

# **Stockport Homes Limited**

**Company Limited by Guarantee**

Financial Statements

Year ended 31 March 2016

Company Number: 04521257

Registered Social Housing Provider  
Homes and Communities Agency number: 4619

# Stockport Homes Limited

## Report and Financial Statements for the year ended 31 March 2016

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# Stockport Homes Limited

Executives and advisors for the year ended 31 March 2016

## Board of management

Roger Phillips, Chair until 07.09.15	Appointed 23.09.05, Resigned 07.09.15
David Wright, Chair from 07.09.15	Appointed 15.10.07
David Beckett	Appointed 01.12.10
John Bowker	Appointed 29.09.08
Thomas Roland Dotchin	Appointed 01.09.14
Josephine Hague	Appointed 19.05.14
Kenneth Lee	Appointed 10.12.15
Jenny Osbourne	Appointed 16.03.15
Paul Porgess	Appointed 05.07.10, resigned 24.05.13, appointed 02.09.13
Alana Vine	Appointed 21.06.12, resigned 24.05.13, appointed as co-optee 02.09.13.
Christine Woolridge	Appointed 15.05.14

## Registered office

Stockport Homes Ltd  
1 St. Peter's Square  
Stockport  
Cheshire  
SK1 1NZ

## Executive management

Helen McHale	Chief Executive
Sandra Coleing	Director of Corporate Services
April Higson	Director of Neighbourhoods and Support
Mark Hudson	Director of Technical and Commercial Services
Carmel Chambers	Director of Finance

With the exception of the Director of Finance, the four permanent executive officers were appointed to their positions on 1st October 2005. The Director of Finance was appointed to her position on 1st April 2013.

## Auditors

BDO LLP  
3 Hardman Street  
Spinningfields  
Manchester  
M3 3AT

## Principal solicitors

Stockport Metropolitan Borough Council  
Stopford House  
Stockport  
SK1 3XE

## Bankers

Barclays Bank Limited  
PO Box 190  
Leeds  
LS1 5WU

# Stockport Homes Limited

## Report of the Board of Management for the year ended 31 March 2016

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The Directors present their report and the audited Financial Statements for the year 1 April 2015 to 31 March 2016. The report and accompanying statements have been compiled in line with the Statement of Recommended Practice (SORP) for registered social housing providers (2014). Stockport Homes complies with the principal recommendations of the revised NHF Excellence in Governance Code for members which ensures highest standards of corporate governance.

### **Principal activities and review of business**

The Company's principal activity is to manage and maintain the stock of properties owned by Stockport Metropolitan Borough Council including the management of the capital programme for the build and modernisation of the properties which numbered 11,340 at 31 March 2016. This is covered in further detail in the strategic report.

### **Qualifying third party indemnity provisions**

The company has no qualifying third party indemnity provisions in place for the directors of Stockport Homes Limited.

### **Value for money**

At the forefront of Stockport Homes' financial management is its consistent and dedicated approach to value for money. Efficiency targets set for 2015/16 have been exceeded. This is explained in the following section. Stockport Homes produces an Annual Report for customers which includes information on value for money in a customer focused way. It is available on the Stockport Homes website. In addition customers can find out more about value for money or make suggestions on Stockport Homes' approach through the website - <http://www.stockporthomes.org/about-us/how-we-are-doing/value-for-money/>. More detailed information is included in the annual Value for Money Report, which was presented to the Business Development Sub-group on 6 June 2016.

### *Robust approach to decision making*

Stockport Homes has a value for money strategy that was approved by the Board in June 2015 and covers 2015 to 2018, setting out three key priority areas. This is underpinned by a Value for Money Action Plan which is reported to a sub-group of the Board on an annual basis. Regular meetings are held with budget managers to discuss value for money and the Performance and Improvement Team work with the accountants to classify and verify service efficiencies. A value for money review programme ensures that services are supported to identify and implement improved ways of working and in 2015/16 this identified £120,000 of potential efficiencies. A further four value for money reviews are planned to start in 2016/17. The organisation understands the difference between value for money efficiencies and budget reductions. It keeps an efficiency log to capture both cashable and non-cashable efficiencies, as well as keeping a separate overview of pure budget reductions that are required as part of the management fee negotiations with Stockport Council. Recent examples of value for money efficiencies recorded include renegotiating an IT service contract which saved £79,000; renegotiating an extension to a fleet lease agreement, which saved £21,000; changing the way community buildings are managed, which saved £79,000; and restructuring the carecall service and the concierge service into one unified team which saved £23,000. All of these initiatives and others have maximised efficiencies that are now available to be reinvested into service delivery.

### *Optimising Return on Assets*

Efficiencies realised at year end amount to £1,078,974. This represents 4.07 per cent of the management fee and meets the target set for the 2015/16 financial year of three per cent. This approach continues to demonstrate the commitment and expertise of Stockport Homes in delivering and evidencing value for money as has been the case in recent years.

# Stockport Homes Limited

## Report of the Board of Management for the year ended 31 March 2016 (continued)

Year	Value for money efficiencies as a percentage of management fee	Value
2012/13	3.39 per cent	£825,330
2013/14	3.57 per cent	£858,727
2014/15	3.19 per cent	£811,707
2015/16	4.07 per cent	£1,078,974

As a result of this committed approach Stockport Homes has delivered services provided by the management fee with optimum efficiency, resulting in a surplus position at the year-end. Overall there were net cash inflows from operating activities of £2,510,000 (2015: £698,000 outflow). To date, cash reserves totalling £1.23million have been invested in initiatives that continue to generate future income streams for the organisation whilst furthering the organisation's objectives. A significant proportion of the reserves position at the 31 March 2015 is made up of projects that are committed to be spent during the coming financial year, or are ear-marked reserves for planned initiatives and projects which will in turn lead to longer term efficiencies. Stockport Homes continues to operate in an increasingly difficult economic environment and will therefore manage its finances during the coming year to address this.

Stockport Homes continued to make the best use of available cash resources by making short-term investments within the Treasury Management Policy parameters during 2015/16. However returns remained relatively low during the period due to the ongoing difficult global economic conditions.

During 2015/16 the organisation reviewed how it could measure the additional impact of its work beyond the basic financial investment. This is known as "social value" and a successful pilot was undertaken on using the Housing Associations' Charitable Trust (HACT) approach. This concluded that Stockport Homes generated £2.59 of social value for every £1 it invested in a project to get disabled people into sustainable employment. A further project assessed the outcomes from a European Social Fund employment support project, which determined that £2.64 of social value had been created for every £1 invested. A number of other projects are putting baseline measures in place to enable social value measurement to take place and results will be reported in future years.

### *Performance management and Scrutiny*

The Management Team and Leadership Forum continues to manage and scrutinise the organisation's finances with monthly reviews of management accounts, variance analysis and continual forecasting. This allows thorough transparency on monies available and effective decision making in the release of monies for expenditure within the business. Business planning remains a primary focus for Stockport Homes with the aim to have a comprehensive understanding of the organisation's threats and opportunities going forward.

Services are also subject to scrutiny by the Customer Scrutiny Panel. This has resulted in a number of cost and quality recommendations to improve the value for money of service delivery to customers. Membership of the Panel is open to all tenants and leaseholders of Stockport Homes and customers can apply to join the panel or see the outcomes of previous reviews on Stockport Homes' website - <http://www.stockporthomes.org/about-us/how-we-are-doing/customer-scrutiny-panel/>

# Stockport Homes Limited

## Report of the Board of Management for the year ended 31 March 2016 (*continued*)

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### *Understanding costs and outcomes*

Stockport Homes has consistently out-performed the key financial assumptions within the HRA Business Plan but this will become increasingly difficult in future as both rent and the ability of many customers to pay reduces. Stockport Homes and the Council are jointly seeking to mitigate the impact of this by working together to ensure sustainable Budgets for the HRA going forward, combining maximum efficiency targets with continually looking at how we can do things differently to maintain and supplement core services.

Stockport Homes is seeking to address the impact on its own business through a combination of making efficiencies and growing its commercial income. The company's priorities will continue to be the provision of high quality management, maintenance and support services to core customers but advantage will be taken over the next five years of its entrepreneurial culture to expand the business into new sectors and bring in non-rent income. This will include bidding for contracts which support core customers in ways beyond its traditional remit. Stockport Homes' sound financial planning and management tools ensure it has visibility at all times of available resources and future investment opportunities. The organisation's ethos will remain to invest in the short term, where it can, in initiatives that will bring efficiencies in the medium or longer term.

Stockport Homes manage the business plan and much of its operational activity, such as minimising rent arrears, which significantly impacts on the health and success of the HRA. The financial performance for the HRA 2015/16 exceeded the revised business plan forecast performance due to strong voids and rent recovery performance despite the challenges of Welfare Reform and increased right to buys, which is another example of the strong management and performance of the organisation. Challenges with the business plan continue with increasing right to buys coupled with lower than modelled rent increases. The business plan is continually refreshed to reflect these challenges and the updated business plan will be considered by the Business Development Sub Group during 2016.

Key performance indicators, measuring both cost and quality, are reported on regularly throughout the year to the Management Team, Leadership Forum and the Business Development Sub Group. This supports the understanding of linkages between costs and outcomes. Alongside this customers are asked which indicators are most important to them and these are known as the 'customer super six'. The indicators, which cover cost, quality and processes, are reported in the customer newsletter and are available to view on the Stockport Homes website - <http://www.stockporthomes.org/about-us/how-we-are-doing/customer-super-six/>

### **Compliance with Governance and Financial Viability Standard**

Stockport Homes operates within the Homes and Communities Agency Regulatory Framework for Social Housing in England. The framework applies only to the properties owned by Stockport Homes Limited and the company is classed as a 'small provider'. There is a requirement in the regulatory framework for the Board to set out compliance with the 'Governance and Financial Viability Standard'. Stockport Homes did, however, undertake a compliance assessment on the full regulatory framework to ensure it worked in line with best practice in the sector. The assessment was provided to the Board and it confirmed that Stockport Homes complies with the requirements of the Regulatory Framework for Social Housing in England.

# Stockport Homes Limited

## Report of the Board of Management for the year ended 31 March 2016 (*continued*)

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### Going concern

At its meeting on 11<sup>th</sup> July 2016, the Board of Stockport Homes Ltd approved the statement that in their opinion, Stockport Homes Ltd has adequate resources to continue in operational existence for the foreseeable future. Accordingly, it continues to adopt the going concern basis in preparing the financial statements. This was based on the contract in place with Stockport Metropolitan Borough Council (SMBC) to pay Management Fees in return for delivery of housing management and maintenance services, as prescribed in the 27 year Management Agreement that was approved Council's Executive on 21<sup>st</sup> July 2015.

