496
Total comprehensive income for the year		8,517	19,157

The results relate wholly to continuing activities.

The accompanying notes form part of these financial statements.

The financial statements on pages 49 to 95 were approved and authorised for issue by the Board on 4 September 2020 and signed on its behalf by:

Judith Common	Douglas Ross	Andrew Coates
Chair of the Board	Board Vice Chair	Secretary

Statement of Changes in Reserves

	Note	Income and Expenditure Reserve £'000 2020	Income and Expenditure Reserve £'000 2019
Balance at the beginning of the year		45,452	26,295
Surplus for the year		13,814	16,661
Other comprehensive income for the year	25	(5,297)	2,496
Balance at the end of the year		53,969	45,452

The accompanying notes form part of these financial statements.

Statement of Financial Position

	Note	2020	2019
		£'000	£'000
Intangible fixed assets			
Intangible fixed assets	14	1,442	1,524
		1,442	1,524
Tangible fixed assets			
Tangible fixed assets – housing properties at cost	15	228,933	182,171
Tangible fixed assets – other	16	3,123	200
		232,056	182,371
Current assets			
Stock	17	115	63
Debtors	18	5,024	4,643
Cash at bank and in hand		4,715	31,404
		9,854	36,110
Creditors: amounts falling due within one year	19	(11,690)	(11,178)
Net current (liabilities) / assets		(1,836)	24,932
Total assets less current liabilities		231,662	208,827
Creditors: amounts falling due after more than one year	20	(123,374)	(117,000)
Provision for liabilities			
Pension provision	25	(52,655)	(44,962)
Other provisions	22	(1,664)	(1,413)
Total net assets		53,969	45,452
Reserves			
Income and expenditure reserve		53,969	45,452
Total reserves		53,969	45,452

The accompanying notes form part of these financial statements. The financial statements on pages 49 to 95 were approved and authorised for issue by the Board on 4 September 2020 and signed on its behalf by:

Judith Common	Douglas Ross	Andrew Coates
Chair of the Board	Board Vice Chair	Secretary

Statement of Cash Flows

	Note	2019 £'000	2019 £'000
Net cash generated from operating activities	27	23,571	22,187
Cash flow from investing activities			
Purchase of intangible fixed assets		(327)	(391)
Purchase of tangible fixed assets		(56,372)	(26,309)
Proceeds from sale of tangible fixed assets		4,348	6,432
Grant received		6,771	4,283
Interest received		169	200
		(21,840)	6,402
Cash flow from financing activities			
Interest paid		(4,849)	(4,517)
		(26,689)	1,885
Net change in cash and cash equivalents		(26,689)	1,885
Cash and cash equivalents at beginning of the year		31,404	29,519
Cash and cash equivalents at end of the year		4,715	31,404

The accompanying notes form part of these financial statements.

Notes to the financial statements

1. Legal status

Believe Housing Limited is registered under the Cooperative and Community Benefit Society Act 2014 and is a registered provider of social housing. The country of incorporation for Believe Housing Limited is the United Kingdom and its registered address during the year ended 31 March 2020 was First Floor, Spectrum 6, Spectrum Business Park, Seaham, SR7 7TT. On 7 April 2020 the registered address of Believe Housing Limited moved to Coast House, Spectrum Business Park, Seaham, SR7 7TT.

Believe Housing Limited ('believe housing') was formed on 1 April 2019, combining County Durham Housing Group Limited, East Durham Homes Limited, Dale & Valley Homes Limited and Durham City Homes Limited. This was achieved through a statutory amalgamation process under section 109 of the Co-operative and Community Benefits Society Act 2014. Under this process all property of the combining entities automatically vested into believe housing without any need for conveyance, novation or assignment. All assets, liabilities and contractual arrangements from the predecessor organisations were unchanged and automatically vested with believe housing from 1 April 2019. The comparative information set out in these financial statements are the consolidated figures from the County Durham Housing Group Limited Annual Report and Financial Statements for the year ending 31 March 2019.

2. Accounting policies

Basis of accounting

These financial statements are prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including Financial Reporting Standard 102 (FRS 102) and the Housing SORP 2018: Statement of Recommended Practice for registered social housing providers, and comply with the Accounting Direction for Private Registered Providers of Social Housing 2019.

The financial statements are presented in sterling (£).

Going concern

We are a large scale voluntary stock transfer organisation that was established in April 2015. Our business activities are focussed on the provision of social and affordable housing customers and supporting our local communities. Our business activities, current financial position and factors likely to affect our future development are set out in further detail within the Report of the Board. We have long-term debt facilities in place, which provide sufficient resources to finance committed reinvestment and development programmes, along with our day to day operations.

Our funding facilities are split between £75m long term funding arrangement with M&G Investments and £75m of revolving credit facilities with Barclays Bank plc. Our revolving credit facilities have three tranches which expire on 31 March 2022, 31

March 2025 and 31 March 2027. We agreed an extension to the first tranche of our revolving credit facilities with Barclays which was due to expire on 31 March 2020 during 2019/20. This means we have the £20m Tranche B1 facility with Barclays available to us until the 31 March 2022. A review of our treasury and funding arrangements is in progress with a timetable in place to have funding in place well in advance of the expiry of the first tranche of the Barclays revolving credit facility.

At 31 March 2020 we had drawn £115m of our total £150m funding facility leaving £35m undrawn and immediately available if required.

Our Statement of Financial Position reports a net current liabilities position at the end of March 2020 of £1.836m compared to a net current assets position at the end of March 2019 of £24.932m. This year end position is due to the decrease of £26.341m in our cash balances during the year, which was expected and in line with our original Business Plan forecasts. Our cash balances have increased steadily since 2015/16 and had been earmarked to fund our future capital investment and development programmes. The cash flow statement shows that our investment in assets has increased from £26.309m in 2018/19 to £56.372m which reflects the investment in our existing and new housing properties in the year. This is the key driver for the decrease in cash which was consistent with our expectation and Business Plan. As noted above, we had undrawn funding facilities with Barclays totalling £35m at the end of the financial year. This facility is available to be drawn down within 24 hours if required. In April 2020 we took the decision to draw down a further £10m from our revolving credit facility with Barclays to increase our cash balances and mitigate the potential impact of Covid-19 which at the time was unclear. This additional funding has not been required to date but continues to be held as part of our overall cash balances with counterparties where we have immediate access to our funds.

We produce a 30 year Business Plan each year which helps us to understand our long term financial position. The Business Plan is developed based on a number of key economic assumptions as follows:

- Inflation rates
- Voids, arrears and bad debts
- Interest rates
- Right to buy sales
- Other asset disposals and demolitions

Our approved annual operating budget provides the starting position as year one off the 30 years and the Business Plan incorporates our anticipated investment and savings from the corporate projects set out in our Corporate Plan.

