B3 LIVING

Better Homes Communities Business

Financial Statements 2013/2014

Contents	Page
Board Members, Executive Directors, Advisors and Bankers	**3**
Report of the Board	**3 - 21**
Independent Auditors' Report to the Members of B3Living Limited	**22**
Income and Expenditure Account	**23**
Statement of Total Recognised Surpluses and Deficits	**23**
Reconciliation of movements in the Association's Funds	**23**
Balance Sheet	**24**
Cash Flow Statement	**25**
Notes to the Financial Statements	**26 - 48**

Board Members, Executive Directors, Advisors and Bankers

Board		
Chair	**Sandra Royer**	Reappointed 24 September 2012
Vice Chair	**Karen Forbes-Jackson**	Reappointed 24 September 2012
Other Members	**Mike Curtis**	Reappointed 19 September 2011
	Chris Herbert	From 23 September 2013
	Eric Xuereb	To 23 September 2013
	Mark Mills-Bishop	From 30 July 2012
	Tony Infantino	From 30 July 2012
	Stewart Heath	Reappointed 19 September 2011
	Camelia Borg	From 24 September 2012
	Valerie Vellani	From 24 September 2012
	Shoaib Gillani	To 23 September 2013
	Jackie Phipps	From 23 September 2013
	Christine Mitchell	Co-optee to 23 September 2013
	Pat Milner	Co-optee from 11 May 2009
	Anne Shearman	Co-optee From 29 March 2010

Executive Directors	
Chief Executive	**John Giesen**
Deputy Chief Executive/Director of Business Services and Company Secretary	**Ken Goodsell (to 1 August 2014)**
Director of Resources	**Paul Williams**
Director of Development	**Steven Tarry**
Director of Housing Services	**Simon Walton**
Director of People Services	**Anna Knight**
Company Secretary	**Susan Scanlan (from 1 August 2014)**

Registered Office	**Scania House 17 Amwell Street, Hoddesdon, Hertfordshire, EN11 8TS**
Registered Number	**Registered with the Financial Conduct Authority (FCA) as a Co-operative and Community Benefit Society with charitable rules and objectives. FCA Registration number: 29876R Registered with the Homes and Communities Agency (previously the Tenant Services Authority) Registration number: L4455**
Auditors	**Beever and Struthers Chartered Accountants St George's House, 215-219 Chester Road, Manchester, M15 4JE**
Solicitors	**Winckworth Sherwood Minerva House, 5 Montague Close, London, SE1 9BB**
Valuers	**Savills (L&P) Ltd 37-39 Perrymount Road, Haywards Heath, West Sussex, RH16 3BN**
Funders	**Santander Corporate Banking 2 Triton Square, Regent's Place, London, NW1 3AN**
Bond Investors	**M&G (Through The Prudential)**
Bankers	**Lloyds Bank Plc. Public and Community Sector 3rd Floor, 25 Gresham Street, London, EC2 7HN**

Report of the Board

The Board presents its report and the B3Living's audited financial statements for the year to 31 March 2014.

Principal Activities

B3Living is a non-profit registered provider administered by a voluntary board. It is registered by the Homes and Communities Agency as a Housing Association Registered Provider (a 'HARP') of social housing. The association's principal activities relate to the development, acquisition and management of affordable general needs, sheltered shared ownership and supported social housing for those in necessitous circumstances and investment in the community.

Business Review

B3Living has developed higher level corporate strategic objectives that are reflected in its strategic plans, supported by a long term financial plan and annual budget.

The association raised £68m, by way of a bond issue, in January 2013. The proceeds of this issue are funding a development and acquisition programme of c200 homes over the next two to three years.

The association established its own in-house routine repairs and maintenance function in June 2012. It fully established itself during 2013/14 by providing cost benefits and improved levels of service to residents. We also have added an in-house repairs team replacing kitchens and bathrooms on a range of major works for the association.

B3Living operated within the constraints of its Strategic Plan, as set out in its 2020 Vision Statement, long term financial plan, annual budget and both bond holder and bank covenants during the year to 31 March 2014.

Housing property assets

Details of B3Living's fixed assets are shown in notes 10 and 11 to the financial statements.

Reserves

After the transfer of the surplus for the year of £2.3m (2013: £1.6m) at the year end, B3Living's reserves amounted to £27.8m (2013: £25.5m).

Donations

B3Living made donations of £21,240 (2013: £8,504) during the period.

Post balance sheet events

The Board considers that there have been no events since the year end that have had a material or significant effect on the association's financial position.

Payment of creditors

B3Living's policy is to pay purchase invoices within 30 days of receipt, or earlier if agreed with the supplier. This policy was adhered to throughout the year, except in instances where a debt was disputed.

Financial instruments

Throughout the year, the association operated within the constraints of its Treasury Management Policy. Analysis and detail of debt structure is contained within note 15.

Employees

The strength of B3Living lies in the quality of all its employees: in particular, the association's ability to meet its objectives and commitments to tenants in an efficient and effective manner depends on its employees' contribution.

The association's performance management system is now well established and ensures that the objectives of individuals are in harmony with corporate and departmental targets, and that individual performance is closely monitored.

Report of the Board (continued)

B3Living shares information on its objectives, progress and activities through a series of regular meetings involving Board members, senior management and staff.

The association participates in the 'positive about disabled people' scheme in recruiting new staff, and is committed to the embedding of its equalities and diversity policies amongst its employees.

In 2011 B3Living gained the Investors in People (IIP) status. In 2014 it again retained its status as a 3 star, top ten organisation: it was ranked 8th (4th 2013) by the Sunday Times, among the 100 Best Not-For-Profit Organisations to work for.

Health and safety

The Board is aware of its responsibilities on all matters relating to health and safety. B3Living has prepared detailed health and safety policies and provides staff training and education on health and safety matters.

Board members and executive directors

The present Board members and the executive directors of B3Living are set out on page 3. The Board members are drawn from a wide background, bringing together professional, commercial and local experience.

The executive team comprise the Chief Executive and five other executive directors representing Resources, Business Services, Housing Services, Development, and People Services. The executive directors hold no interest in the association's shares and act as executives within the authority delegated by the Board.

Insurance policies indemnify Board members and officers against liability when acting for the association.

Executive service contracts

The Chief Executive and the other executive directors, have service contracts with notice periods ranging from three to six months. These contracts are not in the same form as the service contracts for other staff.

Pensions

The executive directors are members of either the Social Housing Pension Scheme or the Hertfordshire County Council Pension Fund, both defined benefit final salary pension schemes. They participate in the schemes on the same terms as all other eligible staff and the association contributes to the scheme on behalf of its employees.

From 1 April 2009, the only pension scheme available for new employees is a defined contribution scheme administered by Scottish Life.

Other benefits

The executive directors are entitled to other benefits including the provision of a transport allowance. Details of executive director remuneration packages are included in note 9 to the financial statements.

National Housing Federation Code of Governance

The Board are pleased to report that B3Living complies in all material respects with the principal recommendations of the current NHF Code of Governance –'Excellence in Governance' and that there are no material governance issues to report over the period.

Resident Participation

B3Living actively encourages resident participation in decision-making by promoting mechanisms of resident involvement. The association has four tenant Board members and clear reporting arrangements between resident groups and the Board.

Report of the Board (continued)

Homes and Communities Agency

B3Living is regulated by the Homes and Communities Agency (the 'HCA'). The association is committed to compliance with current HCA standards and demonstrates this through regular Board reporting and local service offers it has agreed with tenants. As confirmed by the HCA, the association continues to comply with the HCA's financial viability standard.

In terms of compliance with the value for money (VFM) standard, the association continues to ensure that residents are appropriately involved in the definition of VFM targets and the application of the VFM savings previously achieved.

Credit rating

B3Living obtained a Moody's credit rating during 2013 to support the launch of its bond offering. This rating continues to be maintained to help facilitate further future borrowing. The association holds a premium level 'A' rating.

Complaints

B3Living has a clear and simple complaints policy issued to all tenants. During the year, the association received 81 (2013: 73) formal complaints which were investigated in accordance with established procedures. The majority of the complaints were in relation to repairs, caretaking and capital works.

Value for money (VFM) Self-Assessment

Board present their self- assessment of the association's VFM performance during the year. This is a summarised assessment, being an abridged version of the association's full VFM self- assessment, which can be found on its website through www.b3living.org.uk using the 'About Us' tag. This statement is aimed at residents, stakeholders and staff, and sets out how the association is delivering Value for Money (VFM) in order to provide efficient, cost effective services for its customers. Whilst some aspects of the economy are recovering, there are still considerable challenges for housing associations and their residents through welfare reform, reducing grant rates for new homes and increasing costs of borrowing. VFM has a crucial role to play in both enabling the association to deliver new homes without reliance on public sector subsidy, and in enabling it to maintain or improve core service standards. It is essential that the association gets the best from its assets and staff, and delivers more for less.

The association delivered its key VFM performance targets for 2013/14, these being:

- Maintaining community investment a c2% of turnover
- Ensuring that increases in total operating costs are less than increases in turnover
- Meeting or bettering VFM cashable savings targets for the year
- Containing year on year costs per home

What does VFM mean to B3Living?

The association's VFM strategy and priorities support its corporate strategic themes (as set out in its 2020 Vision Statement) of:–

Better Homes – providing homes which residents enjoy living in, within areas which are safe and attractive.

Better Communities – recognising that a thriving community is as important to residents as the home that they live in. The association will provide opportunities that benefit the wider community and will continue to ask residents what their priorities are so that the association's community investment programme meets their needs.

Better Business – delivering excellent, efficient services, and remaining an employer of choice. The association also plans to increase the number of homes it owns and manages and to expand into other local authority areas.

Report of the Board (continued)

Key 2013/14 VFM priorities, continuing into 2014/15 are:

Priority:	2020 Vision theme
1. Understanding assets held and managing them effectively	
2. Generating additional income in innovative ways	
3. Maximising current income and proactively supporting residents affected by Welfare Reform	
4. Identifying areas where costs can be reduced and efficiencies can be made	
5. Reviewing procurement arrangements	
6. Demonstrating the social return on investment	

Management and monitoring VFM

The Board has overall responsibility for B3Living's direction and governance. The key areas for managing and monitoring VFM by the Board or Committees are as follows:

- Review and approval of the annual project plan, supporting delivery of the 2020 Vision Statement.
- Annual review and approval of the budget and long term business plan
- Six monthly VFM updates, includes annual VFM strategy review and agreeing priorities and targets for the forthcoming year
- Strategic discussions taking place at Board away days and other open space forums
- Annual community development impact assessment
- Review and approval of the asset management strategy
- Review of business critical performance indicators
- Review of management accounts
- Robust risk management process
- All reports include a section addressing VFM implications
- Peer group benchmarking
- Resident scrutiny
- VFM embedded in personal objectives

VFM priorities in action

1. **Understanding corporate assets and managing them effectively**

Asset values and returns on assets – Housing properties, the association's prime class of asset are valued every year on an existing use (EU) basis. The current EU value of the housing stock is £205 million, which is an average of £45K per property. This is an increase of in excess of 90% over the past 5 years, which is well above the rate of inflation and the cost of borrowing. The association uses this equity to borrow against for the delivery of a prudent level of growth, subject to maintaining suitable levels of interest cover.