The financial statements have been prepared on a going concern basis. The company's Balance Sheet shows a net liability position which includes pension liabilities required under FRS 102. SMBC has agreed that it will ensure that SHL is able to discharge its liabilities for the pensions costs attributable to SHL's past, present and future employees. For 2015/16 the pension funds were valued at a liability value of £11.534m as at 31 March 2016 (liability of £15.741m as at 31 March 2015). The position this year has improved compared with the previous year due to an increase in the net discount rate of bond yields. The positive impact of this has outweighed lower than expected asset returns.

On 8th July 2015, the Government announced a 1% year on year decrease in social housing rents over four years from 2016/17. This is compared to previous rent policy which allowed for annual rental increases of CPI + 1%. This affects the HRA Business Plan and Stockport Homes' own rents. This is significant to the HRA Business Plan, and whilst the Directors are still confident of going concern given the extension of the Management Agreement for 27 years, and settlement of a 1% management fee increase for 2016/17, this could mean pressures on the level of management fee Stockport Homes receives going forward. The impact of this is being assessed and strategies are being enacted to manage this across all aspects of the business.

### Assessment of the effectiveness of internal control

The Board accept their ultimate responsibility for ensuring the company has in place a robust system of internal control.

Whilst no system can provide absolute assurance or eliminate all risks, the organisation has adopted a system that is appropriate to the work that it undertakes and the environments in which it operates, in order to provide reasonable assurance that:

- key business objectives and targets will be delivered;
- financial and operational information is reliable;
- proper accounting records are maintained;
- assets are safeguarded against unauthorised use, loss or disposal.

The system of internal controls includes the following key elements:

Governance Scheme of Delegation setting out the powers and duties of the non-executive and executive Directors. Alongside this exists terms of reference for the two sub-groups and a code of conduct for Board members. The Board and sub-groups receive regular reports outlining the delivery of objectives and outcomes.

Risk Management Strategy which describes the framework by which risk and opportunity management takes place within the organisation. An annual risk register is developed setting out the key organisational risks and the actions to mitigate those risks.

Internal Audit provides independent assessment and assurance over key business processes and controls. The internal audit plan is risk based and updated each year to reflect current areas of risk / audit requirement.

# Stockport Homes Limited

## Report of the Board of Management for the year ended 31 March 2016 (*continued*)

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External Audit provides an independent examination of the financial statements prepared by the organisation and auditors are given the opportunity to meet with Board Members without officers present to allow them to raise any concerns directly.

Strategic and Business Planning Process which includes the thirty year HRA Business Plan, the three year corporate Business Plan and Delivery Plan.

Development of New Business is undertaken following a thorough appraisal of new initiatives and a defined process for authorisation.

Production of monthly management accounts ensures that management have oversight of expenditure, budgeting and forecasting. Financial information is presented to the Board and sub-group on a quarterly basis. This process ensures that any significant variances are investigated and any necessary management action taken to ensure objectives are delivered to budget.

Financial Regulations, a staff Scheme of Delegation and Contract Procedure Rules outline the parameters by which expenditure can be undertaken by officers, clearly identifying segregation of duties and the financial approvals required.

Treasury Management Policy ensures return on investments is in line with company requirements and that only those institutions offering adequate security as defined in the Treasury Management Practices are utilised.

Performance Management Framework which sets out targets and outcomes expected to be delivered over the year and provides regular monitoring reports to Board outlining achievement against key performance indicators and strategic plans and any remedial activity required.

Recruitment, Retention and Development of Staff ensures that the organisation is led by experienced and knowledgeable individuals and that services can be delivered by qualified and experienced officers.

Insurance Policies provide cover for a range of losses and eventualities to protect and safeguard company assets.

Policies and procedures are in place to guide and direct officers. Policies around whistle blowing, fraud and bribery exist.

Customer Scrutiny Panel and a Customer Feedback Service ensure the organisation is continually monitoring the customer experience and seeking ways in which to improve and strengthen processes.

# Stockport Homes Limited

## Report of the Board of Management for the year ended 31 March 2016 (*continued*)

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### Board member's responsibilities

The board members are responsible for preparing the strategic report and report of the board and the financial statements in accordance with applicable law and regulations.

Company law and social housing legislation require the board members to prepare financial statements for each financial year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the association and of the surplus or deficit of the association for that period.

In preparing these financial statements, the board members are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice: Accounting by registered social housing providers 2014 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 members are responsible for keeping adequate accounting records that are sufficient to show and explain the association's transactions and disclose with reasonable accuracy at any time the financial position of the association and enable them to ensure that the financial statements comply with the Companies Act 2006, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. They are 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 members are responsible for ensuring that the report of the board is prepared in accordance with the Statement of Recommended Practice: Accounting by registered social housing providers 2014.

Financial statements are published on the group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the group's website is the responsibility of the board members. The board members' responsibility also extends to the ongoing integrity of the financial statements contained therein.

# Stockport Homes Limited

Report of the Board of Management for the year ended 31 March 2016 (*continued*)

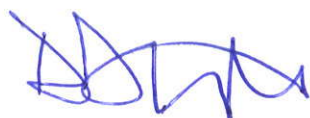
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## Auditors

All of the current board members have taken all the steps that they ought to have taken to make themselves aware of any information needed by the association's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

BDO LLP have expressed their willingness to continue. A resolution for the re-appointment of BDO LLP as auditors of the Association is to be proposed at the forthcoming Annual General Meeting.

By order of the Board



Chairman

Date

11/7/16

# Stockport Homes Limited

## Strategic report for the year ended 31 March 2016

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The Board present the Strategic Report for the year ended 31 March 2016.

The Strategic Report has been compiled in line with best practice as outlined in the Statement of Recommended Practice (SORP) for registered social housing providers (2014). Stockport Homes has continued to operate efficiently, pro-actively and effectively within the terms of the Management Agreement with Stockport Council.

### Objectives and strategies to achieve those objectives

#### *Vision, Mission and Aims*

Stockport Homes continues to explore new business opportunities and is innovating in order to support the Council in the achievement of its objectives and the ever changing economic and political environment in which it operates. Regulation has less emphasis on prescribing how services should be delivered. This has been supported by an end to routine inspections and the growth of customer scrutiny in monitoring front-line services. The organisation feels its vision, mission and aims are flexible and outcome-focused that will allow Stockport Homes to continue to evolve and expand its role to meet the changing demands of its customers, the Council and other stakeholders.

Stockport Homes' Vision, Mission and Aims were developed in consultation with customers, staff and Board Members. They are designed to guide the organisation through the changing environment in which it operates and to help it assist in delivering the Council's objectives:

#### **Vision:**

To deliver the best services to customers by being a great place to work

#### **Mission:**

Transforming lives

#### **Aims:**

- Exceed customer expectations and always do the right thing
- Support customers in all aspects of their lives through effective partnership working
- Create greener places to live and work and continually minimise our impact on the environment
- Develop our thriving, safe and sustainable neighbourhoods, maximising our contribution to meeting housing need
- Involve the Board, customers and staff in decision making and create opportunities for them to fulfil their potential
- Grow by making the best use of our resources and diversifying into new businesses that compliment what we already do

#### *Delivery of Vision, Mission and Aims through strategic, financial and business planning*

Delivery of the aims is managed through an effective business planning framework. Annual Business Planning commences with strategic planning sessions with both the Board and the Leadership Forum to shape priorities. Detailed actions to support the achievement of the key aims are developed and set out in the annually produced Service Improvement Plan which is owned by teams through the PDR process. Progress against the Service Improvement Plan is regularly reviewed with updates being provided to Stockport Homes Management Team, Leadership Forum and the Business Development Sub Group. An annual Delivery Plan is produced and approved by the Council which sets out the key strategic actions that will support the achievement of the aims.

# Stockport Homes Limited

## Strategic report for the year ended 31 March 2016 (*continued*)

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Stockport Homes is one year into a three year Business Plan which provides a high level overview of the strategic direction of the company over this time period. The aims outlined above are supported by a number of high level actions which will be delivered by:

- Continually improving existing services - through learning from customer engagement, satisfaction data and performance information;
- Expanding the scope of new business through expanding commercial activity and actively seeking opportunities to work with partners;
- Using commercial surpluses to deliver social and financial inclusion, training and worklessness initiatives to help sustain communities and improve life chances;
- Strategically planning for the future by reviewing and appraising company structures, ICT infrastructure and new ways of working.

### Business model

#### *Nature of the business*

Stockport Homes Limited is an Arms Length Management Organisation or ALMO. This means that while the Council established the company and is the single shareholder, it operates independently from it on day-to-day matters. Under a 27 year Management Agreement with SMBC, Stockport Homes Limited receives a sum of money to carry out the business of managing and maintaining the housing stock on behalf of SMBC. The Management Fee for 2015/16 totalled £26.789 million (2015: £26.238 million).

#### *Principal activities*

The Company's principal activity is to manage and maintain the stock of houses owned by Stockport Metropolitan Borough Council (SMBC), including the management of the capital programme for the modernisation of the properties which numbered 11,340 at 31 March 2016. Stockport Homes Limited manages the allocation of homes and works on behalf of Stockport Council to fulfil a number of their statutory responsibilities including preventing homelessness, managing private sector renewals and disabled adaptations and provision of sheltered housing.

Stockport Homes is also proactive in the development and acquisition of housing stock, both as a registered provider and also on behalf of the Council as a development partner.

Stockport Homes commenced building new build properties in 2009-10 and has been continuing to build and acquire homes since. Stockport Homes now owns a total of 226 properties at the end of March 2016 which includes 93 new build properties built for rent, 51 new build properties built for shared ownership, 52 properties acquired through the Government's Mortgage Rescue scheme, six ex Right-to-Buy properties (RTBs), and 24 Empty Homes. Stockport Homes also manage the delivery of the Housing Revenue Account (HRA) new build programme (Council owned properties) and a total of 107 units comprising 74 rented units and 33 shared ownership units have achieved practical completion as at March 2016. The HRA and Stockport Homes currently have pipeline programmes over the next two years to deliver the schemes allocated by the Homes and Communities Agency as part of the bid round 2015-18, alongside other schemes including opportunities to bid for continuous market engagement grants and to undertake S106 schemes from private sector developers.

Stockport Homes is continuing to strengthen its asset base by diversifying into new business areas and continually appraising more efficient working mechanisms. In 2015/16 it continued to work with schools, care homes and public buildings to deliver maintenance, repairs and capital works management services and delivery of private landlord management services. These works continue to prove successful and Stockport Homes plans to diversify further in order to create cross efficiencies for core service delivery.

# Stockport Homes Limited

## Strategic report for the year ended 31 March 2016 (*continued*)

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This will be further facilitated by the creation of a group structure with three subsidiary companies which will enable Stockport Homes to realise efficiencies on new build developments and the direct delivery of currently outsourced works as well as bidding for new and evermore diverse service contracts. Board approval was gained for the group structure in December 2015, subject to the review of a detailed cost benefit analysis of each subsidiary by the Business Development Sub Group. This has been successfully completed for the Development Company and the subsidiary will soon be enacted. A detailed project plan has been drawn up for the trade company and the cost benefit analysis is currently being considered.