Our latest Business Plan was approved by the Board on the 25 March 2020 and it showed that we are able to service our debt facilities whilst continuing to comply with our financial covenant requirements. The Board have been monitoring the impact of Covid-19 on this Business Plan through the Treasury Covid Scorecard. This scorecard provides a weekly update on our cash position and compares our forecast cash income and expenditure to that of the Business Plan, highlighting any key variances. This information has been discussed at each meeting of the Board, the Covid-19 Committee and the Performance and Standards Committee since April 2020. The Business Plan is in the process of being updated to meet the deadlines set by the Regulator and our funders of the 30 September 2020.

Our Business Plan was subjected to a series of stress test scenarios linked to our strategic risks which look at the financial impact of specific risks materialising and their impact on the Business Plan. These stress test scenarios were developed prior to Covid-19 and help us to identify the areas of greatest sensitivity and the mitigating actions that would be required if a stress test scenario or something similar occurred. A separate Covid-19 stress test scenario was also developed and run against the Business Plan to identify any specific sensitivities and mitigating actions that may be required. This was reported to the Board as part of the Business Plan report in March 2020.

The stress test scenarios that require significant mitigating actions to reduce our annual expenditure on a recurring basis are:

- changes in government rent policy which result in a reduction in social housing rent;

- introduction of a new standard for decent homes which requires significant investment in our housing properties with no reciprocal grant funding available to support the programme of works; and

- a macro economic shock as set out in the latest Bank of England stress test for Brexit which results in significant increases in property related costs such as capital investment, repairs and maintenance and development with no change to our income base.

We monitor our key economic assumptions that have the greatest impact on the Business Plan on a monthly basis to ensure prompt mitigating action can be taken if necessary.

Following the announcement from the World Health Organisation on the 11 March 2020 that a new coronavirus, Covid-19, was a pandemic, countries around the world have put in place a series of measures to try and control the virus. As a business we successfully enacted our business continuity plans and made the decision to move to an essential repairs service on the 23 March 2020, prior to the government announcement of lockdown, to protect both our customers and our people.

Our people immediately moved to working from home, having already been provided with the equipment necessary to work in a more agile and flexible way as part of the new accommodation project completed in February 2020. We adapted our ways of working to ensure services to customers continued where possible.

A weekly Covid-19 performance scorecard and a Covid-19 risk register has been developed to monitor the impact of Covid-19 on our people, our customers and our business. This information is monitored closely by the Board and the Senior

Leadership Team to understand the impact on our financial position and operational service delivery. The ongoing challenges and uncertainty emerging from the pandemic also present a number of cross cutting new and strategic risk exposures at least for the medium term and, therefore, an additional strategic risk has been added to our register to identify the exposure and the mitigating controls that have been developed. In addition, as noted previously, a Treasury Covid Scorecard is in place to provide a weekly update on the financial position of the business and how this compares to the original approved Business Plan.

We have been working hard to support our customers and communities during the Covid-19 pandemic and up to the 15 June 2020 we achieved the following:

In May 2020 we started to consider how best to restart our all of our services to customers and developed five tests that had to be met before any service recommenced. Risk assessments must be signed off by the Executive Directors prior to any service restarting to ensure the correct personal protective equipment (‘PPE’) is available and there are appropriate safeguards in place to manage risks identified.

Over the months of May and June 2020 we restarted:

- property inspections;
- viewings of properties
- gardening services;
- visits and inspections of our development sites;
- works to void properties to make them ready for new tenants;

- external improvement works on homes; and
- urgent aids and adaptations.

From July 2020 we restarted our non essential repairs services, prioritising the repairs jobs that were due to be scheduled to be completed when lockdown started and as a result had to be put on hold.

Whilst our long-term Business Plan was prepared prior to Covid-19, the Covid-19 stress test scenario developed to show the potential impact of the pandemic noted that no mitigating actions were required based on this initial scenario. The impact of Covid-19 continues to be monitored through the Treasury Covid Scorecard which reports the actual cash flows of the business compared to the original pre Covid-19 Business Plan. We have adjusted our cash flow forecasts from those originally set out in the Business Plan to reflect the following:

- areas of increased cost, such as Personal Protective Equipment and fogging works in the next 12 months
- a reduction in income to show the potential impact of increasing arrears and falling rent collection in the next 12 months

All other expenditure and investment is assumed to ‘catch up’ over the course of the next 12 months and has not been reduced in our cash flow forecasts.

This information is compared to our cash flow covenant target which is the financial covenant that is reset each year based on the approved Business Plan. The cash flow covenant target for 2020/21 will not be reset until our Business Plan is approved and signed off by funders. Therefore, we are monitoring our compliance with our cash flow covenant target based on the latest Business Plan approved (2019 – 204 Business Plan). This ensures that in the event of the financial covenant target for 2020/21 not being reset and approved we will continue to meet all of our financial covenants without exception. Our latest cash flow forecasts show significant headroom in meeting the latest approved cash flow covenant target for 2020/21.

This information has been reported to the Board as part of the going concern assessment.

Our work is ongoing to formally update our Business Plan to reflect the impact of Covid-19 and this will be presented to Board on the 23 September 2020 alongside an update of our Corporate Plan. Our updated Business Plan will be submitted to the Regulator and our funders for sign off before the 30 September 2020.

In addition to the review of our financial forecasts, we have reviewed our going concern assessment alongside the new Covid-19 risk register to assess the impact of the risks identified on our ability as a business to continue as a going concern. We have not identified any of these risks impacting on our going concern assessment. Our business activities are focussed on the provision of social and affordable homes and supporting our local communities and there is no reliance on the property sales market in our Business Plan. The impact of Covid-19 on demand for our services is likely to be higher than it has been previously due to the wider impact of the pandemic on the local and national economy,

The principal risks and uncertainties as a result of Covid-19 which impact on our business relate to:

- ensuring continued collection of our rental income;

- supply of PPE to ensure continued service delivery; and

- supply chain risk in the event that a supplier is in financial difficulty or cannot source required materials.

We are managing these risks as follows:

- We monitor our rent collection and rent arrears position closely and have teams in place to provide our customers with the support they may require, for example our Universal Credit team supports customers moving on to Universal Credit for the first time.

- We have established good relationships with suppliers of PPE and are now looking to advance order based on our experience of usage during the period of lockdown. An additional performance indicator has been developed to identify the number of days' supply we have to ensure the delivery of critical services.

- All key suppliers are monitored to ensure any financial challenges are identified promptly. We have considered business continuity arrangements for all key suppliers and the alternative options if there were any issues with our supply chain. We have moved to immediate payment on approval of invoice for our small and medium sized suppliers to help support their financial position and sustainability.

The financial impact of these risks has been assessed through our stress test scenarios and the impact of these on our business does not affect our going concern assessment.