The overall return on housing assets for 2013/14 (£7.484m operating surplus less £39k for intermediate and market rented properties) was 6.8% (based on operating surplus as a percentage of the cost of our homes). This compares favourably with a 5.6% cost of funding those assets (interest costs as a percentage of total borrowing). This 6.8% overall return on housing assets is stronger than last year's overall 6.% and can be broken down, as below, over the main property classifications of general needs and retirement housing .

Report of the Board (continued)

		General needs			Retirement housing		
		H&B*	F&M*	Total	H&B	F&M	Total
Unit numbers		1,325	1,518	2,843	97	627	724
Operating surplus	- Total (£K)	3,307	2,651	5,958	199	1,252	1,451
	- Per unit(£K)	2,496	1,746	2,096	2,047	1,997	2,044
Surplus as % of turnover	- Total (%)	44.64	35.78	80.42	2.68	16.90	19.58
	- Per unit (%)	0.03	0.02	0.03	0.03	0.03	0.03
Surplus as % of asset value		1.62	1.30	2.91	0.10	0.61	0.71
Surplus as % of net cost of housing assets		3.02	2.42	5.43	0.18	1.14	1.32

** H = Houses B = Bungalows F = Flats M = Maisonettes*

The association monitors the financial performance of its property assets and major works, management and debt interest costs. It needs to know the contribution each asset makes towards its financial stability. If an asset is not making a positive financial contribution it is unlikely to support corporate aims and objectives.

In 2012/13 the association developed a Neighbourhood Sustainability Assessment tool that pulled together all financial performance data on its assets together with an assessment of quality (demand, energy efficiency, crime and ASB data etc.). This was used to rank the performance of the association's 63 estates, providing an indicative overview of where attention would need to be given in terms of management focus and the potential investment of improvement funds.

The association has now purchased its own property asset system which is being used to undertake a full financial appraisal of its stock, measuring the Net Present Value (NPV) of each scheme as well as its capital value which together inform investment decision making. Scheme NPVs will become available in 2014/15 to enhance the understanding of the asset base.

The association can also undertake what-if scenarios to enhance the value of assets when they next become void. Scenarios enable decisions on change of tenure and/or rent product and changes in management and maintenance costs to be made.

Properties which are identified as high cost, high value or have a negative NPV are being considered for disposal and the association has begun a disposals programme. Further disposals are dependent on changes to the sale proceeds clawback arrangement with Broxbourne Borough Council which has been in place since transfer. Negotiations will take place with the Council over 2014/15 to negotiate out of the clawback arrangements. Without a deal on clawback it is not generally in the association's best financial interest to dispose of properties, although there may be exceptions. If agreement with the Council is reached, this would enable the association to use all the income from sales of targeted properties for development, and would generate more than a one for one replacement of disposed housing assets.

Management of cyclical and planned maintenance

After new development and acquisitions, this is the association's second largest area of our spending and it is a priority to improve processes and reduce overall costs, whilst improving quality and increasing resident satisfaction. The association has maintained 100% compliance with the Decent Homes Standard, and completed work to 300 homes with an average of 95% resident satisfaction. The association uses its asset management system, Integrator, to set longer term planned programmes of work which can achieve greater efficiencies through targeted procurement.

2. **Generating income in innovative ways**

As well as achieving savings, the association wants to generate additional income which will be used to improve services and build or acquire new homes.

To maximise potential to grow, the association has:

Report of the Board (continued)

- Introduced affordable rents – converting most properties to affordable rents when relet enables the association to generate additional income that will be used for future development.
- Become part of the HCA framework for development.
- Raised £68 million through a bond to invest in development – this arrangement is on positive terms at a competitive (25 year) rate of 4.83%.
- Begun a programme of high value/high cost property disposals (subject to the clawback consideration referred to above).
- Re-used an obsolete block of flats for temporary accommodation for the homeless which has generated a doubling of the income.
- Begun discussions with the Council over a potential joint venture for development.

During 2013/14 the association used the bond finance to acquire 82 homes from the London Borough of Haringey, and 12 from another housing association. It is building 240 homes, including its first development outside the borough of Broxbourne. It anticipates a reduction in grant levels all round in the future, which is why the association hopes to supplement this programme from disposals under its active asset management strategy.

3. Maximising current income and proactively supporting residents affected by Welfare Reform

The association works closely with residents most affected by Welfare Reform to offer support and advice, and as a result it has maintained top quartile rent arrears performance, with arrears at 1.63% as at July 2014 (including water and sewerage arrears too). It has successfully accessed Discretionary Housing Payments (DHP) from the Borough Council. The association has reviewed the income services team structure and ways of working and as a result we now offer flexible direct debit payments which benefit both residents and B3Living. It has also re-negotiated a commission for collecting water and sewerage charges, resulting in additional annual income equivalent to the cost of employing 3 staff. Through its community development and partnership working initiatives, the association has supported the employment of 532 people, of which 96 were B3 residents.

4. **Identifying areas where costs can be reduced and efficiencies can be made**

a) **In-house repairs** – since setting up its own in-house repairs service, Send and Mend (SAM) in 2012, the association has reduced its actual year on year repairs costs by c£1 million p.a. through VAT and other savings (with £0.5 million invested in one off set up costs). Further efficiencies were identified in 2013/14 where the outturn was £386K less than the first year of SAM. Satisfaction levels have increased during this period and at over 99% for the last year were higher than the association had ever achieved with contractors. Costs however are not yet where the association wants them to be and further work will be undertaken, with an aim of being in the upper median quartile in HouseMark by 2016.

b) **Grounds maintenance** – the association has reviewed arrangements for shrub and hedge maintenance on our estates and has entered into a social enterprise (through Jobs at Home) which has resulted in a better service in terms of the specification. The association's own estate inspections also indicate improved quality of work. It no longer pays VAT for this service, and is able to create job opportunities for local people. The outcome is an overall improved service and community benefits: at a cost that has, overall, remained steady.

c) **Service reviews** – there is a rolling programme of service reviews, and VFM is integral to each review, ensuring that efficiencies are identified where possible and that alternative ways to deliver services are considered.

Report of the Board (continued)

d) **Staff structure** – the association makes savings where possible by reviewing its staffing structure when vacancies arise and as part of service reviews. Following vacancies within the Community Rangers Team the association has reviewed the team management structure and as a result has saved £40K, with the reduction of one post, also achieving the delivery of greater focus and clarity and more logical reporting lines.

e) **Using HouseMark data** – the association benchmarks through HouseMark and uses the data to help understand its operational costs and overheads. The key messages from HouseMark comparisons are that:

(i) Overall costs are mid-range, although some elements appear high. The association has reviewed the way it apportions back office costs for 2014/15, and is carrying out a review of staff benefits. It is also working with peers to ensure that it fully understands its costs and will take action where it feels that savings can be made without compromising the level of service that it wants to provide.

(ii) HouseMark comparison between cost and performance indicate that there are several areas where costs are high and performance is reported as poor. This report identifies and comments on the HouseMark cost / performance summary.

(iii) Generally there is a positive trend, year on year, based on comparisons with the current peer group.

(iv) Financially the association compares its performance, primarily, against the LSVT group within the HCA's Global Accounts. Within this group, operating margins, interest cover, unit operating costs and unit management costs are all stronger than the broad peer group. The association also compares itself with the HCA's unit cost regression analysis and with other Moody's rated associations. The business plan shows continuing improvements in key ratings agency ratios.

(v) Generally resident satisfaction is strong.

5 Reviewing procurement arrangements

A new procurement strategy was produced in 2013/14 to ensure a consistent approach to all B3Living's procurement activity from office stationary purchases through to major works contracts and new build development.

6 Demonstrating social return on investment

a) Community development – the association believes that delivering VFM is not just about financial gain but also about the social value delivered to the community. The association made a direct investment of £410K in community projects during 2013/14 the on-going target being to invest 2% of outturn each year. The association also draws in other resources from partnership working (e.g. discounted or free use of facilities, grants etc.) which help to maximise the social impact. An impact assessment for all projects supported during the year was undertaken in 2013/14, using the HACT model for a sample of these projects to help measure the social impact. The projects within the sample indicate a 'community return' of between 1:23 (which means for every £1 spent, we have generated £23 worth of benefit) to 1:90 which represents excellent VFM. Benefits include people finding employment and young people taking part in diversionary activities. The association will be applying the HACT model increasingly during 2014/15 impact assessment.

b) Building and acquiring new homes – new homes completed under the current development programme meet the Code of Sustainable Homes Level 3 and 4, which brings savings to residents'

Report of the Board (continued)

c) fuel bills, as well as improved thermal comfort and ventilation and less tendency to ill health. The homes were procured through competitive tendering to ensure best value, their cost being subsidised through local authority and HCA grant. Many of the homes were built to 'Lifetime Homes' standards, meaning they are accessible and more easily adaptable for residents who may develop disabilities during their residence. Providing new homes is essential because of the acute shortage in housing supply. Broxbourne, the main area of operation, is an area of great housing need and the association takes its responsibility to provide new homes very seriously, getting the most out of its asset base in terms of borrowing for growth, and also as a means of reducing overheads through economies of scale.

VFM and finances

The following indicators are used to drive and measure VFM performance:

- Turnover and Operating surplus
- Operating costs / cost per home
- HCA's global accounts
- Moody's credit rating
- HouseMark peer group comparisons for key performance indicators

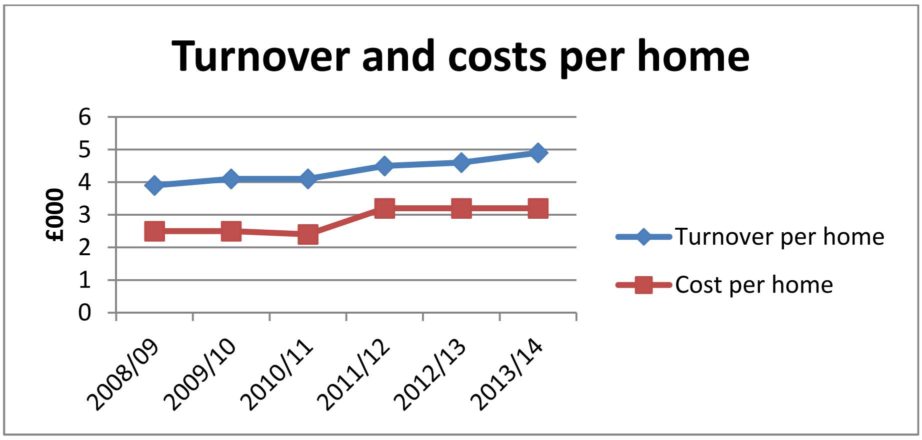
Operating surplus and income

Year	Turnover £m	Operating Costs £m	Surplus £m	Operating Surplus %	Homes Owned	Turnover per home £000	Cost per home £000
2011/12	19.9	14.4	5.5	27.6	4453	4.5	3.2
2012/13	21.0	14.6	6.4	30.5	4519	4.6	3.2
2013/14	22.4	14.9	7.5	33.5	4536	4.9	3.2

A continuing increase in operating surplus is indicative that overall cost increases are being well contained with overall income increases, holding steady costs per home.