Stockport Homes is continuing to plan for the new build development of a new headquarters, due to be completed in Spring 2017. Works are underway on site and monies have been drawn down from the approved £9.2million borrowing via Public Works Loan Board (PWLB) borrowing, with the remainder due to be financed using accumulated revenue reserves. This building will be owned by Stockport Homes and continues the organisation's theme of longer term invest-to-save initiatives, as well as increasing more modern working practice opportunities and facilities for customers and staff.

Since Stockport Homes was set up, it has continued to excel, grow and diversify through the acquisition of new services, more efficient ways of working and working closely in partnership with Stockport Council and its family of companies. Stockport Homes prides itself on delivering excellent, value for money services to its customers and has won many accolades and awards that are testament to this achievement, many of which are highlighted further on in this report.

### **Development and performance during the financial year and financial position at the year end**

#### *Financial planning*

Quality financial management and planning are a key priority for the organisation and Stockport Homes continues to have a strong track record in this area. It recognises that robust financial planning enables the best use of money by ensuring services are delivered in the most cost effective and efficient way. Each year a detailed budget is set that supports the Delivery Plan and Service Improvement Plan objectives. Budget setting for 2015/16 included reviewing priorities with customers and assessing forthcoming risks. As Stockport Homes continues to grow and diversify, the Management Fee, at £26.789 million, continues to be the largest single element of its £40.952 million turnover. However, other income streams are continuing to grow including rental income from owned properties and increasingly income for third party works.

Stockport Homes continues to work in a financially challenging environment including year on year efficiency savings within the Management Fee alongside additional pressures resulting from Welfare Reform, such as increased void repair costs and the impact of government policy such as the 1% rent reduction. Stockport Homes is responsible for the collection of council housing rental income and collection rates have remained above target and amongst the highest in the country despite the challenges of Welfare Reform due to a strong focussed approach on debt prevention and early intervention in arrears cases.

Stockport Homes is responsible for the management and maintenance of the Council's 30 year Housing Revenue Account (HRA) Business Plan. The plan was updated during 2015/16 to reflect the financial impacts of increased right to buys, changes in government rental policy and interest rate changes. There is a clear strategy in place to manage the impact of the 1% rent reduction, this encompasses managing reduced increases in the management fee, outperformance of key financial targets such as rent collection rates and rent loss from voids, and efficiencies in the capital programme. Close monitoring and management enable the impact of varying factors to be assessed, leading to assurance over the affordability of future capital stock investment requirements and management fee requirements.

# Stockport Homes Limited

## Strategic report for the year ended 31 March 2016 (*continued*)

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### *Financial performance*

Stockport Homes produces comprehensive monthly management accounts to maintain effective financial control. The accounts include projected year end forecasts each month alongside comprehensive commentaries of variances.

During 2015/16 the Stockport Homes Management Team agreed a strategy to make in year efficiencies of £1million, followed by further budgeted recurrent efficiencies in the same region. The purpose of this is to ensure that Stockport Homes continues on a strong financial footing in a challenging and changing financial environment. This strategy was exceeded due to significant savings within Repairs and Maintenance budgets, the successful financial outcomes of the innovative utilities contract and a clear focus in all areas of the Business on identifying savings.

Overall there has been an increase in the net asset value before the pension liability of £3.349 million during 2015/16 due to the effective and efficient financial management of the company. The increase in revenue reserves will contribute towards the strong financial footing of Stockport Homes into the longer term and will be designated to finance future projects and invest-to-save initiatives that will continue to generate ongoing savings for customers.

It is testimony to Stockport Homes' strong financial control framework and robust governance structure that it continues to generate efficiencies and financial surpluses for investment back into service delivery during challenging operational conditions.

### *Financial monitoring and reporting*

Stockport Homes produces comprehensive monthly management accounts to maintain effective financial control. The accounts include projected year end forecasts each month alongside comprehensive commentaries of variances.

The Company has remained within overall budget throughout the financial year, with the year-end surpluses in line with forecast expectations. Key budget variances related to underspends against repairs and maintenance budgets and premises costs due to efficiencies arising from the utilities contract.

Whilst the turnover of commercial activity in relation to the management fee is relatively small, it has the potential to grow in the coming years and it is the organisation's aspiration to do so. Further diversification and asset growth will be experienced in the coming years as Stockport Homes completes its new Headquarters.

The continued growth and diversification of the Company are set out in the Company's three year Business Plan. The financial governance implications of this period of change are set out in a three year Corporate Finance Strategy that was approved by the Board in March 2014. This strategy provides a clear structure and action plan to financially support and enable the on-going developments during this period of growth and diversification, which is crucial to the ongoing financial governance arrangements and has enabled the Board to focus and set out a clear plan to ensure this governance remains in place.

### **Future prospects**

The Board of Stockport Homes considers that the Company has strong and sound future prospects. This is demonstrated by the following:

- Strong and effective governance arrangements;
- Sound financial planning framework which demonstrates a robust and healthy financial outlook in the short, medium and long term (supported by a 15 year cashflow);
- A clear strategic direction to grow and diversify the business through the development of a group structure, diversification into new and emerging markets and a strong development programme;
- Continued strong performance of key indicators such as rent collection and void turnaround which has contributed to mitigating key financial risks arising from changes in government policy;

# Stockport Homes Limited

## Strategic report for the year ended 31 March 2016 (*continued*)

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- A healthy level of reserves and a proven track record of generating efficiencies for re-investment into invest to save initiatives that generate additional resources.

### Principal risks and uncertainties

This section of the strategic report sets out the Company's approach to risk management alongside an evaluation of key strategic risks.

The organisation has a Risk Management Strategy in place and produces a corporate risk register on an annual basis. This approach enables the organisation to manage risk and embrace opportunities, and therefore deliver the strategic objectives of the organisation. Each year, Stockport Homes assesses the internal and external operating environment and identifies those risks which could affect business performance.

This exercise is carried out as part of the business planning process. The implications of the Summer Budget 2015 have been fully considered by the organisation and incorporated into the risk register as applicable.

By ensuring that consideration of risk is an integral part of business planning, the organisation ensures that it fully takes account of its environment and is fully aware of the risks which may affect its performance and the achievement of its objectives.

The risk register describes the risk, the potential consequences if it was realised and the actions that have been put into place to mitigate and manage the risk. In addition, the register outlines existing and proposed risk control actions which are to be delivered within the financial year and who is responsible for delivery. A director is responsible for each individual risk to ensure that there is strategic leadership of risk management.

The corporate risk register is approved by the Board and then both the Leadership Forum and the Business Development Sub-Group are provided with a quarterly update report. That report describes progress against delivery of risk control actions and identifies any new or emerging risks which the organisation needs to take account of.

In addition to the corporate risk register, there is also a HRA risk register which has been in place since the organisation became self-financing in 2012. This register is specific to the 30 Year HRA Business Plan and looks at those risks which could affect the achievement of the self-financing business plan or have a negative impact on the assumptions on which the plan is founded, for example around inflation levels or right to buy sales.

The principle of risk management is embedded throughout the organisation. There are a number of ways in which this is maintained and developed:

- By ensuring that risk and opportunity management is a key consideration of the business planning process each year
- By ensuring that Leadership Forum actively consider and review the quarterly risk update reports and raise any areas of emerging risk to the Assurance Manager
- By having a Business Transformation Group in place. This group meets at least once a quarter and is a cross Directorate group which monitors the implementation of new corporate projects, considers project risk (both known and emerging), resource allocation and delivery of benefits and outcomes. The Assurance Manager is a member of this Group
- By having an embedded risk management framework that ensures a culture exists which gives due consideration to risk and opportunity facing the organisation.

# Stockport Homes Limited

## Strategic report for the year ended 31 March 2016 (*continued*)

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### *Strategic risks in 2015-16*

For the 2015-16 financial year, the risk register has been reviewed and updated to reflect the 28 current risks which the organisation is facing.

At the start of the financial year, there were nine strategic risks which the organisation faced and these are outlined below:

- The renegotiation of the management agreement having adverse effects on the organisation
- Rent and water income collection rates not being maintained at best in sector levels
- Welfare reform continues to impact upon customers' ability to manage their tenancies
- Universal credit brings additional challenges to customers and the organisation
- Diversification into new work areas brings exposure to new types of market (including any insourcing opportunities) and is not maximised or doesn't break even
- New head office is not delivered to agreed budget and timescales
- Health and safety obligations to customers aren't fulfilled, including gas safety, fire safety, legionella and asbestos
- Health and safety obligations to staff aren't fulfilled
- IT systems are not resilient enough and readily available to meet business need and IT support from SMBC is not sufficient

On 23 June 2016, Great Britain voted to leave the European Union. The financial impact remains uncertain but will be kept under close review in the coming months through the risk management framework.

### **Financial and non-financial key performance indicators**

Stockport Homes monitors performance against hundreds of indicators and measures. Its corporate performance report, however, focuses on 14 key performance indicators which demonstrate the health of the business. The targets set against these indicators all represent performance among the top ten per cent of comparator organisations. These 14 indicators are supported by 24 measures which help illustrate performance but do not carry targets. Some of these relate to Welfare Reform issues and were monitored in this way since 2013/14.

In order to monitor rent collection in the context of Welfare Reform and the roll out of Universal Credit, the two main rent collection measures were mapped against 'best case' and 'worst case' scenarios. Because of Stockport Homes' effective management of rent collection and associated work such as money advice and rehousing, these critical indicators remained at the 'best case scenario' levels. This shows that the organisation successfully prevented the build-up of significant additional arrears relating to Welfare Reform. Rehousing and void figures indicate that the number of moves decreased from 2014-15.

Of the 16 key performance indicators 12 met targets. Compared to last year, 11 indicators either improved or maintained performance. Three indicators saw performance decline on the previous year, but all of these remained on target or within tolerance. The percentage of 'skills for life' participants going into volunteering, further education or employment three months after the completion of their courses was 49.3 per cent. This fell short of the 70 per cent target and outside the tolerance. It has been recognised within the service, by the Customer Monitoring Group and by the Service Excellence Sub-Group that this indicator does not capture all the positive achievements of the Skills for Life programme, which has far broader benefits for participants.