A further principal risk and uncertainty is the impact of Covid-19 on government policy and any changes that impact on rent policy for social housing. Changes to rent policy is one of the stress test scenarios already run against the current Business Plan and therefore we have a clear indication of the mitigating actions required in the event this transpires.

We have reviewed and updated our going concern assessment, taking into consideration the current and potential future impact of Covid-19 on the business plan and its assumptions. This assessment has included consideration of any significant judgements, estimates and uncertainties that could impact on the long-term business plan and the going concern assumption. There are no changes in assumptions or significant judgements, estimates and uncertainties identified from this work which impact on the going concern assumption basis for the preparation of the financial statements. This updated going concern assessment was reported to the Audit Committee on the 10 June 2020 and the Board on the 8 July 2020.

On the basis of this information, the management and the Board have a reasonable expectation that there are 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, the going concern basis has been adopted for the preparation of the financial statements.

Significant judgements and estimates

Preparation of the financial statements requires management to make significant judgements and estimates. The items in the financial statements where these judgements and estimates have been made include the following:

Significant management judgements

Categorisation of property assets: the categorisation of property assets as investment properties or fixed assets is a matter of judgement and is based on the intended use of the property. Where the property is used for social benefit it is categorised as a fixed asset. Only property which is intended to be used for commercial return or capital appreciation is categorised as an investment property.

Allocation of components within existing housing property assets: the allocation of components within housing property assets that transferred from Durham County Council is a matter of judgement. Management have considered the nature and type of housing property and allocated components for the opening housing property asset balances using the National Housing Federation matrix developed to assist registered providers with component accounting as a basis for the allocation of components to the housing properties at transfer.

Allocation of components for new development: the allocation of components for newly developed properties is a matter of judgement and has been based on an analysis of components for different property sizes obtained from an independent third party expert.

Accounting for pension liabilities: the pension liability includes an estimate of the potential impact of the McCloud/Sargeant case and Guaranteed Minimum Pension equalisation on the reported pension figures. These calculations have been based on the Government Actuary’s Department estimated impact of these two legal cases on the pension liability which have been calculated using a series of assumptions. In particular, two assumptions relating to salary increases and the average age of employees have a significant impact on the estimated liability. Management have reviewed the assumptions set out by Government Actuary’s Department and have determined that they are both reasonable and appropriate in estimating the liability for believe housing.

Impact of material uncertainty on pension scheme property assets: at the end of March 2020 valuation of property assets contained a material uncertainty disclosure due to the ongoing Covid-19 pandemic. As members of the local government pension scheme which has pension assets held in property management have had to determine if this material uncertainty for property asset valuations impacts on the pension scheme assets included in the financial statements. Management have reviewed the proportion of pension scheme assets invested in property and considered the long-term nature of the pension scheme's investment strategy to determine the potential impact on the position at the end of the year. Management have determined that there is no amendment to the pension scheme assets required as a result of the material uncertainty disclaimer included in property asset valuations at the end of March 2020.

Assessment of impairment: a review of the indicators of impairment set out in applicable accounting standards has been undertaken to understand if there is any impairment of housing property assets to be recognised in the financial statements. This assessment applies management judgement in whether the indicator of impairment is applicable and the key indicator of impairment has been identified as void performance. Management consider individual schemes to be cash generating units when assessing the recoverable amount for impairment purposes. Voids and void performance have been reviewed alongside consideration of the impact of Covid-19 and judgement applied as to whether there is any impairment of housing properties based on this information. This is considered to be a reasonable approach to assessing impairment of our social housing properties.

Impact of transfer of staff from Mears on pension figures: following the transfer of staff from Mears to believe housing in July 2019, the actuary for the Local Government Pension Scheme needs to determine the value of assets and liabilities to be transferred into the believe housing part of the pension scheme. This work is ongoing and no allowance has been made in the reported pension figures for these assets and liabilities due to the level of uncertainty over the exit valuation in respect of Mears. Management have been involved in discussions with the Local Government Pension Scheme on this matter. Based on these discussions management have determined that the risk of material misstatement of the pension figures reported in these financial statements is low.

Estimation uncertainty

Useful lives of depreciable assets: the annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investment, economic utilisation and the physical condition of the assets.

Defined benefit obligations: the Association has obligations to pay pension benefits to employees. The cost of these benefits and the present value of the obligation depend on a number of factors including: life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the Statement of Financial Position. The assumptions reflect historical experience and current trends.

Recoverability of debtors: the Association makes an estimate of the recoverable value of rental, trade and other debtors. When assessing the recoverability of these balances, management considers factors including the ageing profile of debtors, performance information and historical experience of recovering outstanding balance. See the debtors note for the net carrying amount of debtors and the associated bad and doubtful debt provision.

Provisions: the Association makes an estimate of any provisions at the end of the financial year based on the information available to management. When assessing any potential liability management considers the latest information from third parties, the method of calculation of the liability and historical evidence to determine the balance.

Turnover and revenue recognition

Turnover comprises rental income receivable in the year and other services included in the invoiced value (excluding VAT where recoverable) of goods and services supplied in the period and grants receivable in the year.

Rental income is recognised from the point when a property becomes available for letting, net of any voids.

Value Added Tax

The Association charges Value Added Tax (VAT) on some of its income and is able to recover part of the VAT it incurs on expenditure. The financial statements include VAT to the extent that it is suffered by the Association and not recoverable from HM Revenue and Customs. The balance of VAT payable or recoverable at the end of the reporting period is included as a current liability or asset.

Interest payable

Interest payable is charged to income and expenditure in the period to which it relates.

Financial instruments

Financial instruments are accounted for in accordance with sections 11 and 12 of FRS 102.

Financial assets

Basic financial assets, including trade and other receivables, cash and bank balances and investments are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period, financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's effective interest rate. The impairment loss is recognised in the Statement of Comprehensive Income.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in the Statement of Comprehensive Income.

Financial liabilities

Basic financial liabilities, including trade and other payables and bank loans, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan, to the extent that it is probable that some or all of the facility will be drawn down.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Debtors

Short term debtors are measured at transaction price, less any impairment. Debtors on agreed payment plans are incorporated into the bad and doubtful debt provision; therefore there is no additional discounting of these balances.

Creditors

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

Employee benefits

Short term employee benefits are recognised as an expense in the period in which they are incurred.

Pensions

The Association participates in the Durham County Council Pension Fund (‘DCCPF’) which is a defined benefit local government pension scheme. Scheme assets are measured at their fair values. Scheme liabilities are measured on an actuarial basis using the projected unit credit method and are discounted at appropriate high quality corporate bond rates. The net surplus or deficit is presented separately from other net assets on the Statement of Financial Position. A net surplus is only recognised to the extent that it is recoverable by the Association through reduced contributions or through refunds from the plan.

The current service cost and costs from settlements and curtailments are charged against operating surplus. Past service costs are recognised in the current reporting period. Interest is calculated on the net defined benefit liability. Re-measurements are reported in the Statement of Comprehensive Income.