Cost per unit

Unit costs have increased by just 1.8% year on year since 2008 with VFM savings holding unit costs per home steady over the past 3 years. Unit cost increases are well below the increase in turnover, as shown in the graph below, demonstrating that the business is getting stronger.



Note: .From 2011/12 costs include property depreciation

Report of the Board (continued)

Breaking down unit costs over key headings demonstrates , as below, that (despite inflation of over 2.5% pa) the association has, over the past year, broadly held steady unit costs in respect of management, repairs, services and depreciation, whilst broadly maintaining service and resident satisfaction levels - VFM savings have been instrumental in achieving this.

Unit costs are broken down as follows:

Unit cost analysis – all costs	2013/14 £000	2012/13 £000
Management costs (inc. central o/heads/other)	1.2	1.3
Repairs (ex. central o/heads)	0.8	0.7
Services (ex. central o/heads)	0.6	0.7
Depreciation	0.6	0.5
Total cost per unit	**3.2**	**3.2**

The association uses the ***HCA's national regression analysis*** on cost per property to gauge performance. The latest analysis (2010/11) showed that the overall UK average operating cost per home (excluding high support) was £2.9K. This figure excludes depreciation. For 2010/11, the association were comfortably below this at £2.5K per home (excluding depreciation). With inflation of around 3% per year, it is expected this benchmark will exceed £3K per unit by 2013/14. The unit cost for 2013/14 (excluding depreciation) amounted to £2.7K, again well below the HCA unit cost benchmark.

HCA's global accounts

The strength of the association's operating surplus is demonstrated by benchmarking against the HCA's Global Accounts, which for 2012/13 shows an average of 26.7% operating surplus for all LSVT housing associations. The association's 2013/14 operating surplus was 33.5%

At a more detailed level, the association also uses published accounts to look at its operating margins compared with three other LSVT associations operating in Hertfordshire. Against all three LSVTs the association's 33.5 % operating margin was stronger.

Other comparisons appear within the suite of financial and performance indicators.

Credit ratings – the HCA Viability Rating and Moody's

The association has a current top V1 Viability rating from the HCA. This is supplemented by a current top G1 rating for governance.

The association are pleased that, despite being a young association, it has achieved a prime A3 rating from Moody's which is maintained in connection with a rated bond. This rating is based on Moody's assessment of the viability of the association's long term plan.

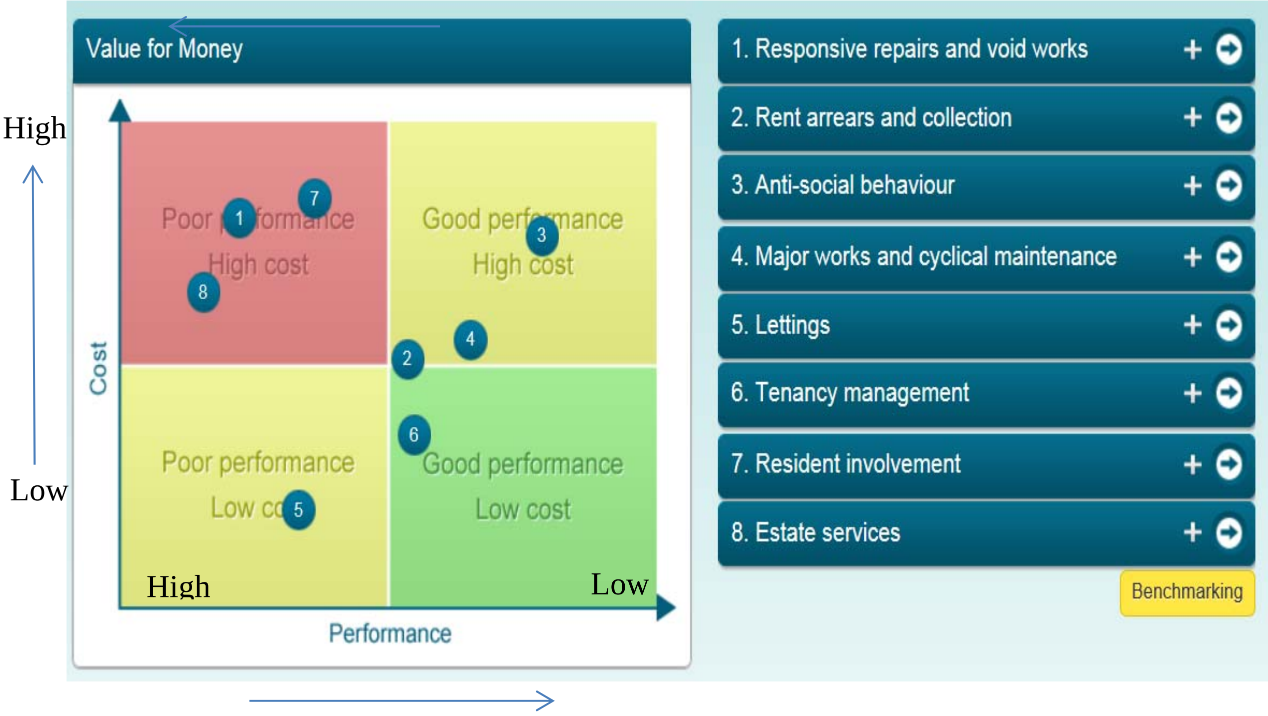
Of the 34 housing associations rated by Moody's, the association ranks a strong 13th in terms of operating surplus (2012/13 results).

Due to the inherently high gearing of LSVTs, the association ranks 29th on the debt to revenue ratio.

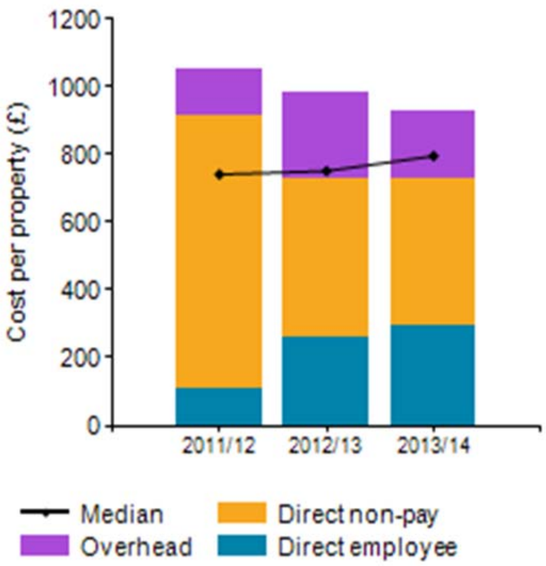
Report of the Board (continued)

HouseMark comparisons

The summary below shows how the association are performing against its HouseMark peer group (direct costs, including allocated overhead):



The association is continuing to interpret and understand the HouseMark data, in particular the areas where it appears to have higher costs and worse performance than others. Repairs costs are still comparatively high, but for the first time the association has moved out of the lower quartile, and our figures show a downward trend, whereas the trend for the peer group median has increased over the last 3 years, as demonstrated in the graph below:



B3Living repairs costs over the last 3 years (inc. central o/heads)

Report of the Board (continued)

In some areas, such as estate services, anti-social behaviour (ASB) and resident involvement, the association believe that a higher level of investment brings returns which justify the outlay, such as a significant reduction in incidents of ASB, which impacts on other teams (less vandalism and graffiti on estates reduces community rangers' expenditure as a result of planned activities and prevention measures such as CCTV cameras); a higher and more meaningful level of resident involvement due to incentivising, and training and developing residents; better looking estates through investment in planting and maintaining shrubs as well as cutting the grass and providing our Ranger (caretaking) services – the association has a high percentage of blocks of flats, which increases costs compared to others.

Apparent poor performance against peers in the areas of repairs, resident involvement, estate services and lettings is disappointing, and in some cases is not consistent with our own understanding. Our detailed analysis has shown us the following:

Repairs – our repairs are all carried out at a time agreed with the tenant, therefore the average completion time indicator is not a real indicator of performance in this case. Satisfaction is taken from the STAR questionnaire repairs satisfaction question – the association also carries out its own post-repair survey and results are consistently high at around 99% which reflects the quality of work and customer service. The STAR result has dipped this year from above 90%, which coincides with our move from 3 yearly paper surveys to a rolling telephone survey. Understanding the reasons for the difference between the two surveys is an ongoing action for 2014/15.

Resident involvement – the HouseMark performance assessment includes results from the STAR 'satisfaction that views are taken into account' question. This has dropped significantly on previous years and also coincides with our move to the rolling telephone survey. From talking to residents, there doesn't appear to have been any dip in service, and certainly numbers involved have remained steady.

Estate services – the performance element is mainly derived from the STAR 'satisfaction with neighbourhood' question. When the association analysed specific feedback it found that residents' interpretation of 'neighbourhood' is subjective and the negative points raised tend to be things outside our direct control.

Lettings – during this period the association had a higher number of empty properties (48% increase on previous year) which led to an increase in re-let times as it chose to keep the work in-house, this being financially beneficial.

Overall the association's costs are mid-range, however certain elements, in particular staff benefits and overheads, generally appear high. The association has now reviewed the Executive Team and are carrying out a review of staff benefits, so it expects to see reductions which will show in the 2014/15 figures. The association is also looking at the way it apportions back office costs, and is working with peers to ensure that it fully understands its costs and will take action where the association feels that savings can be made without compromising the level of service that it wants to provide.

Generally there is a positive trend, year on year, based on comparisons with the LSVT peer group. The association is also reviewing its bespoke peer group to ensure fair but realistic comparison. Further work will be done in all these areas to ensure the accuracy of its data and reduce costs where possible.

Report of the Board (continued)

Financial and service performance indicators

Financial performance: HCA global accounts 2012/13 – LSVT statistics

Service measures: HouseMark peer group

Indicator	Actual 2013/14	Actual 2012/13	Actual 2011/12	Latest Peer Group Median	Trend against peers -
Financial indicators					
Operating margin	33.5%	30.5%	27.8%	26.7%	Stronger
Interest cover : Operating surplus before depreciation as % interest payable	169.2%	182.4%	334.8%	118.3%	Stronger
Total social housing operating costs per home	£3.1K	£3.1K	£3.0K	£3.2K	Stronger
Total social housing management cost per home	£0.8K	£0.8K	£0.7K	£0.9K	Stronger
Service measures					
Resident satisfaction with overall service	88%	91.3%	91.3%	88.15%	Equal
Rent arrears as a percentage of rent due	1.65%	1.41%	1.53%	3.24%	Stronger
Cost per home of major works	£1313	£1270	£2131	£1385	Stronger
Cost per home of responsive repairs and voids repairs	£928	£1010	£1114	£752	Area for improvement

Commentary on financial and service performance indicators

Financial performance

Broadly the association looks strong against its LSVT peers in terms of the key areas of operating surplus, interest cover, operating costs per unit and management costs per unit. These ratios are all stronger than budgeted for and reflect the delivery of VFM targets for both 2013/14 and the previous year. The weakening of the interest cover ratio over the previous year is attributable to the association raising new bond debt and refinancing existing bank debt at higher margins than negotiated at transfer (2006) when margins were historically low. Refinancing was necessary since the association needed to raise more money to continue to grow.