# Stockport Homes Limited

Strategic report for the year ended 31 March 2016 (continued)

Performance indicators monitored at corporate level in 2015/16		
Performance indicator	2015/16 target	2015/16 outturn
% of domestic properties with a valid landlord Gas Safety Record	100%	100%
% of commercial properties with a valid gas safety certificate	100%	100%
Percentage of properties complying with Legionella (L8) management regime	100%	100%
% of repairs completed right first time	85.0%	85%
Overall satisfaction with the quality of service during investment work programmes	98%	95.7%
% of complainants who would use the service again	98%	93.27%
Ratio of homelessness preventions to homeless acceptances	5.5:1	4.8:1
Average energy performance rating of properties	86%	86.43%
% estate inspections rated at least "good"	96%	96%
Percentage of ASB complainants satisfied with the outcome of their cases	98%	98%
Percentage of 'skills for life' participants experiencing positive outcomes three months after the completion of their courses	70%	49.3%
Average time taken to re-let dwellings (all re-lets)	16 days	12.4 days
Percentage of efficiencies as a proportion of the management fee	3%	4.07%
Total number of days lost due to sickness absence per employee	7.95 days	7.3 days
% of rent collected excluding rent arrears	99.96% (best case scenario)	100.20%
Rent arrears of current tenants as a percentage of rental debit	0.91% (best case scenario)	0.87%

# Stockport Homes Limited

## Strategic report for the year ended 31 March 2016 (continued)

There are five Stockport Homes' corporate indicators and one measure for which year-end benchmark data is available. Compared with other ALMOs Stockport Homes is in the top quartile for all of these. Compared with wider housing organisations, Stockport Homes' performance remains positive as four out of the six indicators or measures fall into the top quartile. The remaining two, sickness absence and rent collection both fall on the top of the upper middle quartile.

Stockport Homes achieved first position among ALMOs for four of the six indicators benchmarked.

	Performance	All ALMOs		All Housing Organisations	
		Position	Base	Position	Base
Percentage of dwellings with a valid gas safety certificate	100%	1 <sup>st</sup>	25	1st	179
Rent collected as a percentage of rent owed (excluding arrears)	100.20%	4 <sup>th</sup>	17	43rd	160
Rent arrears of current tenants as a percentage of rental debit	0.87%	1 <sup>st</sup>	18	8th	165
Percentage of rent lost through dwellings being vacant	0.36%	1 <sup>st</sup>	21	14th	169
Average number of sick days per employee	7.3 days	5 <sup>th</sup>	19	41st	145
Average time taken to re-let empty dwellings (standard re-lets)	9.8 days	1 <sup>st</sup>	24	2nd	176

### EMPLOYEE INVOLVEMENT

Stockport Homes is a medium sized organisation with an establishment of 556.5 full time equivalent posts at 31 March 2015, which is well established in the local community. Stockport Homes continues to recognise that employees are the most important asset to the organisation. The work of the People & Organisational Development (OD) team focuses on enabling the service to increase employee engagement through the implementation of the People & OD Strategy, specific actions and service improvements.

Stockport Homes is proud to be one of the first organisations to be assessed against the new 'Generation 6 Investors in People (IIP) standard in March 2016. Following on from this assessment the organisation achieved IIP 'Gold' status which under the new version is more challenging to attain. Stockport Homes exceeded the industry benchmark in terms of people management and development for all of the nine indicators, demonstrating 'advanced' level against eight of the nine indicators, and high performing in two out of these. This puts Stockport Homes in the top two percentile of organisations assessed against this standard. In addition the organisation retained its IIP Health and Wellbeing Award for exemplar practice in its approach to physical, psychological and social wellbeing of its employees. As such we are delighted to continue as IIP Champions.

Stockport Homes has been listed as a 'Best Companies Top 100 Place to work in the Not-For-Profit Sector' for list for the seventh year running, increasing our overall score from last year, and retaining our one star rating as a 'Very Good' organisation to work for.

The organisations inclusion in the prestigious list reaffirms Stockport Homes' commitment to being an employer of choice and an even better place to work. The largest improvement as an organisation was an increase of 3% in the 'Fair Deal' factor, an area which has typically decreased or remained relatively low. This indicates a slightly more positive outlook with regard to pay and benefits across the organisation.

# Stockport Homes Limited

Strategic report for the year ended 31 March 2016 (*continued*)

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Stockport Homes has invested in a range of initiatives to promote emotional and social well-being, minimise the impact of home and workplace stresses and advocate positive mental health. A comprehensive programme of accredited 'Mental Health First Aid' (MHFA) courses and 'Resilience' workshops are delivered throughout the organisation to increase levels of personal resilience, providing tools to cope effectively with pressures and stress and help to eliminate 'negative' thinking. In addition, these interventions are designed to enable staff to develop a flexible, adaptable mind-set to cope effectively with organisational change, supported by our 'Active Listeners' Group providing support for staff by staff

Stockport Homes has launch its 'Fierce Leadership Development' approach. This focuses on supporting personal and organisational growth through high quality, meaningful conversations. The 'Fierce' models will be employed throughout the organisation to embed leadership skills and behaviour for all our staff going forward, not just our Managers. Part of our investment in this approach is to upskill internal facilitators to increase the programmes sustainability. From the 70 Managers who have already completed the programme, 100% of attendees felt confident to use the models, 93% are using the Fierce 'principles and models' regularly and stated that this programme has given them 'practical, impactful leadership skills' and 'the ability to make better decisions and develop their teams'.

## **EQUALITY AND DIVERSITY**

Stockport Homes is committed to fairness and equality for individuals. This commitment applies to all aspects of employment and is applied through a range of employment policies to ensure that the organisation adheres to its legal obligations in employment, provides a workplace that is free from discrimination and provides equal access to learning and development.

Stockport Homes continuously strives to be an inclusive employer, ensuring that everyone has an equal opportunity to gain employment and the workforce represents the local communities in which it serves. Continuous review and monitoring of employment policies and practices are undertaken to ensure they are applied fairly and equally across the organisation and promote good relations and best practice.

In December 2014, Stockport Homes Board agreed the 2014-17 Equality and Diversity Strategy. This included the objective to develop HR policies and practices that support and develop all staff. A full review of core HR policies, HR system provision and the approach to recruitment has been completed, with the involvement of the Diversity Officer.

As part of implementing this strategy Stockport Homes have introduced a Staff Diversity Group whose remit includes looking at ways to support all staff in their employment and development and achieving a representative workforce. A sub-group of staff and managers are also working through the Stonewall framework to achieve accreditation as an organisation committed to and demonstrating excellence in equality and diversity for staff and customers.

Work has been completed to encourage staff to update their sensitive information, including sexual orientation, and ethnic origin, which were areas where there was previously data missing. This data is used in the annual Workforce Profile Report and actions are identified and implemented as a result.

In February 2015, Stockport Homes was awarded the Housing Diversity Network Diversity Accreditation which recognised good practice across all areas of diversity work. This review also helped Stockport Homes to identify areas for further improvement which will include an Equal Pay Audit and developing Equality Impact Statements further across the organisation.

# Stockport Homes Limited

Strategic report for the year ended 31 March 2016 (*continued*)

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## Governance

The Board of Stockport Homes is responsible for the strategic direction of the organisation and Board members are registered as the Company Directors with Companies House. They have been selected to collectively provide the skills and competencies to successfully steer the company in accordance with its Mission and Aims.

The Board consists of customers, independent and stakeholder members. Stockport Homes has developed a constructive relationship with the Stockport Homes Member Committee, a cross-party Council body, which monitors and oversees the company's work.

Stockport Homes has a Management Team which is led by the Chief Executive, supported by four Directors and is responsible for the day to day operations of the organisation. The Chief Executive reports to the Board of Stockport Homes.

The Board meets four times per year to make decisions concerning the strategic direction of the organisation. The Board is supported by two Sub-Groups, Business Development and Service Excellence, both of which have clear terms of reference. The Board and Sub-Groups are supported by the Governance Team which uses a range of different tools to ensure the effectiveness of the Board's decision-making. This includes a thorough forward planning process and procedures for following actions that are agreed in minutes.

In 2015/16 the company's Articles of Association were revised to coincide with the adoption of the new Management Agreement. Changes were agreed with the Council to facilitate Stockport Homes' ability to operate in flexible and sustainable ways. Subsequently, the role descriptions for the Chair of the Board and Board Members were updated to ensure the Board will continue to recruit the skills and aptitudes it needs to lead the business. In light of these changes the Board agreed that individual Personal Development Reviews would be carried out next in 2016/17.

During 2015/16 the Board undertook training on a range of issues through external courses provided by the Chartered Institute of Housing and the National Federation of ALMOs. Board Away Days have been used to inform members about changes in the national policy environment and to debate the implications of these.

Stockport Homes' Customer Scrutiny Panel (CSP) completed one service review during 2015/16, to consider what customers needed from a new Stockport Homes Website. A further review, of the customer journey and management of low level ASB cases is in progress.

Results of CSP reviews are reported to Board who are requested to approve management action plans to meet CSP recommendations for improvement.

Board also receives a CSP Annual Report that demonstrates how the activity of the CSP contributes to Stockport Homes meeting its co-regulatory responsibilities. The report summarises how customer scrutiny:

- Is led by customers and supported by the organisation,
- Allows customers the opportunity to participate, contribute and challenge,
- Influences the strategic direction of Stockport Homes,
- Results in a positive impact on tenants.

# Stockport Homes Limited

Strategic report for the year ended 31 March 2016 (*continued*)

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## Approval

This Strategic Report was approved by order of the Board on 11<sup>th</sup> July 2016



David Wright  
Chair of the Board

# Stockport Homes Limited

## Independent auditor's report

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We have audited the financial statements of Stockport Homes Limited for the year ended 31 March 2016 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in reserves, the cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the association's members, as a body, in accordance with the Housing and Regeneration Act 2008 and Chapter 3 of Part 16 of the Companies Act 2006. 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.

### ***Respective responsibilities of the board and auditors***

As explained more fully in the statement of board member responsibilities, the board members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

### ***Scope of the audit of the financial statements***

A description of the scope of an audit of financial statements is provided on the FRC's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### ***Opinion on financial statements***

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2016 and of the association's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing in England 2015.

### ***Opinion on other matters prescribed by the Companies Act 2006***

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

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

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

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or

# Stockport Homes Limited

## Independent auditor's report (*continued*)

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- the company financial statements are not in agreement with the accounting records and returns; or
- a satisfactory system of control has not been maintained over transactions; or
- certain disclosures of board member and or directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

BDO LLP

*Hamid Ghafoor (senior statutory auditor)*  
*For and on behalf of BDO LLP, statutory auditor*  
*Manchester*  
*United Kingdom*  
*Date 14/07/2016*

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

# Stockport Homes Limited

## Statement of comprehensive income for the year ended 31 March 2016

	Note	Continuing operations 2016 £'000	Continued operations 2015 (restated) £'000
Turnover	4	40,952	37,608
Cost of sales	4	(1,815)	-
Operating costs	4	(36,289)	(37,229)
Operating surplus	4	2,848	379
Other interest receivable and similar income	11	30	35
Interest and financing costs	12	(391)	(329)
Net interest on pension	23	(520)	(356)
Surplus/(deficit) before taxation		1,967	(271)
Taxation on surplus/(deficit)	13	(164)	(80)
Surplus/(deficit) for the financial year		1,803	(351)
Actuarial gains/(losses) on defined benefit pension scheme	23	5,753	(6,893)
Total comprehensive income for year		7,556	(7,244)

The notes on pages 29 to 55 form part of these financial statements.  
All activities relate to continuing operations.