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 cost less accumulated depreciation and impairment losses. Cost includes the cost of acquiring land and buildings, development costs and interest charges incurred during the development period.

Works to existing properties which replace a component that has been treated separately for depreciation purposes, along with those works that could 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. A de minimus level of £1,000 is applied for the capitalisation of expenditure.

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

Disposal of fixed assets

The gain or loss on disposal of fixed assets is recognised in the Statement of Comprehensive Income as a separate line above the operating surplus / deficit.

Impairment

Annually assets, including housing properties, are assessed for impairment indicators. Where indicators are identified, an assessment for impairment is undertaken to compare the asset's carrying amount to its recoverable amount.

Where the carrying amount of the asset is deemed to exceed its recoverable amount, an impairment charge is recognised within expenditure and the asset is written down to its recoverable amount.

The recoverable amount is the higher of the asset's value in use and fair value less costs to sell. The value in use for assets held for their service potential, e.g. social housing properties, is determined using depreciated replacement cost. Where an asset is deemed not to be providing service potential to the Association, the recoverable amount will be its fair value less costs to sell.

Depreciation of housing properties

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

The Association depreciates the major components of its housing properties on a straight line basis as follows:

- Kitchen	20 years
- Bathroom	30 years
- Electrical Installation (Partial or Full)	30 years
- Heating Installation	15 years
- Windows & Doors	30 years
- Structural	50 years
- Roof	50 years
- Lifts	30 years
- Garage blocks	50 years

Freehold land is not depreciated. Leasehold properties are amortised over the life of the lease or their estimated useful economic lives in the business, if shorter.

Government grants

Government grants include grants receivable from Homes England, 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 model. Government grant for housing properties is only allocated to an individual component if it relates specifically to that individual component.

Grants relating to revenue are recognised in income over the same period as the expenditure to which they relate once reasonable assurance has been gained that the Association 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 current liabilities.

Government grants released on sale of a property may be repayable but are normally available to be recycled and are credited to a Recycled Capital Grant Fund and included in the Statement of Financial Position within 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 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 income.

Intangible fixed assets

Intangible fixed assets; computer software is measured at cost. Computer software is amortised over its estimated useful life of 5 years, on a straight-line basis. A de minimus level of £1,000 is applied for the capitalisation of expenditure. The assets are reviewed for impairment if the above factors indicate that the carrying amount may be impaired. Amortisation is charged to operating expenditure within the Statement of Comprehensive Income.

Other tangible fixed assets

Other tangible fixed assets are measured at cost. A de minimus level of £1,000 is applied for the capitalisation of expenditure. Depreciation is provided on a straight-line basis to write down the cost of the asset to its estimated residual value over its expected useful life. Depreciation is provided as follows:

- Freehold buildings	50 years
- Long leasehold property	Over life of lease
- Furniture, fixtures and fittings	3 - 10 years
- Computers and office equipment	5 years
- Motor vehicles	5 years

No depreciation is charged on freehold land.

Donated land and other assets

Donated land or other donated assets are recognised on donation and measured at their market value, taking into account any restriction on the use of that asset.

Where the asset is donated by a government source, the market value of the asset donated is accounted for as a government grant and recognised to income over the life of the asset.

Where the asset is donated by a private, non-government organisation, the market value of the asset donated is recognised as income once any associated performance-related conditions have been met.

Provisions for liabilities

Provisions are recognised when the Association has a present obligation (legal or constructive) as a result of a past event, it is probable that the Association will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised as the present value using a pre-tax discount rate. The unwinding of the discount is recognised as a finance cost within expenditure in the period it arises.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to the Association.

All other leases are classified as operating leases.

Rentals payable under operating leases are charged to income and expenditure on a straight-line basis over the lease term, unless the rental payments are structured to increase in line with expected general inflation, in which case the Association recognises the annual rent expense equal to amounts owed to the lessor as expenditure.

The aggregate benefit of lease incentives are recognised as a reduction to the expense recognised over the lease term on a straight-line basis.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months of less.

3. Particulars of turnover, cost of sales, operating expenditure and operating surplus

Continuing activities

2020

	Turnover £'000	Cost of sales £'000	Operating costs £'000	Gain on disposal of fixed assets £'000	Operating surplus £'000
Social housing lettings	64,236	-	(49,052)	3,257	18,441
Activities other than social housing activities					
Lettings	209	-	-	-	209
Other	1,666	-	(746)	-	920
	1,875	-	(746)	-	1,129
	66,111	-	(49,798)	3,257	19,570

2019

	Turnover £'000	Cost of sales £'000	Operating costs £'000	Gain on disposal of fixed assets £'000	Operating surplus £'000
Social housing lettings	64,619	-	(48,491)	4,954	21,082
Activities other than social housing activities					
Lettings	67	-	-	-	67
Other	1,877	-	(714)	-	1,163
	1,944	-	(714)	-	1,230
	66,563	-	(49,205)	4,954	22,312

4. Particulars of income and expenditure from social housing lettings

	General needs Housing £'000	Supported housing and housing for older people £'000	Low cost home ownership £'000	2020 Total £'000	2019 Total £'000
Rent receivable net of identifiable service charges	63,448	-	-	63,448	63,807
Service charges receivable	620	-	-	620	712
Amortised government grants	168	-	-	168	100
Turnover from social housing lettings	64,236	-	-	64,236	64,619
Management	(21,098)	-	-	(21,098)	(19,162)
Service charge costs	(863)	-	-	(863)	(1,365)
Routine maintenance	(15,716)	-	-	(15,716)	(17,203)
Planned maintenance	(3,598)	-	-	(3,598)	(3,927)
Major repairs expenditure	(2,207)	-	-	(2,207)	(753)
Bad debts	(176)	-	-	(176)	(1,022)
Depreciation	(5,394)	-	-	(5,394)	(4,077)
Impairment	-	-	-	-	(982)
Operating costs on social housing lettings	(49,052)	-	-	(49,052)	(48,491)
Gain on disposal of fixed assets	3,257	-	-	3,257	4,954
Operating surplus on social housing lettings	18,441	-	-	18,441	21,082
Void losses	(1,253)	-	-	(1,253)	(1,097)

Particulars of turnover from non-social housing lettings

	2020 £'000	2019 £'000
Non-social housing		
Commercial units	225	221
	225	221

5. Accommodation in management and development

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

	2020 No. of properties	2019 No. of properties
Social housing		
General needs housing		
- social rent	17,757	17,888
- affordable rent	184	103
- intermediate rent	132	-
Low cost home ownership	3	3
Total owned	18,076	17,994
General needs housing managed for others	-	-
Total managed	18,076	17,994
Non-social housing		
Leasehold properties	203	202
Total owned and managed	18,279	18,196
Other property types		
Commercial units	107	119
Accommodation in development at the year end	348	292

The Association does not own or lease any supported housing units.