Report of the Board (continued)

Service performance – Performance is generally good with only cost per home of responsive repairs showing performance which is lower than the median for the group. Costs have, however, reduced each year with further savings anticipated for 2014/15.

Key corporate VFM targets and performance measures shown for the last 3 years:

VFM targets	2011/12	2012/13	2013/14
Community development : to maintain at recent levels equal to 2% of our income	B3 invested 1.3% of its income	B3 invested 2% of its income	B3 invested 2% of its income
Ensure that increases in costs are less than increases in income	Cost increases of 6%; income increases of 9.3%	Cost increases of 1.8%; income increases of 5.6%	Cost increases of 2.4%; income increases of 6.7%
Meet or better annual VFM savings target each year	Target £472K. Delivery £1081K	Target £361K. Delivery £1729K	Target £253K. Delivery £1202K
Containing year on year costs per home	*Met : £3.2K per home*	Met : £3.2K per home	Met : £3.2K per home

Comments – the association has delivered on its key corporate VFM targets for 2013/14 and over the previous two years. The current community investment target of 2% of turnover was at a lower budgeted level of 1.3% in 2011/12.

Summary of VFM gains in 2013/14

The association keeps a VFM log which staff use to log cashable and non-cashable VFM savings through the year. In 2013/14 £605K of cashable savings was logged (£134 per home). In addition the association saved £127K on major works, and £470K on treasury savings arising from refinancing: total £1202K (£266 per home).

The log includes areas where substantial savings have been made, but it is also important to track smaller scale savings identified by staff in their day to day work, such as a saving of £12K achieved by negotiating free mobile devices as part of a package to change a telecoms service provider.

Summary of TOTAL cashable VFM savings for last 3 years

	2011/12		2012/13		2013/14	
Service area	**Amount £000**	**£ per home**	**Amount £000**	**£ per home**	**Amount £000**	**£ per home**
Leaseholders	0	0	0	0	54	12
Overheads	218	50	285	64	67	15
In house repairs service (since June 2012)	-	-	1019	229	270	60

Report of the Board (continued)

Housing management & services	735	167	178	40	214	47
Total operational VFM	**953**	**217**	**1482**	**333**	**605**	**134**
Major works	77	17	120	27	127	28
Treasury	57	13	127	29	470	104
	1087	**247**	**1729**	**389**	**1202**	**266**

The gains achieved during 2013/14 will enable the association to meet the cost of building 8 to 10 new homes depending on the level of grant available. The gains also enable the association to keep unit costs steady and at or below inflation.

The VFM savings the association are delivering can actually meet the annual funding costs of its new homes programme. In fact, VFM savings of around £5.5K per year can fund one new home. Historically the association has generated sufficient annual VFM savings to fund well in excess of 50 homes per year and will endeavour to maintain this position.

VFM priorities from April 2014 and beyond

The VFM priorities for 2014/15 are as set out in our VFM Strategy for 2014/15, as agreed by members in March 2014.
The association aims to save £454K (3.5% of budgeted costs – pre depreciation) for 2014/15. This equates to the cost (net of grant) of 3-4 new homes. The cash saved is more than sufficient to fund the annual interest costs on the 2014/15 development programme.

The key priorities for 2014/15 are based on the 2020 Vision themes of Better Homes, Better Communities and Better Business and can be grouped under the following headings:

(1) Understanding assets and managing them effectively (*Better Homes, Better Business)*
- Embedding active asset management to better prepare for an era of low or zero grant.
- Progressing negotiations with the local Council on their clawback of sales proceeds on property disposals and right to buy sales.
- Looking at other forms of construction for new homes.

(2) Generating additional income in innovative ways (*Better Communities, Better Business)*
- A review by Board of wider income generating activities and ways of reducing costs and improving efficiency.

(3) Maximising our current income and proactively supporting residents affected by welfare reform (*Better Communities, Better Business)*
- Developing the resident scrutiny panel to ensure the group is involved in VFM discussions and to provide effective challenge.
- Maintaining customer satisfaction whilst containing unit cost increases.

(4) Identifying areas where costs can be reduced and efficiencies made (*Better Communities, Better Homes, and Better Business)*
- Completing a project to refinance elements of the bank loan portfolio, thereby generating very material interest savings.
- Looking at possible corporate structures to maximise the saving and recovery of VAT.

Report of the Board (continued)

- Better understanding overheads and looking for ways to make further reductions, in particular reviewing staff benefits and the executive team structure.
- Maintaining or improving the Moody's A3 credit rating to enable the association to borrow at the keenest rates.
- Exploring how the association compares with others through visits to peer group associations and reviewing the make-up of the association's peer group.
- Achieving further savings through the Send and Mend service on planned and cyclical maintenance.
- Improving the interaction between the association's budgeting and VFM.

(5) Reviewing procurement arrangements (*Better Business)*

- Retendering insurance arrangements.
- Continuing to explore the development and the use of our social enterprise Jobs at Home, for the procurement of services.

(6) Demonstrating the social return on investment (*Better Homes, Better Communities, Better Business)*

- Applying the social return on investment methodology to calculate a financial measure of the social, environmental and economic gain on a wider range of projects.

Internal controls assurance

The Board acknowledges its overall responsibility for establishing and maintaining the sound system of internal control and for reviewing its effectiveness. Board delegates the on-going review of controls to the Audit Committee but will receive an annual report from the Audit Committee prior to the publication of the financial statements.

The Board conducts an annual review of the effectiveness of the association's systems of internal controls following a more detailed examination by the Audit Committee.

The system of internal control is designed to manage, rather than eliminate the risk of failure to achieve business objectives, and to provide reasonable, and not absolute assurance against material misstatement or loss.

The process for identifying, evaluating and managing the significant risks faced by the association was on-going throughout the year and beyond the date of approval of the annual report and financial statements.

In meeting its responsibilities, the Board has adopted a risk-based approach to internal controls which are embedded within the normal management and governance process. This approach includes the evaluation of the nature and extent of risks to which the association is exposed and is consistent with Turnbull principles as incorporated in circular R2-25/01: Internal Controls Assurance as replaced by circular 07/07. Although, under the HCA regulatory regime, circular 07/07 no longer applies, the association continues to use it as a basis for measuring the quality of its internal controls.

Key elements of the control framework include:

- Board agreement of corporate objectives after discussion, taking account of stakeholder input;
- The Rules and Standing Orders of the association (including terms of reference for Boards and Committees);
- A set of delegated powers detailing responsibilities for expenditure and authorisation payments;

Report of the Board (continued)

- A risk Management Framework exists setting out the approach to Risk Management;
- A comprehensive risk management process including; Risk registers, quarterly risk reviews of Priority Risks by Audit Committee, risk reviews by Executive Team on regular basis;
- New initiatives, major projects and development schemes are subject to appropriate risk assessment;
- Insurance cover is maintained against significant risks including Public Liability, Employer's Liability and Professional Indemnity;
- A regular programme of internal audit reports through professional independent internal auditors;
- Regular reviews of the progress made with implementing internal audit recommendations;
- External audit reports;
- A 30 year long term financial plan that is subject to at least an annual update, external evaluation and continual monitoring;
- An annual budget agreed before the beginning of each financial year;
- Monthly management accounts;
- Quarterly reports to the Resources Committee and funders on all aspects of the Group's Performance;
- Reports to the Board, through Audit Committee, on any fraudulent activity;
- Staff and Board Code of Conduct;
- Register of Schedule 1 Exemptions;
- Treasury Management Policy and Strategy with loan analysis included in the quarterly finance reports;
- Guidance and monitoring by professional treasury advisers;
- Minutes of the Audit Committee considered by the Board;
- Self-certification by Directors in relation to Internal Controls Assurance report;
- Internal Audit reports made to Audit Committee with report back to Board; and
- Annual report provided by the Internal Auditor.

Internal Controls and Risk Management

The association's control system is designed to manage and mitigate rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, not absolute, assurance against material mis-statement or loss.

The process for identifying, evaluating and managing the significant risks faced by the association is on-going and under regular review. Risk management systems and processes are in place and have been updated during the year, having been applied up to the date of this report.

The association continues to promote a culture of risk awareness throughout the organisation in addition to maintaining its risk registers on a continuing basis. This process takes the format of staff and member briefings and training sessions and individual involvement in the control framework which underpins the risk registers. The control framework is in place to ensure mitigating activities are carried out and monitored at all levels of the organisation.

The key risks to the association can be categorised as –

Report of the Board (continued)

- Financial risk
- Development and capital investment risk
- Operational risk
- Legislative risk
- Reputational risk

Financial risk

B3Living manages financial risk by regularly reviewing its financial position and by using business plan modelling to identify the impact of potential risks in the future. The model has been used throughout the year to evaluate development opportunities and financial scenarios.

The association has a robust business plan in place, which has been approved by the Board and provides the basis for its annual budgets. A system of budgetary control ensures that management accounts are prepared, reported on and reviewed by the executive team and Board on a regular basis.

Major financial risks currently relate to the impact of welfare reform, refinancing, the ability to raise new finance and the delivery of bank and bond holder covenants.

Development* and *capital investment risk

B3Living has in place development and asset management strategies which align development aspirations and stock investment with the association's core business principles in supporting the local and wider community.

The business plan is used to support the assessment of the financial viability of the association in the context of development and stock investment and to provide suitable assurances in this respect.

During 2013/14, the association continued a programme of new development funded by its bond issue. The timely delivery of the development programme, through a process of robust appraisal, is viewed by the association as a key corporate exposure, in particular the timely delivery of the shared ownership sales element of the programme.

Operational risk

B3Living's policies and procedures are regularly reviewed and updated, forming part of service improvement and team plans. There is a commitment for continuous development across the executive, management teams and all other staff to minimise future operational risks.

Major operational exposures relate to maintaining the sound progress already made in establishing the association's recently formed in-house repairs and maintenance service, in ensuring that the in-house repairs service delivers its newly established programme of major works and in managing the financial and social impacts of welfare reform.

There is an on-going system of Board reporting and Board participation in all major operational decisions. This ensures that new initiatives are reviewed at the highest level before they are progressed.

Legislative risk

The association uses the services of reputable legal advisers, keeps abreast with sector specific legislative changes, governance requirements and takes reasonable steps to ensure that this category of risk is minimised.

Reputational risk

B3Living has in place a Code of Conduct for its Board members and staff. It also has a policy in place for dealing with requests for information from the press. The association recognises that it cannot always

Report of the Board (continued)

control its image and therefore acts to protect its reputation whenever possible. Procedures are in place to ensure that contact with media is managed effectively.