# Stockport Homes Limited

## Statement of Financial Position at 31 March 2016

	Note	2016 £'000	2015 (restated) £'000
<b>Fixed assets</b>			
Tangible fixed assets - housing properties	14	18,883	14,091
Tangible fixed assets - other	15	3,543	493
		<b>22,426</b>	<b>14,584</b>
<b>Current assets</b>			
Stocks	16	2,199	1,381
Debtors - receivable within one year	17	4,136	4,084
Debtors - receivable after one year	17	500	-
Cash and cash equivalents		6,210	4,423
		<b>13,045</b>	<b>9,888</b>
<b>Creditors: amounts falling due within one year</b>	18	<b>(6,216)</b>	<b>(5,064)</b>
<b>Net current assets</b>		<b>6,829</b>	<b>4,824</b>
Total assets less current liabilities		<b>29,255</b>	<b>19,408</b>
Creditors: amounts falling due after more than one year	19	<b>(19,828)</b>	<b>(13,330)</b>
<b>Net assets excluding pension liability</b>		<b>9,427</b>	<b>6,078</b>
Pension liability	23	<b>(11,534)</b>	<b>(15,741)</b>
<b>Net liabilities</b>		<b>(2,107)</b>	<b>(9,663)</b>
<b>Capital and reserves</b>			
Income and expenditure reserve		<b>(2,107)</b>	<b>(9,663)</b>
		<b>(2,107)</b>	<b>(9,663)</b>

The financial statements were approved by the Board of Directors and authorised for issue on 11 July 2016.

David Wright  
Chair of the Board

The notes on pages 29 to 55 form part of these financial statements.

# Stockport Homes Limited

## Statement of changes in reserves for the year ended 31 March 2016

	Income and expenditure reserve (restated)
	£'000
Balance at April 2015	(9,663)
Surplus/(deficit) for the year	1,803
Actuarial gains/ (losses) on defined benefit pension scheme	5,753
Other comprehensive income for the year	5,753
Balance at 31 March 2016	(2,107)

# Stockport Homes Limited

## Statement of changes in reserves for the year ended 31 March 2015

	Income and expenditure reserve (restated)
	£'000
Balance at April 2014	(2,419)
Surplus/(deficit) for the year	(351)
Actuarial gains/ (losses) on defined benefit pension scheme	(6,893)
Other comprehensive income for the year	(6,893)
Balance at 31 March 2015	(9,663)

# Stockport Homes Limited

## Consolidated statement of cash flows for the year ended 31 March 2016

	Note	2016 £'000	2015 (restated) £'000
<b>Cash flows from operating activities</b>			
<b>Surplus/(deficit) for the financial year</b>		1,803	(351)
Adjustments for:			
Depreciation of fixed assets - housing properties	14	345	213
Depreciation of fixed assets - other	15	26	21
Amortised grant	20	39	35
Interest payable and finance costs	12	391	329
Interest received	11	(30)	(35)
Taxation expense	13	164	80
Difference between net pension expense and cash contribution	23	1,547	787
Decrease / (increase) in trade and other debtors		(632)	71
(Increase) in stocks		(818)	(1,198)
(Decrease) in trade creditors		(264)	(605)
<b>Cash from operations</b>		2,571	(653)
Taxation paid		(61)	(45)
<b>Net cash generated from operating activities</b>		2,510	(698)
<b>Cash flows from investing activities</b>			
Purchase of fixed assets - housing properties	14	(5,409)	(3,660)
Purchases of fixed assets - other	15	(2,653)	-
Receipt of grant	20	1,657	1,243
<b>Net cash from investing activities</b>		(6,405)	(2,417)
<b>Cash flows from financing activities</b>			
Interest paid	12	(371)	(329)
Interest received	11	18	35
New loans	21	6,327	2,796
Repayment of loans	21	(292)	(240)
<b>Net cash used in financing activities</b>		5,682	2,262
<b>Net increase / (decrease) in cash and cash equivalents</b>		1,787	853
Cash and cash equivalents at beginning of year		4,423	5,276
<b>Cash and cash equivalents at end of year</b>		6,210	4,423

The notes on page 29 to 55 form part of these financial statements.

# Stockport Homes Limited

Notes forming part of the financial statements for the year ended 31 March 2016

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# Stockport Homes Limited

Notes forming part of the financial statements for the year ended 31 March 2016 (*continued*)

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## 1 Legal status

The Organisation is registered with Companies House as a company limited by guarantee and is registered with the Homes and Communities Agency as a social housing provider.

## 2 Accounting policies

The financial statements have been prepared in accordance with applicable law and UK accounting standards (United Kingdom Generally Accepted Accounting Practice) which for Stockport Homes includes the Housing and Regeneration Act 2008, FRS 102 “the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland” the Statement of Recommended Practice (SORP) for Registered Social Housing Providers 2014, “Accounting by registered social housing providers” 2014, the Accounting Direction for Private Registered Providers of Social Housing 2015.

Stockport Homes has applied the standard in the preparation of these financial statements. Information on the impact of first-time adoption of FRS 102 is given in note 28.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying accounting policies.

The following principal accounting policies have been applied:

### *Income*

Income is measured at the fair value of the consideration received or receivable. The Organisation generates the following material income streams:

- Management fee income from Stockport Council;
- Rental income receivable (after deducting lost rent from void properties available for letting),
- First tranche sales of Low Cost Home Ownership housing properties developed for sale.
- Service charges receivable,
- Grant income for specific initiatives;
- Revenue grants and proceeds from the sale of land and property

Rental income is recognised from the point when properties under development reach practical completion and are formally let, income from first tranche sales and sales of properties built for sale is recognised at the point of legal completion of the sale.

### *Supported housing schemes*

Stockport Homes receives Supporting People grants from SMBC. The grants received in the period as well as costs incurred in the provision of support services have been included in the Income and Expenditure Account. Any excess of cost over the grant received is borne by the Group where it is not recoverable from tenants.

### *Service charges*

The Group adopts the variable method for calculating and charging service charges to its tenants and leaseholders. Expenditure is recorded when a service is provided and charged to the relevant service charge account. Income is recorded based on the estimated amounts chargeable.

### *Management of units owned by others*

Management fees receivable and reimbursed expenses are shown as income and included in management fees receivable. Costs of carrying out the management contracts and rechargeable expenses are included in operating costs.

# Stockport Homes Limited

Notes forming part of the financial statements for the year ended 31 March 2016 *(continued)*

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## 2 Accounting policies *(continued)*

### *Current and deferred taxation*

Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company's subsidiaries operate and generate taxable income.

### *Value Added Tax*

Stockport Homes charges Value Added Tax (VAT) on the majority of its income and is able to recover the corresponding majority of the VAT it incurs on expenditure. The financial statements include VAT to the extent that it is suffered by Stockport Homes and not recoverable from HM Revenue and Customs. Non-recoverable VAT arises from exempt and partially exempt activities and is debited to the Statement of Comprehensive Income.

### *Finance costs*

All Stockport Homes' borrowing is on fixed PWLB rates. Finance costs are charged to profit or loss over the term of the debt using the actual interest rate for each loan.

### *Pension costs*

The Company participates in the Greater Manchester Pension Fund. The scheme is a defined benefit pension scheme and retirement benefits to the employees of the Company are funded by contributions from all employers and employees in the scheme.

Payments are made to a fund operated by Tameside Metropolitan Borough Council. These payments are made in accordance with periodic calculations by consulting actuaries and are based on pension costs applicable to the various participating organisations. All costs, liabilities, assets and investment returns are accounted for in accordance with FRS 102.

The difference between the fair value of the assets held in the defined benefit pension scheme and the scheme's liabilities measured on an actuarial basis using the projected unit method are recognised in the balance sheet as a pension asset or liability as appropriate. The carrying value of any resulting pension scheme asset is restricted to the extent that Stockport Homes is able to recover the surplus either through reduced contributions in the future or through refunds from the scheme.

### *Holiday pay accrual*

A liability is recognised to the extent of any unused holiday pay entitlement which has accrued at the balance sheet date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the balance sheet date.

# Stockport Homes Limited

Notes forming part of the financial statements for the year ended 31 March 2016 (*continued*)

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## 2 Accounting policies (*continued*)

### *Tangible fixed assets - Housing Properties*

Housing properties constructed or acquired (including land) on the open market since the date of transition to FRS 102 are stated at cost less depreciation and impairment (where applicable).

The cost of housing land and property represents their purchase price and any directly attributable costs of acquisition which may include an appropriate amount for staff costs and other costs of managing development.

Where housing properties are in the course of construction, finance costs are only capitalised where construction is on-going and has not been interrupted or terminated.

Expenditure on major refurbishment to properties is capitalised where the works increase the net rental stream over the life of the property. An increase in the net rental stream may arise through an increase in the net rental income, a reduction in future maintenance costs, or a subsequent extension in the life of the property. All other repair and replacement expenditure is charged to the Statement of Comprehensive Income.

Housing properties in the course of construction, excluding the estimated cost of the element of shared ownership properties expected to be sold in first tranche, are included in PPE and held at cost less any impairment, and are transferred to completed properties when ready for letting.

### *Depreciation of housing property*

Housing land and property is split between land, structure and other major components that are expected to require replacement over time.

Land is not depreciated on account of its indefinite useful economic life.

The portion of shared ownership property retained or expected to be retained is not depreciated on account of the high residual value. Neither the depreciable amount nor the expected annual depreciation charge for such assets is considered material, individually or in aggregate.

Assets in the course of construction are not depreciated until they are completed and ready for use to ensure that they are depreciated only in periods in which economic benefits are expected to be consumed.

The cost of all other housing property (net of accumulated depreciation to date and impairment, where applicable) and components is depreciated over the useful economic lives of the assets on the following basis:

Freehold land is not depreciated.

# Stockport Homes Limited

Notes forming part of the financial statements for the year ended 31 March 2016 (*continued*)

## 2 Accounting policies (*continued*)

Housing properties are split between the structure and the major components which require periodic replacement. The costs of replacement or restoration of these components are capitalised and depreciated over the determined average useful economic life as follows:

Description	Economic useful life (years)
New build housing structure (including on-costs)	100
Other housing structure	50
Boundary walls & car hard-standings	50
Roofs	70
Windows	30
Electrical	30
Bathrooms	30
Structural cladding	25
Front Doors	25
Back Doors	30
Boilers	20
Heating systems	30
Kitchens	20
Canopy Roofs	20
Gutters / Fascia / Waste Stack / Downpipes	20
Gates / Fences	25
Consumer Units	30
Smoke Detectors/Carbon Monoxide Detectors/Extractors	10
Photovoltaic Panels	25

Leasehold properties are depreciated over the length of the lease except where the expected useful economic life of properties is shorter than the lease; when the lease and building elements are depreciated separately over their expected useful economic lives.