6. Operating surplus

	2020 £'000	2019 £'000
The operating surplus is arrived after charging/(crediting):		
Depreciation of social housing properties	5,394	4,077
Impairment of social housing properties	-	982
Depreciation of non-social housing properties	18	16
Depreciation of other tangible fixed assets	182	234
Operating lease rentals		
• land and buildings	482	346
• other	878	574
Auditors' remuneration (excluding VAT)		
• Fees payable for the audit of the financial statements	42	43
Fees payable for other services:		
• grant audit work	2	2
• tax compliance work	11	6
• VAT and employment tax advisory work	11	18
Total amount payable to the auditors	66	69

7. Gain on disposal of fixed assets

	2020 £'000	2019 £'000
Housing properties		
Disposal proceeds	4,348	6,433
Carrying value of fixed assets	(1,091)	(1,479)
	3,257	4,954

8. Interest receivable and other income

	2020 £'000	2019 £'000
Bank interest receivable and similar income	169	200
	169	200

9. Interest payable and finance costs

	2020 £'000	2019 £'000
Loans interest payable	4,466	4,447
Fees and charges	383	312
Other interest	-	-
Net finance costs for pensions (note 25)	1,076	1,092
	5,925	5,851

10. Employees

Average monthly number of employees:	2020 Number	2019 Number
Administration	118	119
Housing, support and care	401	343
	519	462
Expressed as full time equivalents:		
Administration	114	115
Housing, support and care	388	331
	502	446

Employee costs:

	2020 £'000	2019 £'000
Wages and salaries	15,054	12,997
Social security costs	1,486	1,308
Other pension costs	2,288	2,015
	18,828	16,319

Employees are members of either the Durham County Council Local Government Pension Fund or the People's Pension Fund.

Further information on the Durham County Council Local Government Pension Fund is given in note 25.

10. Employees (continued)

The full-time equivalent number of staff whose remuneration payable in the period was greater than £60,000 (including Executive Directors and Directors) is:

	2020 Number	2019 Number
£60,001 to £70,000	10	4
£70,001 to £80,000	2	7
£80,001 to £90,000	3	-
£90,001 to £100,000	1	1
£100,001 to £110,000	2	1
£110,001 to £120,000	4	-
£120,001 to £130,000	-	-
£130,001 to £140,000	2	1
£140,001 to £150,000	-	-
£150,001 to £160,000	-	1
£160,001 to £170,000	-	-
£170,001 to £180,000	2	-
£180,001 to £190,000	-	-
£260,001 to £270,000	1	-
	27	15

11. Board and committee members remuneration

The following table shows the salary and expenses paid to non-executive Board members of Believe Housing during the year in their role as Board and Committee members:

	2020			2019
	Salary	**Expenses**	**Total**	**Total**
	£	**£**	**£**	**£**
Anne Delandre *	-	-	-	1,780
Beverley Ann Tindale	5,251	-	5,251	2,084
Colum Walter Goodchild *	-	-	-	1,972
David Boyes	6,917	-	6,917	6,822
Douglas Ross	11,024	193	11,217	11,002
Gurpreet Singh Jagpal	5,251	239	5,490	5,292
Hazel Dale	6,917	1,095	8,012	7,422
John Marshall	2,945	-	2,945	-
John McGurk *	1,109	113	1,222	1,807
Joseph Mark Gardiner *	-	-	-	1,740
Judith Common	14,417	1,473	15,890	15,338
June Clark *	-	-	-	1,740
Kevan Joseph Wales	5,251	315	5,566	5,348
Kevin Shaw	5,251	-	5,251	5,001
Lesley Mellis *	-	-	-	2,486
Nathan Marcus Bent	-	-	-	1,602
Russell John Hall	-	-	-	4,168
Tanya Tucker *	-	-	-	1,740
William Kellet *	-	-	-	1,833
	64,333	3,428	67,761	79,177

*Members of the former Operations Committee

The total amount of remuneration (i.e. salary) paid as a percentage of turnover was 0.10% (2019: 0.11%). Individual and collective performance appraisals, including 360-degree feedback, are carried out each year to assist in determining whether payment to Board and Committee members remains appropriate.

12. Key management personnel

Key management personnel

Key management personnel are defined as Board members and the Senior Leadership Team. A new senior management team structure has been put in place in 2019/20 and therefore those roles defined as key management personnel has expanded in comparison to prior year to include all Executive Directors and Directors.

Total compensation payable to key management personnel in the year was £1,650k (2019: £627k).

Executive Directors and Directors

Total compensation payable to Executive Directors and Directors is as follows:

	2020	**2019**
	£'000	**£'000**
Wages and salaries	1,124	446
Benefits in kind	-	-
Pension contributions	345	45
National insurance contributions	140	57
	1,609	**548**

Bill Fullen, the Chief Executive, as the highest paid executive, received aggregate emoluments of £179k (2019: £173k). The Chief Executive was an ordinary active member of the Durham County Council Local Government Pension Scheme until November 2017 when he withdrew as an active member from the scheme. Therefore no pension contributions were paid into the Durham County Council Local Government Pension Scheme on behalf of the Chief Executive in the year to 31 March 2020 (2019: £nil). There are no enhanced benefits or special terms to his membership of the pension scheme.

During the year, the aggregate compensation for loss of office of key management personnel was £217k (2019: £nil). This amount includes £195k paid to the Durham County Council Local Government Pension Scheme as capital contribution costs for the individual on their retirement.

13. Tax on surplus on ordinary activities

	2020 £'000	2019 £'000
Current tax		
UK corporation tax on surplus for the year	-	-
Tax on surplus on ordinary activities	-	-

Factors affecting tax charge for the current year

On the basis that current income and gains are applied for charitable purposes, believe housing should fall within the tax exemptions available to charitable entities.

The tax charge for the year differs from the standard rate of corporation tax in the UK of 19%. The differences are explained below:

	2020 £'000	2019 £'000
Surplus on ordinary activities before taxation	13,814	16,661
Tax on profit at standard UK tax rate of 19%	2,625	3,166
Effects of:		
Non-taxable expense	(2,625)	(3,166)
Current tax charge for the year	-	-

Factors that may affect future tax charges

On the basis that future income and gains will be applied for charitable purposes, believe housing should fall within the tax exemptions available to charitable entities.