The association is also aware of the need to maintain its reputation with partners and clients. If the association's reputation is threatened, appropriate steps will be taken to minimise damage whilst upholding the integrity of the association in its dealings with external bodies or individuals.

Internal Audit services
Grant Thornton work closely with B3Living to ensure that a risk based approach to the monitoring of the control environment is maintained. The internal auditors report directly to the Audit Committee and have concluded that the quality of the association's control environment through 2013/14 was satisfactory.

External Audit services
The Financial Statements for the year ended 31 March 2014 were audited by Beever and Struthers. Their audit report is unqualified and their management letter on the year's performance, as presented to the Audit Committee, contains no material issues of concern.

Fraud
The association views fraud as a high risk area – particularly during a period of recession.

No actual loss through fraud occurred during the year.

Anti-Fraud, Anti-Bribery and Anti-Corruption policies have been agreed by the Board and are reviewed annually.

The Board cannot delegate ultimate responsibility for the systems of internal control, but it can, and has, delegated authority to the Audit Committee to regularly review the effectiveness of the systems of internal control. The Board receives thrice yearly reports from the Audit Committee together with minutes of Audit Committee meetings.

The Audit Committee has received the Chief Executive's Annual Report on the effectiveness of the systems of internal control for the association, and the annual report of the internal auditor, and has reported its findings to the Board.

Going concern
After making enquiries, the Board has a reasonable expectation that B3Living has adequate resources to continue in operational existence for the foreseeable future, being a period of twelve months after the date on which the report and financial statements are signed. For this reason, it continues to adopt the going concern basis in the financial statements.

Statement of the responsibilities of the Board for the report and financial statements

The Board is responsible for preparing the report and financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

The Co-operative and Community Benefit Societies Act and registered social landlord legislation in the United Kingdom require the Board to prepare financial statements for each financial year which give a true and fair view of the state of affairs of B3Living at the end of the year and of the surplus or deficit of the association for the year then ended.

In preparing those financial statements the Board is required to:

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

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the association to enable it to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2012. It has general responsibility for taking reasonable steps to safeguard the assets of the association and to prevent and detect fraud and other irregularities.

The Board is responsible for ensuring that the Report of the Board is prepared in accordance with the current Statement of Recommended Practice: "Accounting by Registered Social Landlords".

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

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

Annual General Meeting

The annual general meeting will be held on **22nd September 2014** at Scania House, 17 Amwell Street, Hoddesdon, and Hertfordshire, EN11 8TS.

External auditors

A resolution to re-appoint Beever & Struthers will be proposed at the forthcoming annual general meeting.

The report of the Board was approved by the Board on 22nd September 2013 and signed on its behalf by:

……………………………………………………………………………
Sandra Royer
Chair of the Board of B3Living Ltd
Dated: 22nd September 2014.

Independent Auditors' Report to the Members of B3Living Limited

We have audited the financial statements of B3Living Limited for the year ended 31 March 2014 on pages 23 to 48. 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 Section 9 of the Friendly and the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the association and the association's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Board and the Auditor

As explained more fully in the Statement of Board's Responsibilities set out on page 21, the Board is responsible for the preparation of the financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the association's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Board Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

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

Matters on which we are required to report by exception

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

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

Beever and Struthers
Chartered Accountants and Statutory Auditor

St George's House
215-219 Chester Road
Manchester
M15 4JE
Date: 22nd September 2014

Income and Expenditure Account
For the year ended 31 March 2014

	Note	March 2014	March 2013
		£'000	£'000
Turnover: Continuing activities	3	22,425	21,001
Operating costs	3	(14,941)	(14,603)
Operating surplus: Continuing activities		**7,484**	**6,398**
Surplus / (deficit) on sale of fixed assets – housing properties	5	951	619
Interest receivable and other income	6	264	17
Interest payable and similar charges	7	(6,137)	(5,021)
Surplus on ordinary activities before taxation		**2,562**	**2,013**
Tax on surplus on ordinary activities		-	-
Surplus for financial year		**2,562**	**2,013**

The association's results all relate to continuing activities. Historical costs surpluses and deficits were identical to those shown in the income and expenditure account.

Statement of Total Recognised Surpluses and Deficits
as at 31 March 2014

	March 2014	March 2013
	£'000	£'000
Surplus for the financial year:	**2,562**	**2,013**
Pension schemes: Actuarial (loss)	(286)	(431)
Total recognised surplus for the year	**2,276**	**1,582**

Reconciliation of movements in the Association's funds

	March 2014	March 2013
	£'000	£'000
Opening total funds:	**25,503**	**23,921**
Total recognised surpluses relating to the year	2,276	1,582
Closing Total funds	**27,779**	**25,503**

The notes on pages
26 to 48 form an integral part of the financial statements.

Balance Sheet as at 31 March 2014

	Note	March 2014	March 2013
		£'000	£'000
Tangible fixed assets			
Housing properties	**10**	117,767	108,257
Social Housing and other grants	**10**	(8,520)	(7,050)
Other tangible fixed assets	**11**	1,970	2,227
Total		**111,217**	**103,434**
Current assets			
Stock	**10a**	790	24
Debtors & Prepayments	**12**	3,271	2,281
Cash at bank and in hand	**21**	31,003	36,632
Net current assets		**35,064**	**38,937**
Creditors: amounts falling due within one year	**13**	(7,221)	(5,896)
Net current assets/(liabilities)		**27,843**	**33,041**
Net assets excluding pension liability		139,060	136,475
Pension liability	**26**	(2,104)	(1,829)
Net assets including pension liability		**136,956**	**134,646**
Creditors: amounts falling due after more than one year	**14**	109,177	109,143
Capital and reserves			
Non-equity share capital	**24**	-	-
Revenue reserve	**16**	27,779	25,503
Consolidated funds		27,779	25,503
		136,956	**134,646**

The financial statements were approved and authorised for issue by the Board on 22nd September 2014 and were signed on its behalf by:

Sandra Royer
Chair of Board

Board Member

Susan Scanlan
Secretary

Paul Williams
Director of Resources

The notes on pages 26 to 48 form an integral part of the financial statements.

Cash Flow Statement for the year ended 31 March 2014

	Note	March 2014	March 2013
		£'000	£'000
Net cash inflow from operating activities:	**19**	**11,216**	**10,209**
Returns on investments and servicing of finances:			
Interest received	**6**	264	17
Interest paid	**7**	(6,534)	(5,021)
Capital expenditure:			
Improvements net of VAT recovered	**10**	(4,636)	(4,132)
Purchase and construction of housing properties	**10**	(8,233)	(6,614)
Social Housing and other grants received	**10**	1,470	67
Purchase of other fixed assets	**11**	(127)	(787)
Sales of housing properties	**5**	951	619
Social Housing Grant – repaid		-	-
Other capital grants – repaid		-	-
Loss on sale of other fixed assets		-	-
Total		**(10,575)**	**(10,847)**
Financing:			
Loans received	**21**	-	40,843
Bank overdraft		-	-
Housing loans repaid		-	-
Total		**-**	**40,843**
(Decrease)/increase in cash	**20**	**(5,629)**	**35,201**

The notes on pages 26 to 48 form an integral part of the financial statements.

Notes to the Financial Statements - 2014

1. Legal Status

The Housing Association Registered Provider (HARP) is registered with the Financial Conduct Authority (FCA) as a Co-operative Community Benefit Society with charitable rules and objectives. It is also registered with the Homes and Communities Agency as a social landlord.

2. Principal Accounting Policies

The association is incorporated under the Co-operative and Community Benefit Societies Act 2014 and is registered with Homes and Communities Agency with effect from 1 April 2012 as a Registered Provider of social housing.

Basis of accounting

The financial statements have been prepared in accordance with applicable United Kingdom Accounting Standards and Statements of Recommended Practice of the United Kingdom. The accounts comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008, the Accounting Direction for Private Registered Providers of Social Housing 2012 and the Statement of Recommended Practice: accounting by Registered Social Housing Providers Update 2010 published by the National Housing Federation. The accounts are prepared on the historical cost basis of accounting.

Turnover

Turnover represents rental income receivable, grants from local authorities and the Homes and Communities Agency, and other income. Other services are included at the invoiced value (excluding VAT) of goods and services supplied in the year.

Value Added Tax

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

The association operates a VAT shelter arrangement, agreed at transfer with HM Revenue and Customs. This facilitates the full recovery of VAT on expenditure falling within the agreed definition of “improvements” to property. 50% of VAT recoveries under the shelter arrangement are reimbursed to the Borough of Broxbourne.

Capitalisation of interest and administration costs

Interest on loans financing development is capitalised up to the date of the completion of the scheme and only when development activity is in progress.

Administration costs relating to development activities are capitalised only to the extent that they are incremental to the development process and directly attributable to bringing the property into their intended use.

Derivatives

The association did not use derivatives during the year as part of its treasury operations.

Financial Instruments

As a result of the listed bond issue, the association has adopted FRS 26 Financial instruments: Recognition and Measurement and FRS 29 Financial Instruments: Disclosures, including the amendment to FRS 29 in relation to fair value hierarchy.

Financial assets and financial liabilities are measured at fair value initially, plus, in the case of a financial asset or financial liability not at fair value through the profit and loss account, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Financial instruments are classified into one of four categories:

2. Principal Accounting Policies (continued)

- Financial assets or liabilities at fair value through the profit and loss account are assets held for trading and derivatives, which are subsequently measured at fair value with any gains or losses recognised in the profit and loss account, with the exception of hedging instruments in a designated hedging relationship.

- Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the group intends and is able to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method.

- Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than assets held for trading. Loans and receivables are subsequently measured at amortised cost using the effective interest method.

- Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or not classified into any other of the four categories. Available for sale financial assets are subsequently measured at fair value with any gains or losses recognised through the statement of total recognised gains and losses, except for impairment losses and foreign exchange gains and losses. When the asset is derecognised the cumulative gains or losses are recognised in the profit and loss account.

Financial instruments held by the association are classified as follows:

- Financial assets such as cash, current asset investments and receivables are classified as loans and receivables and held at amortised cost using the effective interest method;
- Financial liabilities such as bonds and loans are held at amortised cost using the effective interest method;

Financial assets and financial liabilities at fair value are classified using the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Note 15 provides further details on any differences between the fair value and carrying value of financial assets and financial liabilities.

Fixed Assets and depreciation
Tangible fixed assets are stated at cost, less accumulated depreciation and capital grants.

Housing properties
Housing properties are principally properties available for rent and are stated at cost. Cost includes the cost of acquiring land and buildings, development costs, interest charges incurred during the development period and expenditure incurred in respect of capitalised improvements.

Improvements are works which either fall within the definition of the VAT shelter works or result in an increase in the net rental income, such as a reduction in future maintenance costs, or result in a significant extension of the useful economic life of the property in the business. Only the direct overhead costs associated with new developments or improvements are capitalised.