Any difference between the historical annual depreciation charge and the annual depreciation charge on assets carried at deemed cost is transferred to the revaluation reserve for the asset concerned until that reserve is depleted.

### *Shared ownership properties and staircasing*

Under low cost home ownership arrangements, Stockport Homes disposes of a long lease on low cost home ownership housing units for a share ranging between 25% and 75% of value. The Buyer has the right to purchase further proportions and up to 100% based on the market valuation of the property at the time each purchase transaction is completed.

Low cost home ownership properties are split proportionately between current and fixed assets based on the element relating to expected first tranche sales. The first tranche proportion is classed as a current asset and related sales proceeds included in turnover. The remaining element, "staircasing element", is classed as PPE and included in completed housing property at cost and any provision for impairment. Sales of subsequent tranches are treated as a part disposal of PPE. Such staircasing sales may result in capital grant being deferred or abated and any abatement is credited in the sale account in arriving at the surplus or deficit.

# Stockport Homes Limited

Notes forming part of the financial statements for the year ended 31 March 2016 (*continued*)

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## 2 Accounting policies (*continued*)

Low cost home ownership properties are not depreciated on the expectation that the net realisable value at the time of disposal will be in excess of the historical cost.

### *Allocation of costs for mixed tenure and shared ownership developments*

Costs are allocated to the appropriate tenure where it is possible to specify which tenure the expense relates to. Where it is not possible to relate costs to a specific tenure costs are allocated on a floor area or unit basis depending on the appropriateness for each scheme.

### *Tangible fixed assets - Other*

Other tangible fixed assets, other than investment properties, are stated at historical cost less accumulated depreciation and any accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The company adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred if the replacement part is expected to provide incremental future benefits to the group. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

### *Assets under construction*

Assets under construction are stated at cost. The company adds to the carrying amount when the cost is incurred. Assets under construction are not depreciated until they are brought into use.

### *Depreciation of other tangible fixed assets*

Other fixed assets are included in the Balance Sheet at historical cost, less depreciation where appropriate. A de minimus value of £5,000 applies to individual items. Depreciation is provided at a rate calculated to write off the cost of fixed assets, less their estimated residual value over their estimated useful lives on the following basis:

- Computer Equipment 33.33% Straight Line
- Photovoltaic panels 4% Straight line

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other operating income' in the statement of comprehensive income.

### *Government grants*

Grant received in relation to property construction is accounted for using the accrual model set out in FRS 102 and the Housing SORP 2014. Grant is carried as deferred income in the balance sheet and released to the income and expenditure account on a systematic basis over the useful economic lives of the asset for which it was received. In accordance with Housing SORP 2014 the useful economic life of the housing property structure has been selected (see table of useful economic lives below).

Where social housing grant (SHG) funded property is sold, the grant becomes recyclable and is transferred to a recycled capital grant fund until it is reinvested in a replacement property. If there is no requirement to recycle or repay the grant on disposal of the assets any unamortised grant remaining within creditors is released and recognised as income within the income and expenditure account.

# Stockport Homes Limited

Notes forming part of the financial statements for the year ended 31 March 2016 (*continued*)

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## 2 Accounting policies (*continued*)

Grants relating to revenue are recognised in income and expenditure over the same period as the expenditure to which they relate once performance related conditions have been met.

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

### *Impairment of fixed assets*

The housing property portfolio for the Group is assessed for indicators of impairment at each balance sheet date. Where indicators are identified then a detailed assessment is undertaken to compare the carrying amount of assets or cash generating units for which impairment is indicated to their recoverable amounts. An option appraisal is carried out to determine the option which produces the highest net realisable value. Valuations on rental return or potential sale proceeds are obtained and used to inform the options. The Group looks at the net realisable value, under the options available, when considering the recoverable amount for the purposes of impairment assessment. The recoverable amount is taken to be the higher of the fair value less costs to sell or value in use of an asset or cash generating unit. The assessment of value in use may involve considerations of the service potential of the assets or cash generating units concerned or the present value of future cash flows to be derived from them appropriately adjusted to account for any restrictions on their use. No properties have been valued at VIU-SP.

The Group defines cash generating units as schemes except where its schemes are not sufficiently large enough in size or where it is geographically sensible to group schemes into larger cash generating units. Where the recoverable amount of an asset or cash generating unit is lower than its carrying value an impairment is recorded through a charge to income and expenditure.

### *Stock*

Stock represents work in progress and completed properties, including housing properties developed for transfer to other registered providers; properties developed for outright sale; and shared ownership properties. For shared ownership properties the value held as stock is the estimated cost to be sold as a first tranche.

Stock is stated at the lower of cost and net realisable value. Cost comprises materials, direct labour and direct development overheads. Net realisable value is based on estimated sales proceeds after allowing for all further costs to completion and selling costs

### *Debtors and creditors*

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the income statement in other operating expenses

### *Recoverable amount of rental and other trade receivables*

Stockport Homes estimates the recoverable value of rental and other receivables and impairs the debtor by appropriate amounts. When assessing the amount to impair it reviews the age profile of the debt, historical collection rates and the class of debt.

### *Rent and service charge agreements*

The Group has made arrangement with individuals and households for arrears payments of rent and service charges. These arrangements are effectively loans granted at nil interest rate.

# Stockport Homes Limited

Notes forming part of the financial statements for the year ended 31 March 2016 (*continued*)

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## 2 Accounting policies (*continued*)

### *Loans, Investments and short term deposits*

All loans, investments and short term deposits held by the Group are classified as basic financial instruments in accordance with FRS 102. These instruments are initially recorded at the transaction price less any transaction costs (historical cost), FRS 102 requires that basic financial instruments are subsequently measured at amortised cost, however Stockport Homes has calculated that the difference between the historical cost and amortised cost basis is not material and so these financial instrument are stated on the balance sheet at historical cost. Loans and investments that are payable or receivable within one year are not discounted.

### *Financial liabilities and equity*

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form.

### *Cash and cash equivalents*

Cash and cash equivalents in the Statement of Financial Position consists of cash at bank, in hand, deposits and short term investments with an original maturity of three months or less.

### *Contingent liabilities*

A contingent liability is recognised for a possible obligation, for which it is not yet confirmed that a present obligation exists that could lead to an outflow of resources; or for a present obligation that does not meet the definitions of a provision or a liability as it is not probable that an outflow of resources will be required to settle the obligation or when a sufficiently reliable estimate of the amount cannot be made.

A contingent liability exists on grant repayment which is dependent on the disposal of related property.

### *Reserves*

Income received, and expenditure incurred, for restricted purposes is separately accounted for within restricted funds. Realised and unrealised gains and losses on assets held by these funds are also allocated to the fund.

# Stockport Homes Limited

Notes forming part of the financial statements for the year ended 31 March 2016 (*continued*)

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## 3 Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements, the key judgements have been made in respect of the following:

- whether there are indicators of impairment of the group's tangible and intangible assets, including goodwill. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit. The members have considered the measurement basis to determine the recoverable amount of assets where there are indicators of impairment based on EUV-SH or depreciated replacement cost. The members have also considered impairment based on their assumptions to define cash or asset generating units.
- the anticipated costs to complete on a development scheme based on anticipated construction cost, effective rate of interest on loans during the construction period, legal costs and other costs. Based on the costs to complete, they then determine the recoverability of the cost of properties developed for outright sale and/or land held for sale. This judgement is also based on the member's best estimate of sales value based on economic conditions within the area of development.
- the critical underlying assumptions in relation to the estimate of the pension defined benefit scheme obligation such as standard rates of inflation, mortality, discount rate and anticipated future salary increases. Variations in these assumptions have the ability to significantly influence the value of the liability recorded and annual defined benefit expense.
- whether leases entered into by the group either as a lessor or a lessee are operating or lease or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.
- the appropriate allocation of costs for mixed tenure developments, and furthermore the allocation of costs relating to shared ownership between current and fixed assets.
- the exemptions to be taken on transition to FRS102
- the categorisation of housing properties as investment properties or property, plant and equipment based on the use of the asset
- what constitutes a cash generating unit when indicators of impairment require there to be an impairment review

### *Other key sources of estimation uncertainty*

- *Tangible fixed assets (see note 14 and 15)*

Tangible fixed assets, other than investment properties, are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as condition and continued usage are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

For housing property assets, the assets are broken down into components based on management's assessment of the properties. Individual useful economic lives are assigned to these components.

# Stockport Homes Limited

Notes forming part of the financial statements for the year ended 31 March 2016 (*continued*)

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## 3 Judgements in applying accounting policies and key sources of estimation uncertainty (*continued*)

- *Rental and other trade receivables (debtors) (see note 17)*

The estimate for receivables relates to the recoverability of the balances outstanding at year end. A review is performed on an individual debtor basis to consider whether each debt is recoverable.

# Stockport Homes Limited

Notes forming part of the financial statements for the year ended 31 March 2016 (continued)

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

	Turnover	Cost of sales	Operating costs	Operating surplus/ (deficit)
	2016	2016	2016	2016
	£'000	£'000	£'000	£'000
<b>Social housing lettings (Note 5)</b>	1,063	-	(737)	326
Other Social Housing Activities				
First tranche low cost home ownership sales	2,433	(1,815)	-	618
Management Fee from Stockport MBC	26,789	-	(24,214)	2,575
Income from customers and miscellaneous	5,328	-	(5,031)	297
Supporting People Income	311	-	(311)	-
Charges to capital programme	4,193	-	(4,090)	103
Water initiative	835	-	(880)	(45)
Net pension cost	-	-	(1,026)	(1,026)
	39,889	(1,815)	(35,552)	2,522
	40,952	(1,815)	(36,289)	2,848
	Turnover	Cost of sales	Operating costs	Operating surplus/ (deficit)
	2015	2015	2015	2015
	£'000	£'000	£'000	£'000
<b>Social housing lettings (Note 5)</b>	930	-	(573)	357
Other Social Housing Activities				
Management Fee from Stockport MBC	26,238	-	(25,833)	405
Income from customers and miscellaneous	5,197	-	(5,003)	194
Supporting People Income	346	-	(346)	-
Charges to capital programme	4,064	-	(4,064)	-
Water initiative	833	-	(979)	(146)
Net pension cost	-	-	(431)	(431)
	36,678	-	(36,656)	27
	37,608	-	(37,229)	379

## Stockport Homes Limited

Notes forming part of the financial statements for the year ended 31 March 2016 (continued)

5 Income and Expenditure from social housing lettings	General needs	Low cost home ownership	Total 2016	Total 2015 (restated)
	£'000	£'000	£'000	£'000
Income				
Rents net of identifiable service charges	942	29	971	819
Service charge income	45	8	53	44
Amortised government grants	33	6	39	35
Other income	-	-	-	30
Bad Debt reduction	-	-	-	2
Turnover from social housing lettings	1,020	43	1,063	930
Expenditure				
Management	(64)	(6)	(70)	(59)
Service charge costs	(45)	(8)	(53)	(44)
Maintenance	(72)	-	(72)	(72)
Bad debts	(6)	-	(6)	-
Depreciation of housing properties:				
- annual charge	(306)	(39)	(345)	(282)
Other costs	(154)	(37)	(191)	(116)
Operating expenditure on social housing lettings	(647)	(90)	(737)	(573)
Operating surplus/(deficit) on social housing lettings	373	(47)	326	357
Void losses	(1)	-	(1)	(2)