14. Intangible fixed assets

	Assets under construction £'000	Software £'000	Total £'000
Cost			
At 1 April 2019	-	1,957	1,957
Additions	327	-	327
Completions	(227)	227	-
Disposals	-	(4)	(4)
At 31 March 2020	100	2,180	2,280
Accumulated depreciation			
At 1 April 2019	-	433	433
Charged in the year		409	409
Released on disposal	-	(4)	(4)
At 31 March 2020	-	838	838
Net book value			
At 31 March 2020	100	1,342	1,442
At 31 March 2019	-	1,524	1,524

15. Tangible fixed assets – housing properties

	Social housing properties held for letting £'000	Non-social housing properties held for letting £'000	Housing properties for letting under construction £'000	Completed shared ownership housing properties £'000	Total housing properties £'000
Cost					
At 1 April 2019	186,743	3,582	4,737	18	195,080
Additions	18,164	-	18,683	-	36,847
Works to existing properties	15,173	130	-	-	15,303
Works for existing properties in progress	1,112	-	-	-	1,112
Schemes completed	10,311	-	(10,311)	-	-
Disposals	(1,860)	(8)	-	-	(1,868)
At 31 March 2020	229,643	3,704	13,109	18	246,474
Depreciation and impairment					
At 1 April 2019	(12,854)	(55)	-	-	(12,909)
Depreciation charged in the year	(5,394)	(18)	-	(1)	(5,413)
Depreciation released on disposal	780	1	-	-	781
At 31 March 2020	(17,468)	(72)	-	(1)	(17,541)
Net book value					
At 31 March 2020	212,175	3,632	13,109	17	228,933
At 31 March 2019	173,889	3,527	4,737	18	182,171

15. Tangible fixed assets - housing properties (continued)

Housing properties book value, net of depreciation

	2020 £'000	2019 £'000
Freehold land and buildings	228,933	182,171

Expenditure on works to existing properties

	2020 £'000	2019 £'000
Components capitalised	16,415	15,543
Amounts charged to income and expenditure	19,314	21,130
	35,729	36,673

Social housing assistance

	2020 £'000	2019 £'000
Total accumulated social housing grant received or receivable at 31 March:		
Recognised in the Statement of Comprehensive Income	168	100
Held as deferred grant income	9,484	3,199
Grant in advance	2,438	2,120
	12,090	5,419

Finance costs

There are no finance costs included in the cost of housing properties (2019: £nil).

Impairment

The Association considers individual schemes to be separate cash generating units when assessing for impairment in accordance with the requirements of FRS 102 and the SORP 2018. There is no impairment charge for the current financial year.

16. Tangible fixed assets - other

	Furniture fixtures and ICT/office equipment £'000	**Total £'000**
Cost		
At 1 April 2019	1,423	1,421
Additions	3,110	3,110
Disposals	(812)	(812)
At 31 March 2020	3,721	3,720
Accumulated depreciation		
At 1 April 2019	(1,223)	(1,222)
Charged in the year	(182)	(182)
Release on disposal	807	807
At 31 March 2020	(598)	(597)
Net book value		
At 31 March 2020	3,123	3,123
At 31 March 2019	200	200

17. Stock

	2020 £'000	2019 £'000
Raw materials and consumables	115	63

18. Debtors

	2020 £'000	2019 £'000
Due within one year		
Rent and service charges receivable	4,342	6,074
Less: provision for bad and doubtful debts	(2,237)	(2,943)
Net rental debtors	2,105	3,131
Trade debtors	401	50
Prepayments and accrued income	2,518	1,315
Other debtors	-	147
	5,024	4,643

19. Creditors: amounts falling due within one year

	2020 £'000	2019 £'000
Trade creditors	1,870	960
Rent and service charges received in advance	1,770	830
Social housing grant received in advance	2,438	2,120
Deferred grant income (note 21)	201	141
Pension creditor	1	244
Other taxation and social security	393	330
Other creditors	58	198
Accruals and deferred income	4,959	6,355
	11,690	11,178

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

	2020 £'000	2019 £'000
Debt (note 23)	115,000	115,000
Borrowing costs unamortised	(909)	(1,058)
	114,091	113,942
Deferred grant income (note 21)	9,283	3,058
	123,374	117,000

21. Deferred Grant Income

	2020	2019
	£'000	£'000
At 1 April	5,319	1,136
Grant received in the year	4,333	4,283
Released to income in the year	(168)	(100)
At 31 March	9,484	5,319
Amounts to be released within one year	201	2,261
Amounts to be released in more than one year	9,283	3,058
	9,484	5,319

The amounts to be released within one year includes grants received for assets under construction until they are completed.

22. Provisions for liabilities and charges

	Restructure provision £'000	Legal provision £'000	Dilapidation provision £'000	Total £'000
At 1 April 2019	578	835	-	1,413
Additions	499		330	829
Charge in the year	(578)	-	-	(578)
At 31 March 2020	499	835	330	1,664

Restructure provision

The restructure provision was for early retirement and voluntary redundancy scheme commitments based on applications received and approved prior to the year end. These liabilities will be paid in the next 12 months.

Legal provision

The legal provision estimates amounts potentially owed as a result of the outcome of a legal case against Southwark Council. The timing of payments is uncertain and it is considered unlikely any payments will be made in the next 12 months.

Dilapidation provision

The dilapidation provision estimates the costs to return the office accommodations at Spectrum 6, Meridian Court, Lumley House and Thomas House to the landlord in accordance with the terms of the lease. These liabilities will be paid in the next 12 months.

23. Debt analysis

	2020 £'000	2019 £'000
Debt profile		
Bank and building society loans at fixed rates of interest	105,000	115,000
Bank and building society loans at variable rates of interest	10,000	-
	115,000	115,000

Terms of repayment and interest rates

believe housing is funded through a £150m loan facility provided by Barclays Bank plc and M&G Investments which was agreed on 13 April 2015. The facility was put in place to fund the purchase of approximately 18,400 homes from Durham County Council and the repairs and improvement works required to bring and maintain those properties up to the County Durham standard.

There are four elements to the £150m loan facility;

- Tranche A, a sterling note facility of £75m (currently fully drawn);
- Tranche B1, a 5-year revolving facility of £20m (originally due to expire March 2020, extended for a further two year period on 27 March 2020 to March 2022) with the ability to drawdown funding on a revolving basis (i.e. can be drawn, re-paid and re-drawn) through to the final repayment date (undrawn at 31 March 2020);
- Tranche B2, a 10-year revolving facility of £45m (expiring March 2025) with the ability to drawdown funding on a revolving basis through to the final repayment date (£40m drawn at 31 March 2020) and;
- Tranche B3, a 12-year revolving facility of £10m (expiring March 2027) with the ability to drawdown funding on a revolving basis through to the final repayment date (undrawn at 31 March 2020).

Tranche A is provided by M&G Investments, the remaining three tranches by Barclays Bank plc.

The M&G Investments facility is on an interest only basis for the first 15 years followed by repayment on an equal instalment basis over the following 10 years. The final repayment date is 31 March 2040.