Shared ownership properties are included in housing properties at cost, less any provisions needed for depreciation or impairment.

Depreciation of housing properties
Freehold land is not depreciated.

2. Principal Accounting Policies (continued)

Where a housing property comprises two or more major components with substantially different useful economic lives (UELs), each component is accounted for separately and depreciated over its individual useful economic life. Expenditure relating to subsequent replacement or renewal of components is capitalised as incurred.

The association depreciates freehold housing properties by component on a straight-line basis over the estimated useful economic lives of the component categories.

Useful economic lives for identified components are as follows:

	Years
structure - houses	100
structure - flats	75
roofs	70
windows & doors	30
bathrooms	30
electrics	30
lift	30
adaptations	30
kitchens	20
heating	20

Land is not depreciated.

The association depreciates housing properties held on long leases in the same manner as freehold properties, except where the unexpired lease term is shorter than the longest component life envisaged, in which case the unexpired term of the lease is adopted as the useful economic life of the relevant component category.

Other fixed tangible assets

Depreciation is provided evenly on the cost of other tangible fixed assets to write them down to their estimated residual values over their expected useful lives. No depreciation is provided on freehold land. A full year's depreciation is charged in the year of acquisition of the asset. No depreciation is charged in the year of disposal. The principal annual rates used for other assets are:

	Years
freehold offices	30
furniture, fixtures & fittings	10
plant & equipment	10
computers & office equipment	5
motor vehicles	5

Land is not depreciated and long leasehold properties are depreciated over the life of the lease.

Donated Land

Donated land is included in cost at its valuation on donation, with the donation treated as a capital grant. In the case of section 106 land the valuation takes into account all the conditions of sale imposed by the Local Authority and its value in use to the association.

When housing properties are to be transferred to another association, the net costs, after SHG, are dealt with in current assets.

Impairment of Financial Assets

Financial assets are assessed at each reporting date to determine whether there is any objective evidence that a financial asset or group of financial assets is impaired. Impairment and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event), and this loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably measured.

Losses expected as a result of future events, no matter how likely, are not recognised.

2. Principal Accounting Policies (continued)

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is either reduced directly or through the use of an allowance account, the amount of the loss is recognised in the profit and loss account.

If, in a subsequent period the amount of the impairment loss decreases due to an event occurring after the impairment was recognised, the amount can be reversed in the profit and loss account.

When the fair value of an available for sale financial asset has declined and has been recognised in the statement of total recognised gains and losses and there is objective evidence that the asset is impaired, the cumulative loss that has been recognised in the statement of total recognised gains and losses is required to be removed and recognised in the profit and loss account.

If, in a subsequent period the amount of the impairment loss decreases due to an event occurring after the impairment was recognised, the amount can be reversed in the profit and loss account.

When the fair value of an available for sale asset has declined and has been recognised in the statement of total recognised gains and losses and there is objective evidence that the asset is impaired, the cumulative loss that has been recognised in the statement of total recognised gains and losses is required to be removed and recognised in the profit and loss account.

Leasing and hire purchase

Where assets are financed by hire purchase contracts and leasing agreements that give rights approximating to ownership, they are treated as if they had been purchased outright. They are depreciated over the shorter of the lease term and their economic useful lives. The corresponding leasing commitments are shown as obligations to the lessor in creditors.

Social Housing and Other Grants

Where developments have been financed wholly or partly by social housing and other grants, the cost of those developments has been reduced by the amount of the grant received.

When Social Housing Grant (SHG) in respect of housing properties in the course of construction exceeds the total cost to date of those housing properties, the excess is shown as a current liability.

SHG received for items of cost written off in the Income and Expenditure Account are matched against those costs as part of turnover.

SHG can be recycled by the association under certain conditions, if a property is sold, or if another relevant event takes place. In these cases, the SHG can be used for projects approved by the Homes and Communities Agency. However, SHG may have to be repaid if certain conditions are not met.

In certain circumstances, SHG may be repayable, and, in that event, is a subordinated unsecured repayable debt.

Pensions

The association participates in two funded multi-employer defined benefit schemes: the Social Housing Pension Scheme ('SHPS') and the Hertfordshire County Council Pension Fund ('HCCPF').
For the SHPS, it has not been possible to identify the share of underlying assets and liabilities belonging to individual participating employers. The income and expenditure charge represents the employer contribution payable to the scheme for the accounting period.

For the HCCPF, the operating costs of providing retirement benefits to participating employees are recognised in the accounting periods in which the benefits are earned. The related finance costs, expected return on assets and any other changes in fair value of the assets and liabilities, are recognised in the accounting period in which they arise. The operating costs, finance costs and expected return on assets are recognised in the income and

2. Principal Accounting Policies (continued)

expenditure account with any other changes in fair value of assets and liabilities being recognised in the statement of total recognised surpluses and deficits.

Supported housing managed by agencies
Income and expenditure in respect of supported housing projects depends on the nature of the partnership arrangements between the association and its managing agents and on whether the association carries the financial risk.

Where the association holds the support contract with the Supporting People Administering Authority and carries the financial risk, all of the project's income and expenditure is included in the association's income and expenditure account (see note 3).

Property managed by agents
Where the Registered Provider carries the majority of the financial risk on property managed by agents, all the income and expenditure arising from the property is included in the Income and Expenditure Account.

Where the agency carries the majority of the financial risk, the Income and Expenditure Account includes only that income and expenditure which relates solely to the association.

In both cases, the assets and associated liabilities are included in the Registered Provider's balance sheet.

Service charges
The Registered Provider operates both fixed and variable service charges on a scheme by scheme basis in full consultation with residents. Where variable service charges are used the charges will include an allowance for the surplus or deficit from prior years, with the surplus being returned to residents by a reduced charge and a deficit being recovered by a higher charge. Until these are returned or recovered they are held as creditors or debtors in the balance sheet.

Support income and costs including Supporting People income and costs
Supporting People (SP) contract income received from Administering Authorities is accounted for as SP income in the turnover note 3. The related support costs are matched against this income in the same note.

Support charges included in the rent are included in the income and expenditure from social housing lettings note 3 and matched against the relevant costs.

Loan finance issue costs
These are written off evenly over the life of the related loan. Loans are stated in the Balance Sheet at the amount of the net proceeds after issue, plus increases to account for any subsequent amounts written off. Where loans are redeemed during the year, any redemption penalty and any connected loan finance issue costs are recognised in the income and expenditure account in the year in which the redemption took place.

Reserves
The Association may, when appropriate, establish restricted reserves for specific purposes where their use is subject to external restrictions and designated reserves where reserves are earmarked for a particular purpose.

Liquid resources
Liquid resources are readily disposable current asset investments. This policy is defined in our current Treasury Management Policy.

Corporation taxation
B3Living Limited is registered with the Financial Conduct Authority (FCA) as an association with charitable interests and therefore has no taxation liability for corporation tax.

Stock
Stock is stated at the lower of cost and net realisable value.

Notes to the Financial Statements

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

Continuing activities	Turnover	Operating costs	Operating surplus March 2014	Total Operating Surplus March 2013
	£'000	£'000	£'000	£'000
Social housing lettings	**21,540**	**(14,131)**	**7,409**	**6,334**
Other social housing activities				
Supporting people contract income	283	(283)	-	-
Management services	12	(12)	-	-
Other	220	(193)	27	15
Total	**515**	**(488)**	**27**	**15**
Non-social housing activities				
Other	370	(322)	48	49
Total	**370**	**(322)**	**48**	**49**
	22,425	**(14,941)**	**7,484**	**6,398**

Notes to the Financial Statements

3. Turnover, cost of sales, operating costs and operating surplus (continued)

Particulars of income and expenditure from social housing lettings	General Housing	Sheltered Housing	Leasehold	Shared Ownership	Total March 2014	Total March 2013
	£'000	£'000	£'000	£'000	£'000	£'000
Turnover from social housing lettings:						
Rent receivable net of voids and identifiable service charges	18,172	1,930	-	303	**20,405**	**19,138**
Service charges receivable	627	66	442	-	**1,135**	**1,077**
Net rental income	**18,799**	**1,996**	**442**	**303**	**21,540**	**20,215**
Revenue grants	**-**	**-**	**-**	**-**	**-**	**-**
Turnover from social housing lettings	**18,799**	**1,996**	**442**	**303**	**21,540**	**20,215**
Expenditure on social housing lettings:						
Management services	(2,472)	(259)	(442)	(303)	**(3,476)**	**(3,652)**
Central Overheads	(1,253)	(131)	-	-	**(1,384)**	**(1,453)**
Depreciation	(2,279)	(239)	-	-	**(2,518)**	**(2,286)**
Responsive	(2,112)	(221)	-	-	**(2,333)**	**(2,083)**
Planned cyclical maintenance	(1,296)	(136)	-	-	**(1,432)**	**(1,202)**
Direct Services	(2,535)	(266)	-	-	**(2,801)**	**(3,010)**
Bad debts & provisions	(89)	(9)	-	-	**(98)**	**(54)**
Other costs	(81)	(8)	-	-	**(89)**	**(141)**
Operating costs on social housing lettings	**(12,117)**	**(1,269)**	**(442)**	**(303)**	**(14,131)**	**(13,881)**
Operating surplus on social housing lettings	**6,682**	**727**	**-**	**-**	**7,409**	**6,334**
Void losses	**253**	**-**	**-**	**-**	**253**	**212**

Notes to the Financial Statements

3. Turnover, cost of sales, operating costs and operating surplus (continued)

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

	March 2014	March 2013
Social housing owned and managed by Association:	No.	No.
General needs housing	2,843	2,842
Housing for older people	724	752
Shared Ownership	141	140
Leaseholders	662	651
Total social housing owned and managed	**4,370**	**4,385**
Social housing owned but managed by others	**48**	**13**
Total social housing owned	**4,418**	**4,398**
Non-social housing owned:		
Market rented	3	3
Intermediate rented	4	6
Rent to Homebuy	7	7
Leased to other associations	104	105
Total non-social housing owned	**118**	**121**
Total housing owned	**4,536**	**4,519**
Social housing not owned but managed on behalf of others	**-**	**23**

The association manages 12 units for Housing Solutions.

4. Operating Surplus

This is arrived at after charging/ (crediting):

	March 2014	March 2013
	£’000	£’000
Auditors’ remuneration (excluding VAT):		
In their capacity as auditors	15	15
In respect of other services	20	20
Operating lease payments:	304	269
Depreciation of housing properties.	2,518	2,286
Depreciation of other tangible fixed assets	383	473
	2,901	**2,759**
Surplus/ (Deficit) on sale of fixed assets	951	619

Notes to the Financial Statements

5. Surplus on sale of fixed assets – housing properties

	Right To Buy	Others	March 2014	March 2013
	£'000	£'000	£'000	£'000
Proceeds of sales	3,499	122	3,621	2,135
Less: Cost of sales	(2,548)	(122)	(2,670)	(1,516)
	951	**-**	**951**	**619**

6. Interest receivable and other income

	March 2014	March 2013
	£'000	£'000
Interest receivable and similar income	264	17
	264	**17**

7. Interest payable and similar charges

	March 2014	March 2013
	£'000	£'000
On loans repayable within five years	646	-
On loans wholly or partly repayable in more than five years	5,888	4,047
Costs associated with financing	-	1,044
Less: Interest capitalised	(397)	(70)
	6,137	**5,021**

The weighted average interest on borrowing of 5.88% (2013: 4.47%) was used for calculating capitalised interest.