# Stockport Homes Limited

Notes forming part of the financial statements for the year ended 31 March 2016 (continued)

## 6 Units of housing stock

	2016 Number	2015 Number
General needs housing:		
- Social	85	85
- Affordable	90	82
Low cost home ownership	51	8
<b>Total owned</b>	<b>226</b>	<b>175</b>
Accommodation managed for others	11,340	11,392
<b>Total managed accommodation</b>	<b>11,340</b>	<b>11,392</b>
<b>Total owned and managed accommodation</b>	<b>11,566</b>	<b>11,567</b>
Units under construction	155	30

## 7 Operating surplus

	2016 £'000	2015 £'000
This is arrived at after charging:		
Depreciation of housing properties:		
- annual charge	345	282
Depreciation of other tangible fixed assets	26	21
Operating lease charges - land & building	425	425
Operating lease charges - other	640	504
Auditors' remuneration (excluding VAT):		
fees payable to the company's auditor for the audit of the group's annual accounts	14	13
- fees for tax computations	1	1
fees for audit related assurance	3	1
Defined benefit pension cost (see note 23)	1,026	431

# Stockport Homes Limited

Notes forming part of the financial statements for the year ended 31 March 2016 (*continued*)

## 8 Employees

	2016 £'000	2015 £'000
Staff costs (including Executive Management Team) consist of:		
Wages and salaries	13,200	13,103
Social security costs	923	933
Cost of defined benefit scheme (see note 23)	2,122	1,981
	<b>16,245</b>	<b>16,017</b>

The average number of employees (including Stockport Homes Management Team) expressed as full time equivalents (calculated based on a standard working week of 37 hours) during the year was as follows:

	2016	2015
Administration	109	109
Development	101	147
Housing, Support and Care	302	257
	<b>512</b>	<b>513</b>

## 9 Directors' and senior executive remuneration

The directors are defined as the members of the Board of Management, the Chief Executive and the Executive Management Team disclosed on page 2.

	2016 £'000	2015 £'000
Executive directors' emoluments	465	448
Amounts paid to non-executive directors	10	-
Contributions to defined benefit pension schemes	59	54
	<b>534</b>	<b>502</b>

The Board of Management received £2,400 (2015: £10,000) for board expenses during the year.

The total amount payable to the Chief Executive, who was also the highest paid director in respect of emoluments was £140,753 (2015 - £140,753). The Chief Executive has opted out of the Local Government Pension Scheme.

There were 4 directors in the local government pension scheme during the year (2015 - 4).

# Stockport Homes Limited

Notes forming part of the financial statements for the year ended 31 March 2016 (continued)

The remuneration paid to staff (including Executive Management Team) earning over £60,000 upwards:

	Group 2016 No.	Group 2015 No.
£60,000 - £69,999	3	-
£70,000 - £79,999	1	1
£80,000 - £89,999	1	1
£90,000 - £99,999	1	1
£100,000 - £109,999	-	-
£110,000 - £119,999	-	-
£140,000-£150,000	1	1

## 10 Board members

Board member	Remuneration £	Member of Business Development Sub Group(deals with audit and finance)	Member of Service Excellence Sub Group
David Beckett	1,433	x	x
John Bowker	1,558		x
Josephine Hague	1,038		x
Paul Porgess	1,038		x
Alanna Vine	1,038	x	
Christine Wooldridge	1,038	x	
David Wright	2,597	x	
Kenneth Lee	575	x	
Roger Phillips	-	x	
Roland Dotchin	-	x	x
Jenny Osbourne	-		x

# Stockport Homes Limited

Notes forming part of the financial statements for the year ended 31 March 2016 (*continued*)

## 11 Interest receivable and income from investments

	Association 2016 £'000	Association 2015 £'000
Interest receivable and similar income	30	35
	<b>30</b>	<b>35</b>

## 12 Interest payable and similar charges

	2016 £'000	2015 £'000
Loans from group undertakings	391	329
	<b>391</b>	<b>329</b>

## 13 Taxation on surplus/(deficit) on ordinary activities

	2016 £'000	2015 £'000
<i>UK corporation tax</i>		
Current tax on surplus for the year	176	80
Adjustment in respect of previous periods	(12)	-
Taxation on surplus on ordinary activities	<b>164</b>	<b>80</b>

The tax assessed for the year differs to the standard rate of corporation tax in the UK applied to surplus before tax. The differences are explained below:

	2016 £'000	2015 £'000
Surplus/ on ordinary activities before tax	3,870	810
Surplus on ordinary activities at the standard rate of corporation tax in the UK of 20% (2015 - 20%)	239	178
Effects of:		
Expenses not deductible for tax purposes	(62)	(98)
Adjustment to tax charge in respect of previous periods	(13)	-
Total tax charge for period	<b>164</b>	<b>80</b>

## Stockport Homes Limited

Notes forming part of the financial statements for the year ended 31 March 2016 (continued)

14 Tangible fixed assets - Housing properties	General needs completed £'000	General needs under construction £'000	Shared ownership completed £'000	Shared ownership under construction £'000	Total £'000
<b>Cost:</b>					
At 1 April 2015	12,847	432	417	1,194	14,890
Additions:					
- construction costs	498	2,142	1,402	1,095	5,137
Completed schemes	401	(401)	1,194	(1,194)	-
<b>At 31 March 2016</b>	<b>13,746</b>	<b>2,173</b>	<b>3,013</b>	<b>1,095</b>	<b>20,027</b>
<b>Depreciation:</b>					
At 1 April 2015	(764)	-	(35)	-	(799)
Charge for the year	(298)	-	(47)	-	(345)
<b>At 31 March 2016</b>	<b>(1,062)</b>	<b>-</b>	<b>(82)</b>	<b>-</b>	<b>(1,144)</b>
<b>Net book value at 31 March 2016</b>	<b>12,684</b>	<b>2,173</b>	<b>2,931</b>	<b>1,095</b>	<b>18,883</b>
<b>Net book value at 31 March 2015</b>	<b>12,083</b>	<b>432</b>	<b>382</b>	<b>1,194</b>	<b>14,091</b>

# Stockport Homes Limited

Notes forming part of the financial statements for the year ended 31 March 2016 (continued)

## 14 Tangible fixed assets - Housing properties (continued)

	2016 £'000	2015 £'000
<b>The net book value of housing properties may be further analysed as:</b>		
Freehold	17,925	13,111
Long leasehold	958	980
	<b>18,883</b>	<b>14,091</b>
<b>Works to properties</b>		
Improvements to existing properties capitalised	108	291
	<b>108</b>	<b>291</b>
<b>Total Social Housing Grant received or receivable to date is as follows:</b>		
Capital grant - Housing Properties	4,323	3,819
	<b>4,323</b>	<b>3,819</b>

### Impairment

Stockport Homes considers each scheme to represent separate cash generating units (CGU's) when assessing for impairment in accordance with the requirements of FRS102 and SORP 2014.

On 8 July 2015, the Summer Budget included the announcement that the Government will reduce rents in social housing in England by 1% a year for four years from April 2016. The Government indicated this will result in a 12% reduction in average rents by 2020/21, compared to current forecasts. As such, this triggered an indicator of impairment and a full review was performed. There were no impairments arising from this review.

### Valuation

In carrying out the impairment review Stockport Homes undertook a valuation of the properties.

The valuation was carried out as a desktop exercise on an EUV-SH basis using discounted cashflows.

# Stockport Homes Limited

Notes forming part of the financial statements for the year ended 31 March 2016 (*continued*)

15	Other tangible fixed assets	HQ Office buildings under construction £'000	Fixtures, fittings, tools and equipment £'000	Total £'000
<i>Cost or valuation</i>				
	At 1 April 2015	323	269	592
	Additions	2,918	158	3,076
	At 31 March 2016	3,241	427	3,668
<i>Depreciation</i>				
	At 1 April 2015	-	(99)	(99)
	Charge for year	-	(26)	(26)
	At 31 March 2016	-	(125)	(125)
<i>Net book value</i>				
	At 31 March 2016	3,241	302	3,543
	At 31 March 2015	323	170	493

## 16 Stock

	Other consumables	First tranche shared ownership properties	Total	Total
	2016 £,000	2016 £'000	2016 £'000	2015 £'000
Work in progress	-	1,101	1,101	1,192
Completed properties	-	918	918	-
Consumables	180	-	180	189
	180	2,019	2,199	1,381

# Stockport Homes Limited

Notes forming part of the financial statements for the year ended 31 March 2016 (*continued*)

## 17 Debtors

	2016 £'000	Restated 2015 £'000
Due within one year		
Rent and service charge arrears	21	16
Less: Provision for doubtful debts	(8)	(7)
Amounts owed by SMBC and associated companies	2,300	2,431
Trade debtors	895	589
Other debtors	308	223
Prepayments and accrued income	620	741
Social housing grant receivable	-	91
	4,136	4,084
Due after one year		
Other debtors	500	-
	500	-
	4,636	4,084

## 18 Creditors: amounts falling due within one year

	2016 £'000	Restated 2015 £'000
Loans and borrowings (note 21)	337	271
Trade creditors	880	1,073
Social housing grant in advances	1,207	-
Amounts owed to Stockport MBC and associated companies	245	901
Taxation and social security	477	390
Other creditors	642	486
Deferred capital grant (Note 20)	41	39
Accruals and deferred income	2,387	1,904
	6,216	5,064

# Stockport Homes Limited

Notes forming part of the financial statements for the year ended 31 March 2016 (continued)

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

	2016 £'000	2015 £'000
Loans and borrowings (Note 21)	15,719	9,684
Deferred capital grant (Note 20)	4,109	3,647
	<b>19,828</b>	<b>13,331</b>

## 20 Deferred capital grant

	2016 £'000	2015 £'000
At 1 April	3,685	3,395
Grants received during the year	504	325
Released to income during the year	(39)	(35)
At 31 March	<b>4,150</b>	<b>3,685</b>

## 21 Loans and borrowings

Maturity of debt:

	Other loans 2016 £'000	Total 2016 £'000
In one year or less, or on demand	337	337
In more than one year but not more than two years	435	435
In more than two years but not more than five years	1,399	1,399
In more than five years	13,885	13,885
	<b>16,056</b>	<b>16,056</b>

	Other loans 2015 £'000	Total 2015 £'000
In one year or less, or on demand	271	271
In more than one year but not more than two years	303	303
In more than two years but not more than five years	973	973
In more than five years	8,408	8,408
	<b>9,955</b>	<b>9,955</b>

# Stockport Homes Limited

Notes forming part of the financial statements for the year ended 31 March 2016 (continued)

## 21 Loans and borrowing (continued)

Of the loans of £16.1m, £3.1m has an interest rate of less than 3%, £12.2m has an interest rate between 3% and 5% with the remaining £0.8m at a rate greater than 5%.