The interest rate and margins charged during the year are as follows:

	M&G	**Barclays**		
	Tranche A	**Tranche B1**	**Tranche B2**	**Tranche B3**
Facility	£75m	£20m	£45m	£10m
Average fixed interest rate on drawn element of facility	2.19%	-	1.92%	-
Interest margin	1.95%	1.25%	1.55%	1.75%

23. Debt analysis (continued)

The outstanding loan facility is repayable as follows:

	2020 £'000	2019 £'000
Within one year or on demand	-	-
One year or more but less than two years	-	10,000
Two years or more but less than five years	20,000	10,000
Five years or more	95,000	95,000
	115,000	115,000

All loans are secured by fixed charges over housing properties.

As at 31 March 2020 believe housing had undrawn loan facilities of £35m (2019: £35m).

24. Non-equity share capital

Shares of £1 each issued and fully paid

	2020 No.	2019 No.
At 1 April	6	8
Shares issued/(surrendered) during the financial year	3	(2)
As at 31 March	9	6

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

Only Board Members defined in the rules are eligible to be shareholders and a closed shareholding regime is therefore in place.

25. Pensions

The Association is an admitted body of the Durham County Council Local Government Pension Scheme. The disclosures below relate to the funded liabilities within the Durham County Council Pension Fund (the 'Fund') which is part of the Local Government Pension Scheme (the 'LGPS').

The LGPS is a funded defined benefit plan with benefits earned to the 31 March 2014 being linked to final salary. Benefits after 31 March 2014 are based on a Career Average Revalued Earning Scheme.

Details of the benefits earned over the year covered by this disclosure are set out in 'The Local Government Pension Scheme Regulations 2013' and 'The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014'.

Funding/Governance Arrangements of the LGPS

The funded nature of the LGPS requires participating employers and its employees to pay contributions into the Fund, calculated at a level intended to balance the pension liabilities with investment assets.

Information on the framework for calculating contributions to be paid is set out in the LGPS regulations 2013 and the Fund's Funding Strategy Statement.

The last actuarial valuation was at 31 March 2019 and the contributions to be paid until 31 March 2023.

The Fund Administering Authority, Durham County Council, is responsible for the governance of the Fund.

McCloud/Sargeant judgement and GMP equalisation

The pension liability calculations includes an estimate of the potential impact of the McCloud/Sargeant case and Guaranteed Minimum Pension equalisation on the reported pension figures.

Impact of transfer of staff from Mears

Following the transfer of staff from Mears to believe housing in July 2019, the actuary for the Local Government Pension Scheme needs to determine the value of assets and liabilities to be transferred into the believe housing part of the pension scheme.

This work is ongoing and no allowance has been made in the reported pension figures for these assets and liabilities due to the level of uncertainty over the exit valuation in respect of Mears. Management have been involved in discussions with the Local Government Pension Scheme on this matter. Based on these discussions management have determined that the risk of material misstatement of the pension figures reported in these financial statements is low.

25. Pensions (continued)

The amounts recognised in the Statement of Comprehensive Income as required by FRS 102 are as follows:

	2020 £'000	2019 £'000
Amounts charged to operating expenditure:		
Current service cost	(4,568)	(3,641)
Past service cost	(640)	(2,210)
Employer contributions paid	3,889	2,953
Total operating debit	(1,319)	(2,898)
Amounts included in interest payable:		
Interest on net defined benefit liability	(1,076)	(1,092)
Remeasurement (loss)/ gain recognised on defined benefit pension Scheme	(5,297)	2,496
Total debit to the Statement of Comprehensive Income	(7,692)	(1,494)

The amounts recognised in the Statement of Financial Position as required by FRS 102 are as follows:

Present values of provision	2020 £'000	2019 £'000
Present value of funded obligations	(115,570)	(107,300)
Fair value of scheme assets	63,054	62,483
	(52,516)	(44,817)
Present value of unfunded obligations	(139)	(145)
Net pension liability	(52,655)	(44,962)

25. Pensions (continued)

Reconciliation of opening and closing provisions

Changes in the present value of the defined benefit obligation scheme are as follows:

	2020 £000	2019 £'000
Opening defined benefit obligation	(107,446)	(99,293)
Current service cost	(4,568)	(3,641)
Past service cost	(640)	(2,210)
Interest on scheme liabilities	(2,672)	(2,571)
Actuarial loss	(1,650)	(593)
Contributions by scheme participants	(948)	(849)
Benefits paid	2,215	1,711
Closing defined benefit obligation	(115,709)	(107,446)

The defined benefit obligation may be analysed between wholly unfunded and wholly or partly funded schemes as follows:

	2020 £000	2019 £'000
Funded	(115,566)	(107,300)
Unfunded	(139)	(145)
Closing defined benefit obligation	(115,705)	(107,445)

Changes in the fair value of scheme assets are as follows:

	2020 £'000	2019 £'000
Opening fair value of scheme assets	62,483	55,825
Interest on scheme assets	1,596	1,479
Remeasurement (losses) / gains on assets	(3,647)	3,089
Contributions by employer	3,889	2,953
Contributions by scheme participants	948	849
Benefits paid	(2,215)	(1,712)
Closing fair value of scheme assets	63,054	62,483

25. Pensions (continued)

The fair value of the major categories of scheme assets as a percentage of total scheme assets are as follows:

	2020 %	2019 %
Equities	47.1	49.9
Property	8.1	7.4
Cash	28.5	26.1
Government bonds	12.3	11.6
Corporate bonds	4.0	5.0

The principal actuarial assumptions as at the reporting date were:

	2020 %	2019 %
Discount rate	2.3	2.5
Rate of increase in pensions in payment	1.9	2.1
Rate of pension accounts revaluation rate	1.9	2.1
Inflation (consumer price index)	1.9	2.1
Salary increase	2.9	3.6

The current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations on future lifetime (years) from retirement age 65 are:

	2020	2019
Males		
Future lifetime from age 65 (aged 65 at accounting date)	22.2	22.6
Future lifetime from age 65 (aged 45 at accounting date)	23.2	24.3
Females		
Future lifetime from age 65 (aged 65 at accounting date)	24.2	24.1
Future lifetime from age 65 (aged 45 at accounting date)	25.7	25.9

26. Capital commitments

Tangible fixed assets

	2020 £'000	2019 £'000
Capital expenditure		
Expenditure contracted for, but not provided for in the financial statements	30,471	24,656
Expenditure authorised by the Board, but not contracted	30,915	60,305
	61,386	84,961

The above commitments will be financed primarily through existing borrowing facilities available that are undrawn of £35m, future cash generation from operating activities and social housing grant.