Notes to the Financial Statements

8. Employee Information

Average monthly number of employees:	March 2014	March 2013
	No.	No.
Resources/Administration/CEO *	8	8
Development	5	1
Housing/Business Services/People and Community Development	118	122
SAM/(DLO)	44	24
	175	**155**

Average monthly number of employees expressed in full time equivalents of 37 hours per week:	March 2014	March 2013
	No.	No.
Resources/Administration/CEO *	7.6	7.0
Development	5.0	1.0
Housing/Business Services/People and Community Development	102.6	105.0
Send and Mend (DLO)	44.0	24.0
	159.2	**137 .0**

Employee costs:	March 2014	March 2013
	£'000	£'000
Wages and salaries	4,764	4,628
Social security costs	441	438
Other pension costs	627	520
Termination payment	98	75
Less: Capitalised Salaries	(921)	(634)
	5,009	**5,027**

March 2013 employee costs have been restated to reflect total wages and salaries less salaries capitalised which coincide with the change in format for March 2014.

Aggregate number of full time equivalent staff whose remuneration exceeded 60,000:	Number	Number
£60,000 to £69,000	4	4
£80,000 to £89,999	6	5
£100,000 to £109,999	2	2
£110,000 to £119,999	3	3

***Highest paid Director included**
The association's employees are members of the Hertfordshire County Council Pension Fund (HCCPF) or of the Social Housing Pension Scheme (SHPS). Further information on each scheme is given on pages 46 to 49.

Notes to the Financial Statements

9. Board Members and Executive Directors

	Basic salary £'000	Benefits in kind £'000	Pension Contributions £'000	March 2014 Total £'000	March 2013 Total £'000
Board Members					
Sandra Royer – Chair	8	-	-	8	7
Karen Forbes-Jackson -	6	-	-	6	6
Mike Curtis	5	-	-	5	5
Stewart Heath	4	-	-	4	4
Pat Milner	5	-	-	5	5
Chris Herbert	2	-	-	2	-
Anne Shearman	5	-	-	5	4
Jacqueline Phipps	2	-	-	2	-
Valerie Vellani	3	-	-	3	3
Camelia Borg	5	-	-	5	3
Mark Mills-Bishop	-	-	-	-	-
Tony Infantino	-	-	-	-	-
Executive Directors					
Chief Executive	121	12	22	155	146
Deputy Chief Executive	99	10	18	127	119
Director of Resources	100	10	18	128	118
Director of Development	89	9	16	114	107
Director of Housing Services	92	9	17	118	111
Director of People Services	84	8	15	107	101

The above list of Board members reflects the active members as at 31st March 2014.

The Chief Executive is a member of the Hertfordshire County Council Pension Scheme and an ordinary member of the pension scheme to which no enhanced or special terms apply. The association does not make any further contribution to an individual pension arrangement for the Chief Executive.

Directors are defined as the members of the Board, the Chief Executive and any other person who is a member of the Senior Management Team or its equivalent.

Notes to the Financial Statements

10. Tangible Fixed Assets – Housing Properties

	Completed Social housing properties held for letting	Social Housing properties under construction	Shared Ownership properties under construction	Completed Shared Ownership housing properties	Total 2014
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 April 2013	108,367	3,360	-	1,123	112,850
Additions during year	-	6,878	1,135	220	8,233
Improvements	4,636	-	-	-	4,636
Interest capitalised	-	313	51	-	364
Adjustments during year	-	24	-	-	24
Schemes completed in year	4,499	(4,499)	-	-	-
Write Offs	(526)	-	-	-	(526)
Disposals	(749)	-	-	-	(749)
At 31 March 2014	**116,227**	**6,076**	**1,186**	**1,343**	**124,832**
Depreciation & impairment					
At 1 April 2013	(4,593)	-	-	-	(4,593)
Adjustments during year	(21)	-	-	-	(21)
Charged in year	(2,518)	-	-	-	(2,518)
Released on disposal	67	-	-	-	67
At31 March 2014	**(7,065)**	**-**	**-**	**-**	**(7,065)**
Depreciated cost 31-03-2014	**109,162**	**6,076**	**1,186**	**1,343**	**117,767**
Social Housing & other grants					
At 1 April 2013	(7,050)	-	-	-	(7,050)
Additions	-	(1,297)	(173)	-	(1,470)
Schemes completed in year	(22)	22	-	-	-
Disposals	-	-	-	-	-
At 31 March 2014	**(7,072)**	**(1,275)**	**(173)**	**-**	**(8,520)**
Net book value					
At 1 April 2013	96,724	3,360	-	1,123	101,207
At 31 March 2014	**102,090**	**4,801**	**1,013**	**1,343**	**109,247**

Note: Existing Use Value
The valuation of our properties on an Existing Use Value basis as at 31 March 2014 is £205m.

Notes to the Financial Statements

10. Tangible Fixed Assets – Housing Properties (continued)

Expenditure on works to existing properties	March 2014	March 2013
	£'000	£'000
Amounts capitalised	4,636	4,132
Amounts charged to income and expenditure account	3,765	2,235
Total	**8,401**	**6,367**

Housing properties book value, net of depreciation and grants plus offices net book value (note 11) comprises	March 2014	March 2013
	£'000	£'000
Freehold land and buildings	109,247	101,207
Long leasehold land and buildings	880	952
Short leasehold land and buildings	-	-
Total	**110,127**	**102,159**

10a. Current Assets – Housing Properties (Stock)

	Completed properties for sale	Shared Ownership properties under construction	Total 2014
	£'000	£'000	£'000
Cost			
At 1 April 2013	-	-	-
Additions during the year	-	757	757
Interest capitalised	-	33	33
Completions in year	-	-	-
Disposal to cost of sales	-	-	-
At 31 March 2014	**-**	**790**	**790**

Note: Properties developed for sale – 1st Tranche

Notes to the Financial Statements

11. Tangible Fixed Assets – Other

	Leasehold offices	Freehold offices	Furniture, Fixtures & Fittings	IT & Office equipment	Motor vehicles	Plant & Equipment	Total 2014
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost:							
At 1 April 2013	1,363	487	312	2,207	61	97	4,527
Additions	3	-	-	118	-	6	127
Adjustments in year	2	-	-	-	-	-	2
Disposals	-	-	-	-	-	-	-
At 31 March 2014	**1,368**	**487**	**312**	**2,325**	**61**	**103**	**4,656**
Depreciation							
At 1 April 2013	(411)	(10)	(175)	(1,609)	(42)	(53)	(2,300)
Adjustments in year	(3)	-	-	-	-	-	(3)
Charged in year	(74)	3	(31)	(262)	(9)	(10)	(383)
Released on disposal	-	-	-	-	-	-	-
At 31 March 2014	**(488)**	**(7)**	**(206)**	**(1,871)**	**(51)**	**(63)**	**(2,686)**
Net book value							
At 1 April 2013	952	477	137	598	19	44	2,227
At 31 March 2014	**880**	**480**	**106**	**454**	**10**	**40**	**1,970**

12. Debtors

	March 2014	March 2013
	£'000	£'000
Due within one year:		
Rent and service charges receivable	851	970
Less: Provision for bad debt and doubtful debts	(314)	(313)
	537	**657**
Other debtors	969	592
Prepayments and accrued income	1,765	1,032
	2,734	**1,624**
	3,271	**2,281**

13. Creditors: Amounts Falling Due Within One Year

	March 2014	March 2013
	£'000	£'000
Trade creditors	1,676	1,020
Rent and service charges received in advance	413	320
Other taxation and social security	139	119
Other creditors	156	762
Accruals and deferred income	4,837	3,675
	7,221	**5,896**

Notes to the Financial Statements

14. Creditors: Amounts Falling Due After More Than One Year

	March 2014	March 2013
	£'000	£'000
Bank loan	42,000	42,000
Bond issue	68,000	68,000
Less Issue costs	(823)	(857)
	109,177	**109,143**

15. Debt Analysis

	March 2014	March 2013
	£'000	£'000
Due:		
Within one year	-	-
Between one and two years	-	-
Between two and five years	9,000	9,000
After five years	101,000	101,000
	110,000	**110,000**

At 31 March 2014 the association had fully drawn down loan facilities of £110m.

All loans are secured by floating charge over the assets of the association and by fixed charges on individual properties.

The association had fully drawn down its loan facilities of £110m as at 31 March 2013. These were allocated between bank loan and bond finances.

Bank Loan
Prior to the refinancing in January 2013 bank loans were repaid in quarterly instalments at fixed rates on interest ranging from 3.01% to 5.16%. Following the bond issue bank interest has ranged from 7.175% to 8.115%. The increase in margin is as a result of the refinancing.

Bond Finance
As at 31 March 2014, £68m of the association's loans were secured on the basis of an amortising bond issue at a fixed interest rate of 4.823%.

Risk management
The association's Treasury function is responsible for the management of the funds and control of the associated risks. Its activities are governed in accordance with Board approved policy. The risks related to the association are detailed in the Report of the Board.

Financial assets and financial liabilities at book value and fair value
With the exception of the bond stock, the book value of all financial assets and financial liabilities is deemed to equal fair value. At 31 March 2014 the fair value of the bond stock was £68,545,846 (being £67,993,000 principal and £552,646 accrued to the year-end) compared to the book value of £68,000,000 (31 March 2013 fair value was deemed to equal book value).

Notes to the Financial Statements

Fair value hierarchy
Fair value is deemed to be book value in relation to most financial assets and financial liabilities. Where the fair value of a financial instrument differs from its book value the following valuation methods are used:

- Bond stock – valued using the quoted market price at the reporting date. (Level 1)

Interest rate risk
Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The association is not currently exposed to fluctuations in interest rates as the loans and bond finance are currently on a fixed rate of interest.

Financial assets as at 31 March 2014

	Total Carrying Amount £000	Within 1 Year £000	1-2 Years £000	2-3 Years £000	3-4 Years £000	4-5 Years £000	Over 5 Years £000
Current asset investments							
Floating Rate							
Cash at bank and in hand	31,003	31,003	-	-	-	-	-
	31,003	31,003	-	-	-	-	-

Loan issue costs of £823k are not included within the Financial Assets table above as they are not interest bearing and are not subject to interest rate risk.

Financial liabilities as at 31 March 2014

	Effective interest rate %	Total carrying amount £000	Within 1 Year £000	1-2 years £000	2-3 years £000	3-4 years £000	4-5 years £000	Over 5 Years £000
Bond stock								
Fixed rate	4.82%	68,000	-	-	-	-	-	68,000
Total Bond Stock		68,000	-	-	-	-	-	68,000
Bank Debt								
Fixed Rate	7.93%	42,000	-	-	9,000	-	-	33,000
Floating Rate		-	-	-	-	-	-	-
Total Bank Debt		42,000	-	-	9,000	-	-	33,000
Total		110,000	-	-	9,000	-	-	101,000

Loan issue costs of £823k are not included within the Financial Liabilities table above as they are not interest bearing and are not subject to interest rate risk.