## 22 Financial instruments

Stockport Homes' financial instruments may be analysed as follows:

	2016 £'000	Restated 2015 £'000
<b>Financial assets</b>		
Financial assets measured at historical cost		
- Trade receivables	908	598
- Other receivables	3,255	3,027
- Cash and cash equivalents	6,210	4,423
<b>Total financial assets</b>	<b>10,373</b>	<b>8,048</b>
<b>Financial liabilities</b>		
Financial liabilities measured at amortised cost		
- Loans payable	16,056	9,955
Financial liabilities measured at historical cost		
- Trade creditors	880	1,073
- Other creditors	3,672	3,483
<b>Total financial liabilities</b>	<b>20,608</b>	<b>14,511</b>

Financial assets measured at amortised cost comprise trade debtors, other debtors, amounts owed by associated undertakings.

## 23 Pensions

### Defined benefit pension scheme

The Company joined the Greater Manchester Pension Fund, administered by Tameside Metropolitan Borough Council, on 1 October 2005 with its employees transferring from Stockport Metropolitan Borough Council.

The latest formal valuation of the Fund was as at 31 March 2013. Results from this valuation have been rolled forward to 31 March 2015 using approximate methods. The roll-forward allows for:

- Changes in financial assumptions
- Additional benefit accrual
- Actual pension increase orders
- Estimated cash flows over the period, and
- Membership information.

# Stockport Homes Limited

Notes forming part of the financial statements for the year ended 31 March 2016 (*continued*)

A summary of the data used for valuation is as follows:

- Individual membership data submitted as at 31 March 2013
- Individual pensioner data in respect of LGPS unfunded pensions
- Latest numbers of employees, deferred pensioners and pensioners
- Actual payroll information up to the latest available date
- Employer and employee contributions up to the latest available date and payroll data (in order to estimate contribution income and pensionable payroll for the accounting period)
- Actual split of Fund assets as at the latest available date
- Actual Fund returns provided up to the latest available date
- The bid market value of Fund assets as at the latest available date, and
- Any new early retirements from 1 April 2014 to the latest available date on unreduced pensions which are not anticipated in the normal employment service cost

A full actuarial valuation of the defined benefit scheme was carried out at 31 December 2013 and updated to 31 December 2015 and 2016 by a qualified independent actuary. Contributions to the scheme are made by the group based on the advice of the actuary and with the aim of making good the deficit over the remaining working life of the employees.

There were no changes to the scheme during the year and no amounts owing to the scheme at the year end.

	2016 £'000	2015 £'000
<i>Reconciliation of present value of plan liabilities</i>		
At the beginning of the year	(60,560)	(46,185)
Current service cost	(3,102)	(2,415)
Interest cost	(1,988)	(2,040)
Actuarial gains/ (losses)	7,490	(9,750)
Benefits paid	10	(170)
Past service costs	(42)	-
<b>At the end of the year</b>	<b>(58,192)</b>	<b>(60,560)</b>

	2016 £'000	2015 £'000
<i>Reconciliation of fair value of plan assets</i>		
At the beginning of the year	44,819	38,124
Interest income on plan assets	1,468	1,684
Actuarial gains/(losses)	(1,737)	2,857
Contributions by employer	2,118	1,984
Benefits paid	(10)	170
<b>At the end of the year</b>	<b>46,658</b>	<b>44,819</b>
Fair value of plan assets	46,658	44,819
Present value of plan liabilities	(58,192)	(60,560)
<b>Net pension scheme liability</b>	<b>(11,534)</b>	<b>(15,741)</b>

# Stockport Homes Limited

Notes forming part of the financial statements for the year ended 31 March 2016 (continued)

## 23 Pensions (continued)

Amounts recognised in other comprehensive income are as follows:	2016	2015
	£'000	£'000
Included in administrative expenses:		
Current service cost	3,102	2,415
Past service cost	42	-
	<b>3,144</b>	<b>2,415</b>

### Amounts included in other finance costs

Net interest cost	520	356
Analysis of actuarial gain / (loss) recognised in Other Comprehensive Income	2016	2015
	£'000	£'000
Actual return less interest income included in net interest income	(1,737)	2,857
Experience gains and losses arising on the scheme liabilities	373	217
Changes in assumptions underlying the present value of the scheme liabilities	7,117	(9,967)
	<b>5,753</b>	<b>(6,893)</b>

	2016	2015
	£'000	£'000
<i>Composition of plan assets</i>		
Equities	73%	73%
Bonds	17%	17%
Property	6%	6%
Cash	4%	4%
Total plan assets	100%	100%
Actual return on plan assets	(0.6%)	11.6%

### Principal actuarial assumptions used at the balance sheet date

	2016	2015
Discount rates		
Future salary increases	3.5%	3.2%
Future pension increases	3.5%	3.6%
Proportion of employees opting for early retirement	2.2%	2.4%
Average future life expectancies		
for a male aged 65 now	21.4 years	21.4 years
at 65 for a male member aged 45 now	24 years	24 years
for a female aged 65 now	24 years	24 years
at 65 for a female member aged 45 now	26.6 years	26.6 years

# Stockport Homes Limited

Notes forming part of the financial statements for the year ended 31 March 2016 (*continued*)

## 24 Contingent liabilities

Stockport Homes receives grant from the Homes and Communities Agency which is used to fund the acquisition and development of housing properties and their components. Grant of £3,761,272 received in respect of housing properties held at 31 March 2015 was credited to reserves and recognised using the accruals method on adoption of FRS 102. The Group has a future obligation to recycle such grant once the properties are disposed of. At 31 March 2016, the value of grant received in respect of these properties that had not been disposed of was £3,761,272.

As the timing of any future disposal is uncertain, no provision has been recognised in these financial statements.

## 25 Operating leases

The group and the association had minimum lease payments under non-cancellable operating leases as set out below:

Amounts payable as Lessee	2016 £'000	2015 £'000
Not later than 1 year	877	893
Later than 1 year and not later than 5 years	508	675
<b>Total</b>	<b>1,385</b>	<b>1,568</b>

## 26 Capital commitments

	2016 £'000	2015 £'000
Commitments contracted but not provided for Construction	13,522	1,447
Commitments approved by the Board but not contracted for Construction	319	2,914
	<b>13,841</b>	<b>4,361</b>

Capital commitments for the group and association will be funded as follows:

	2016 £'000	2015 £'000
Social Housing Grant	2,522	38
New loans	5,687	849
Sales of properties	5,632	3,474
	<b>13,841</b>	<b>4,361</b>

# Stockport Homes Limited

Notes forming part of the financial statements for the year ended 31 March 2016 (*continued*)

## 27 Related party disclosures

The ultimate controlling party of Stockport Homes is Stockport Metropolitan Borough Council.

### Associated companies

The following transactions took place between Stockport Homes, Stockport MBC and its associated ventures during the year

	Stockport Council		Solutions SK	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Net loan movements advances/(repayments)	6,101	2,632	-	-
Net sales and purchases of goods and services	5,897	7,363	(356)	(455)
Management fees received	26,709	26,092	-	-

Payable by Association to associated companies	Stockport Council		Solutions SK	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Loan advances	16,056	9,955	-	-
Trading Balances	204	860	41	41

Payable to Association to associated companies	Stockport Council		Solutions SK	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Trading Balances	2,300	2,431	-	-

Solutions SK is a subsidiary undertaking of Stockport Metropolitan Borough Council and therefore a fellow subsidiary of Stockport Homes.

In 2015/16 Stockport Homes charged schools within Stockport £485k (£363k for the year ended 31st March 2015) in relation to the provision of repairs and maintenance services.

As at 31 March 2016, Stockport Homes' bank balances were held by the same bankers as those of Stockport Metropolitan Borough Council, however the Council does not have control of the bank balances of Stockport Homes.

The Board includes three tenant members who hold a tenancy agreement on normal terms and cannot use their position to their advantage. At 31 March 2016 Mrs Christine Woolridge, Mrs Jo Hague and Mr Terrance Dotchin continued to act as Board Members. There were insignificant rental credit balances to report in relation to these tenants at year end.

Two of the current Board members are a Councillor of a related local authority these are Mrs Alanna Vine and Mr Paul Porgess. All transactions in the year with the related local authority were made at arm's length and on normal commercial terms.

# Stockport Homes Limited

Notes forming part of the financial statements for the year ended 31 March 2016 (continued)

## 28 First time adoption of FRS 102

	Reserves as at 1 April 2014 £'000	Deficit for year ended 31 March 2015 £'000	Reserves as at 31 March 2015 £'000
As previously stated under former UK GAAP	(2,414)	(7,244)	(9,658)
Transitional adjustments			
Increase in accumulated depreciation	-	98	-
Recognition of amortised grant	-	(98)	-
Increase in bad debt provision	-	(5)	(5)
As stated in accordance with FRS 102	(2,414)	(7,249)	(9,663)

### Explanation of changes to previously reported profit and equity

- a. FRS 102 requires the recognition in profit or loss of a net interest cost (or income) on defined benefit pension schemes. This is calculated by multiplying the net pension liability (or asset) by the market yields on high quality corporate bonds. The effect of this, when compared to previous UK GAAP, has been to reduce reported profits for the year ended 31 March 2016 because previous UK GAAP led to the recognition of finance income calculated by reference to the expected returns on the pension plan's specific assets be they equities, properties or bonds. The change has had no effect on reported equity as the measurement of the net defined pension scheme liability (or asset) has not changed. Instead, the decrease in reported profit is mirrored by an increase in actuarial gains which are presented within other comprehensive income.

Section 17 of FRS 102 states that any gain in revaluation must be recognised within comprehensive income and the revaluation reserves, any losses must be offset by any gains recognised in the revaluation reserve and then must be recognised within surplus/deficit before taxation.

- b. Social Housing Grant can no longer be offset against housing property within fixed assets and under section 24 of FRS 102, where properties are held at deemed cost, the related social housing grant will be recognised initially under the performance model with subsequent grants measured using the 'accrual model' with the grant amortised over the life of the structure and components of the property.

Grants relating to revenue are recognised in income and expenditure over the same period as the expenditure to which they relate once performance related conditions have been met. The effect of this on the 1 April 2015 balance sheet is the movement of £98,000 from accumulated depreciation to amortised grant. Movements during 2014/15 are shown in note 20.

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

The effect on the 1 April 2015 balance sheet is the movement of £3,686,000 (relating to assets held at historic cost) to long term creditors. Movements to the long term creditor grants during 2014/5 are shown in note 20. £3,185,000 grant relating to properties purchased from third parties has been netted off the value of the fixed assets shown in note 14.