27. Net cash inflow from operating activities

	2020 £'000	2019 £'000
Surplus for the year	13,814	16,661
Adjustments for non-cash items:		
Pension adjustment	2,395	3,990
Depreciation of intangible fixed assets	409	391
Depreciation of tangible fixed assets	5,595	4,327
Impairment of tangible fixed assets	-	982
Amortisation of social housing grant	(168)	(101)
Disposal of assets under construction	-	69
Surplus on sale of housing properties	(3,257)	(4,954)
Increase in stock	(52)	(29)
Increase in debtors	(381)	(2,443)
Increase/(decrease) in creditors	434	(1,745)
Increase in provisions	251	578
Adjustments for investing or financing activities:		
Interest payable	4,849	4,805
Interest received	(169)	(200)
Amortisation of loans	(149)	(144)
Net cash flow from operating activities	23,571	22,187

28. Analysis of changes in net debt

	At 1 April 2019 £'000	Cash flows £'000	Other non-cash movements £'000	**At 31 March 2020**
Cash	31,404	(26,689)	-	**4,715**
Bank loans due greater than one year	113,942	-	149	**114,091**
Total	**145,346**	**(26,689)**	**149**	**118,806**

The other non cash movement relates to amortisation of borrowing costs.

29. Operating leases

The future minimum lease payments that believe housing is committed to make under non-cancellable operating leases are as follows:

	2020 £'000	**2019 £'000**
Within one year	357	346
Between two and five years	1,052	702
Greater than five years	2,163	121
	3,572	1,169

During the year, we served notice of intention to exercise break clauses in the leases of two of our office buildings. The break clauses see the leases terminate on 1 June 2020 and therefore only the value of the payments to be made on these leases up until the break date are included within the note above.

30. Related party transactions

There were two tenant board members during the financial year. There were also seven further tenant members of the Values Group during the financial year.

Their tenancies are on normal commercial terms and they were not able to use their position to their advantage.

Aggregate rent received from tenant board and committee members during the year totalled £39,142 (2019: £14,004). There was £330 owed in rent arrears at 31 March 2020 from tenant board, committee and Values Group members (2019: £nil).

Remuneration to Board and Committee members is disclosed in note 12.

The role of Chair of the Values Group is remunerated and this role is held by a tenant. Remuneration paid in the year for this role was £1,109 (2019: £nil). During the year amounts totalling £270 (2019: £nil) were paid to tenants who are members of the Values Group for reimbursement of expenses.

The following Board and Committee members who served throughout 2019/20 were also councillors at Durham County Council during the course of the year:

- David Boyes (Board member)
- Kevin Shaw (Board member)
- June Clark (Values Group member)

There are a number of contractual arrangements between believe housing and Durham County Council, including various service level agreements and transfer commitments. During the year the organisation incurred £3,489,241 of expenditure with Durham County Council (2019: £5,517,157). At 31 March 2020, a net debit balance of £284,839 was outstanding between the organisation and Durham County Council (2019: £151,086 credit balance).

believe housing also receives income from Durham County Council for specific services and arrangements provided by the organisation. During the year the organisation recognised income of £8,997 (2019: £7,965) from Durham County Council. At the 31 March 2020 there were no receivable balances owed by Durham County Council to the organisation (2019: £3,215).

All arrangements with Durham County Council are on normal commercial terms and none of the councillors who are also Board or Committee Members are able to use their position to the advantage of either party.

Judith Common, the Chair of the Board, is also a Board member of Women in Social Housing (North East region). During the year £800 was paid to Women in Social Housing by believe housing for membership services (2019: £nil). There was no balance outstanding at 31 March 2020 (2019: £nil). The expenditure was incurred on a normal commercial basis and Judith Common is not able to use her position to the advantage of either party.

30. Related party transactions (continued)

David Boyes, a member of the Board, is Vice-Chair of East Durham College. During the year, £18 was paid to East Durham College by believe housing for training services (2019: £7,726). There was no balance outstanding at 31 March 2020 (2019: £nil). The expenditure was incurred on a normal commercial basis and David Boyes is not able to use his position to the advantage of either party.

Alan Smith, a member of the Board, is also a Board member of Prosper Procurement Limited. During the year £9,217 was paid to Prosper Procurement by believe housing for procurement services (£2019: £9,423). There was no balance outstanding at 31 March 2020 (2019: £nil). The expenditure was incurred on a normal commercial basis and Alan Smith was not able to use his position to the advantage of either party.

31. Financial assets and liabilities

	2020 £'000	2019 £'000
Categories of financial assets and liabilities		
Financial assets that are debt instruments measured at amortised cost	8,719	36,110
Financial liabilities measured at amortised cost	120,978	128,178

The policy on financial instruments and managing financial risk are explained in the Report of the Board.

Cash and debtors are categorised as financial assets measured at amortised cost. Details of these balances can be found in Notes 17 and 18.

Financial liabilities held at amortised cost are debt and creditors. Details behind the debt instrument conditions, interest charges and repayment terms can be found in Notes 19 and 20.

32. Contingent liabilities

Grants

The stock transfer from Durham County Council included 95 properties located within Durham City and the Wear Valley that had been originally developed using grant provided by Homes England[6]. The value of the government grant funding provided by Homes England was £5.034m. The original grant agreement contains an obligation, in the event of one of the properties being disposed of, to repay the original grant attributable to the property along with an additional payment relating to the proceeds received for the property.

Having taken ownership of these properties, believe housing is now responsible for the repayment of the grant in the event of the housing properties being disposed. The timing and value of any repayment is uncertain as they depend upon the specific circumstance of any future disposal. As such, no estimate of the total value of this contingent liability can be made at the current time. In the event of a disposal being agreed but not completed prior to the end of the reporting period, a provision will be recognised in the financial statements for the full value of the repayment to be made to Homes England.

33. VAT Shelter arrangement

A VAT sharing arrangement from the established VAT shelter agreed with HMRC was set up through the transfer agreement with Durham County Council in April 2015. At transfer Durham County Council were contracted to acquire the benefit of the agreed qualifying works (£318.689m) plus the housing properties at a price equal to the agreed value of the properties in their existing condition (£114.4m).

This arrangement has enabled VAT to be recovered on qualifying works relating to repair and improvement costs that would otherwise have been expensed.

At 13 April 2015 an amount of £114.4m was paid over to Durham County Council, which represented the value of the properties transferred in their current condition, plus the value of the qualifying works of £318.689m, less the amount due to be incurred under the Development Agreement in relation to the anticipated cost of the qualifying works. The impact of these two transactions is that whilst Durham County Council has a legal obligation to complete the improvement works; this work has been contracted back to believe housing who are also legally obligated. The underlying substance of the transaction is therefore that believe housing acquired the housing properties in their existing condition at their agreed value, and will complete certain qualifying works in repairing and improving properties as necessary and in line with commitments to tenants which will be accounted for when incurred or committed to.

At the 31 March 2020 £3.3m (2019: £3.2m) has been received by believe housing under the VAT shelter scheme, of which 50% has been paid to Durham County Council.

[6] Previously the Homes and Communities Agency

34. Ultimate parent undertakings and controlling party

There is no ultimate parent undertaking and controlling party.