Capital Management
The association manages capital balances such as share capital and reserves.

Notes to the Financial Statements

16. Reserves

	March 2014	March 2013
	£'000	**£'000**
At 1 April	**25,503**	**23,921**
Surplus for the year	2,562	2,013
Pension (losses)/gains	(286)	(431)
At 31 March	**27,779**	**25,503**

Although under its rules the association does not trade for profit, its financial affairs are planned so that each year income exceeds expenditure. The annual surplus is vital to enable the association to meet its commitments to providers of private finance, continue to raise further private finance and have reserves to provide for unexpected situations.

The Board regularly reviews the association's finances to determine the minimum amount of reserves required for day-to-day management and to provide for the future. Any amounts over and above this minimum are invested in the provision of social housing. The majority of the Registered Provider's reserves are not normally cash backed.

17. Capital Commitments

	2014	2013
	£'000	£'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	-	-
Capital expenditure that has been authorised by the committee of management but has not yet been contracted for	7,750	250
The Housing Association expects these commitments to be financed with:		
Social Housing Grant	-	-
Proceeds from the sales of properties	-	-
Committed loan facilities	7,750	250

Expenditure authorised by the Board but not contracted is in respect of new build housing and major works to existing housing stock.

The association expects that these commitments will be financed internally from cash generated from trading and the Santander Plc. facility and Bond issue.

18. Commitments under Operating Leases

At 31 March 2014 the company had annual commitments under non-cancellable operating leases as set out below

	March 2014		March 2013	
	Land & Buildings £'000	**Other Items £'000**	**Land & Buildings £'000**	**Other Items £'000**
Operating leases which expire:				
Within 1 year	-	139	-	3
Within 2 to 5 years	-	32	-	325
After more than 5 years	122	-	122	-
Total	**122**	**171**	**122**	**328**

Notes to the Financial Statements

19. Reconciliation of Operating Surplus to Net Cash Inflow from Operating Activities

	March 2014	March 2013
	£'000	**£'000**
Operating surplus	**7,484**	**6,398**
Depreciation of tangible fixed assets	2,901	2,759
Net write out of tangible fixed assets	1,275	31
Pension adjustment	(13)	181
	11,647	**9,369**
Working capital movements		
(Increase)/ Decrease in debtors	(990)	(1,236)
Increase /(Decrease) in creditors	1,325	2,100
(Increase)/decrease in stock	(766)	(24)
	(431)	**840**
Net cash inflow from operating activities	**11,216**	**10,209**

20. Reconciliation of Net Cash Flow to Movement in Net Debt

	March 2014	March 2013
	£'000	**£'000**
(Decrease)/ increase in cash	(5,629)	35,201
Cash inflow from increase in debt and lease finance	-	(41,700)
Increase in net debt from cash flows	**(5,629)**	**(6,499)**
Total changes in net debt for period:		
Net debt at 1 April 2012	(73,368)	(66,869)
Net debt at 31 March 2013	**(78,997)**	**(73,368)**

21. Analysis of Net Debt

	1 April 2013	Cash Flow	31 March 2014
	£'000	**£'000**	**£'000**
Cash at bank and in hand	36,632	(5,629)	31,003
Bank overdraft	-	-	-
Changes in cash	**36,632**	**(5,629)**	**31,003**
Loans	(110,000)	-	(110,000)
Changes in debt	**(110,000)**	**-**	**(110,000)**
Changes in net debt	**(73,368)**	**(5,629)**	**(78,997)**

Notes to the Financial Statements

22. Financial Assets and Liabilities

Borrowing facilities
The facilities available at 31 March 2014 in respect of which all conditions precedent had been met were as follows:

	March 2014	March 2013
	£'000	**£'000**
Expiring in one year or less	-	-
Expiring in more than one year but not more than two years	9,000	-
Expiring in more than two years	101,000	110,000
	110,000	**110,000**

The association's loan facility is £110m. This is made up of £42m existing facility plus £68m bond finance raised in January 2013.

23. VAT Development Agreement

The association received the transfer of some 3,500 properties from Broxbourne Borough Council on 23 January 2006. As part of the transfer, the Council made a commitment to the association to have the properties refurbished and modernised and brought into a good state of repair. Immediately prior to the transfer, the Council contracted with the association to carry out the refurbishment works on its behalf. The Council's obligation to carry out the works is in effect matched by the association's obligations to bring the properties into a good state of repair. As a specific right of set off exists, a net basis has been adopted in respect of these obligations and neither the assets nor liabilities have been recognised. At 31 March 2014 the gross values of the balances that had been offset have been reduced to £18,053k (March 2013: £20,295k). VAT arising on the works during the period totalled £350k (March 2013: £501k).

The association received transfer of 91 properties from London Borough of Haringey on 25th March 2013 with an obligation to carry out works pursuant to the development. At transfer the gross values of the balances that had been offset were £3,581k, with VAT arising on the works totalling £596k. At 31 March 2014 the gross values of the balances that had been offset have been reduced to £2,636k. VAT arising on the works during the period totalled £157k.

24. Non-Equity Share Capital

	March 2014	March 2013
	No.	**No.**
Shares of £1 each issued and fully paid		
At start of year	9	9
Issued during year	-	-
At end of year	**9**	**9**

The shares do not have a right to any dividend or distribution in a winding-up, and are not redeemable. Each share has full voting rights.

Notes to the Financial Statements

25. Related Party Transactions

The tenancies of Tenant Board members are on the same arrangements as for other tenants.

26. Pensions

Social Housing Pension Scheme

B3Living Limited participates in the Social Housing Pension Scheme (SHPS). The scheme is funded and is contracted out of the State Pension scheme.

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

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

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

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

B3Living Limited has been notified by the Pensions Trust of the estimated employer debt on withdrawal from the Social Housing Pension Scheme based on the financial position of the Scheme as at 30 September 2013. As of this date the estimated employer debt for B3Living was £837,468.

Notes to the Financial Statements

26. Pensions (continued)

Hertfordshire County Council Pension Fund
The HCCPF is a multi-employer scheme, administered by Hertfordshire County Council under the regulations governing the Local Government Pension Scheme (LGPS), a defined benefit scheme.

B3Living Limited participates in the LGPS. This scheme is no longer offered to new employees to B3Living. The major assumptions used by the actuary were:

Assumptions as at:	**31 March 2014**	**31 March 2013**
	% p.a.	**% p.a.**
Expected return on assets	6.0	5.1
Salary increases	4.1	5.1
Pensions increases	2.8	2.8
Discount rate	4.3	4.5

Breakdown of the expected return on assets by category:

Assets (Employer)	**Long-term returns at 31 March 2014**	**Assets at 31 March 2014**	**Long-term returns at 31 March 2013**	**Assets at 31 March 2013**
	% p.a.	**£'000**	**% p.a.**	**£'000**
Equities	6.6	6,488	5.8	5,130
Bonds	4.0	1,490	3.6	1,301
Property	4.8	526	3.9	361
Cash	3.7	263	3.0	434
Total		**8,767**		**7,226**

Mortality - Life Expectancy is based on the PFA92 and PMA92 year of birth tables. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	**Females**
Current Pensioners	22.3 years	24.5 years
Future Pensioners	24.3 years	26.7 years

Net Pension liability as at:	**31 March 2014**	**31 March 2013**
	£'000	**£'000**
Fair value of employer assets	8,767	7,226
Present value of funded liabilities	(10,871)	(9,055)
Present value of unfunded liabilities	-	-
Total value of liabilities	**(10,871)**	**(9,055)**
Net pension liability	**(2,104)**	**(1,829)**

Amount charged to operating profit	**Year to 31 March 2014**		**Year to 31 March 2013**	
	£'000	**(% of Payroll)**	**£'000**	**(% of Payroll)**
Service cost	465	26.4	351	22.0
Interest cost	411	23.4	362	22.7
Expected return on employer assets	(374)	(21.3)	(336)	(21.0)
Past service (gain) / cost	-	-	-	-
Total	**502**	**28.6**	**377**	**23.7**
Actual return on plan assets	573		905	

Notes to the Financial Statements

26. Pensions (continued)

Hertfordshire County Council Pension Fund (continued)

Reconciliation of defined benefit obligation	Year to 31 March 2014	Year to 31 March 2013
	£'000	£'000
Opening defined benefit obligation	**9,055**	**7,404**
Current service cost	465	351
Interest cost	411	362
Contributions by members	121	110
Actuarial (gains) / losses	1,239	997
Past service (gains) / costs	-	-
Estimated benefits paid	(420)	(169)
Closing defined benefit obligation	**10,871**	**9,055**

Reconciliation of fair value of employer assets	Year to 31 March 2014	Year to 31 March 2013
	£'000	£'000
Opening fair value of employer assets	**7,226**	**5,908**
Expected return on assets	374	336
Contributions by members	121	110
Contributions by the employer	513	475
Actuarial (losses) / gains	953	566
Benefits paid	(420)	(169)
Closing fair value of employer assets	**8,767**	**7,226**

Amount recognised in Statement Total Recognised Surpluses and Deficits (STRSD)	31 March 2014	31 March 2013	31 March 2012	31 March 2011
	£'000	£'000	£'000	£'000
Actuarial gains/(losses)	(286)	(431)	(521)	563
Increase/(decrease) in irrecoverable surplus from membership fall and other factors	-	-	-	-
Actuarial gains/(losses) recognised in STRSD	**(286)**	**(431)**	**(521)**	**563**
Cumulative actuarial gains and losses	(2,384)	(2,098)	(1,667)	(1,146)

Amounts for the current and previous accounting periods	31 March 2014	31 March 2013	31 March 2012	31 March 2011
	£'000	£'000	£'000	£'000
Fair value of employers assets	8,767	7,226	5,908	5,536
Present value of defined benefit obligation	(10,871)	(9,055)	(7,404)	(6,663)
(Deficit) / surplus	(2,104)	(1,829)	(1,496)	(1,127)
Experience (losses) / gains on assets	953	566	(269)	(300)
Experience (losses) / gains on liabilities	(1,767)	5	(39)	(415)

Notes to the Financial Statements

26. Pensions (continued)

Hertfordshire County Council Pension Fund (continued)

Analysis of projected amount to be charged to operating surplus for the year to 31 March 2015	31 March 2015	
	£'000	**% of pay**
Projected current service cost	425	25.0
Interest on obligation	474	27.9
Expected return on Employer Assets	(536)	(31.5)
Total	**363**	**21.4**

27. Contingent Liability

The association has an obligation under the Social Housing Pension Scheme as at 30 September 2013 of an estimated employer debt of £837k, in the event of a cessation. No security has been provided for by the association in connection with this liability.