

South Devon Rural Housing Association Ltd
Minutes of the Board of Management Wednesday 31st May 2017, at 5.00 pm
At Moreleigh Village Hall

Present

Board Members

Jim Davis – Chairman (JD)
Rod Hewett (RH)
Roger Hands (RH2)
Sebastian Stewart (SS)
Sally Fairman (SF) Potential Board Member
Michael Lightfoot (ML) Potential Board Member

Staff

Steve Prime - SDR Chief Executive (SP)
Francis Bourke – Operations Director (FB)
Claire Barnett – Finance Director (CAB)
Julie Garner – Minutes (JG)

NO: Agenda Item

1 Apologies

Oliver Tringham (OT) Charlotte Burrows (CB) Prana Simon (PS)
Alec Munro (AM) Simon Petty (SP1)

2 Minutes for January & March 2017 Board

JD opened the meeting and welcomed SF and ML

January minutes Matters Arising

SP referred to the January minutes item Board Champions and said he would discuss this in Board Appraisal item 3c on the agenda.
SP referred to page 4 January minutes 'the restriction on the IT capital spend' and added that he has since received positive votes from a majority of Board members to approve the amended spend of £30,000.

Proposed: RH
Seconded: RH2

JD signed as a true record.

March minutes

Proposed: SS
Seconded: RH2

JD signed as a true record.

The Board approved the minutes to both January and March board meetings

3 Matters Arising

No matters arising

4 **Declaration of interests**
None declared

5 **1** **Reports for Decision**
1a **Financial Reports**
Q4 Management Accounts & Appendix 1

CAB thanked the Board for approving the draft audit plan, due to the audit being brought forward to May rather than June. Good news the surplus had increased to £246,000 as the depreciation for 6 Kings Orchard hadn't been written out. A very positive return for SDR for the year.

SP reminded the Board about the 1% rent decrease and added that SDR are comfortably meeting their targets. RH requested the ROC line in the accounts to be removed; the Day Care line also needs to be removed. SS asked what would happen if SDR exceeded 65% limit on the gearing covenant. CAB replied that SDR monitor the cash flow and would inform the banks and the reasons why if it looked like SDR would breach. This could happen during a development period, but provided the breach isn't excessive and we show that it is a temporary breach then the banks should find this acceptable. RH asked how a house price slump would affect the accounts. CAB advised this would not alter the accounts as the accounts were based on historic cost not valuation. RH2 queried whether the valuations were historical regarding South Devon House, CAB said SDR need to change the value in the books for the investment part of the building (those parts let on market rent) to be reflect the current value.

Board members to approve the 2016/17 figures (subject to audit)

Proposed: RH
Seconded: SS
All in favour

1b **Write Off**

CAB advised the Board this was a minimal write off, and that finance was playing catch up with the sales ledger. The write off amounts presented to the Board in future would only be those that exceed £250. Financial regulations and standing orders would reflect this change.

Board members to approve the write off debt totalling £148.50

Proposed: SS
Seconded: RH2

All in favour

1c **Capital Programme Components**

FB discussed the component replacements carried out, and advised of the reason of the £31,266 being carried over, due to some kitchens still to be completed at Bramble Close. SP added that the kitchens weren't completed before the end of the last financial year as the contractor was in talks regarding his own contract with the kitchen supplier. This means that the unspent £31,266 will need to be carried forward to 17/18. RH queried whether SDR can afford this. CAB confirmed this would be within budget as agreed at the January Board

Board members are recommended to approve the carry forward of the £31,266 unspent 16/17 capital budget into 17/18 to be added to the £200,000 budget already approved for 17/18.

Proposed: RH

Seconded: SS

All in favour

1d Impairment Review

CAB advised the Board the valuation report for Moreleigh was in excess of £200,000 for each unit. SP added that SDR paid around £500,000 for the 4 units. RH asked on what basis the valuation was prepared – using social value or market value? SP advised the units were valued according to their current market value, there are generally 3 valuations, a social valuation a valuation based on the tenancy and a full market value and that the middle value was used when using for security against funding. SP added the Moreleigh properties are on SDR books at cost and that their current monthly rent is £620 as they are affordable rents. RH said this is good news and CAB added that the valuation was very positive as SDR need to prove that they are not spending too much i.e the properties are not impaired

SS asked which properties are affected by the impairment review. CAB replied that one property is in Hartley Court and she could not remember the location of the others but informed the board that the auditors were comfortable with the values.

The board are recommended to approve the impairment report.

Proposed: SS

Seconded: RH

All in favour

1e Funding Requirements 2018-2023 & Appendix 1 & 2

SP advised the document contained company information about loans, stock, valuations and projections of future value. JD referred to the property profile on page 13 on Staverton as 2 x 2 bed houses is mentioned twice. This should read 2 x 2 bed houses and 2 x 3 bed houses.

SP advised the main £7,000,000 loan with Lloyds has security well in excess of the security needed and that SDR has around a 20% margin of unsecured assets to deal with market fluctuations.

RH added that the new properties added to the balance sheet costs would be much higher.

SP said SDR have negotiated a potential flexible loan of £3,000,000 with Lloyds with no non utilization costs. SP advised that SDR would seek £1,000,000 for land and added that SDR have made a prospective offer subject to contract, on a site at Wrangaton of £450,000 for 38 units.

The new loan agreement will allow on-lending to subsidiary company Rural Homes Limited and that Rural Homes will gift aid back the profits to SDR at year end. CAB said that SDR will still be responsible for the loan and will need to monitor this. SP said RHL has no track record yet so can not easily borrow any money direct from the banks.

SP added RHL will initially build 3 houses at Brimhay to phase their borrowings and sell those properties before requiring further borrowing from SDR to manage RHL financial position and thereby manage SDR, and that Lloyds are willing to lend on this basis. SDR can convert the £3,000,000 into a 25 year loan. CAB added that borrowing the money for land up front puts SDR in a position to proceed once the money is in place and the Board has approved the build.

SP advised that gearing improves in 17/18 and CAB added that SDR are paying off £200,000 in loan repayments next year. SP said he hoped to come to the next board meeting with a formal offer from Lloyds.

1) It is recommended that the Lloyds loan offer of finance be approved in principle, subject to final offer details and due diligence. SDR needs to have access to funds readily available to purchase land and to lend on to Rural Homes Ltd as soon as possible.

Proposed: RH

Seconded: RH2

All in favour

2) The Board to approve the property list for valuation and use as security against the £3 million loan facility set out in the report at Appendix 2.

Proposed: RH

Seconded: RH2

All in favour

1f Capital Programme Report (Non components) & Appendix 1 & 2

CAB advised this programme is for all SDR schemes. The unspent budget for 16/17 for works to South Devon House is required to be carried forward to 17/18. RH remarked that the Teignbridge contribution line in the report has been carried forward. CAB will remove for next board. RH2 queried if there was any further capital cost for the Broomborough and Kellock stock transfer from Sovereign. SP replied that there wasn't, he understood that Sovereign spent £500,000 on maintenance before the transfer. CAB advised the Board that there had been good feed back from the tenants which FB confirmed.

SP added that difficult tenants tend to leave when there is a stronger, more responsive management service in place and that SDR let properties sensitively to balance the community.

The Board noted the capital expenditure and the cash flow for 16/17, 17/18 and 18/19. Board to approve the revised capital budget for 17/18 subject to individual project financial appraisals.

Proposed: SS

Seconded: RH2

All in favour

6 2 Development Report

2a Rural Homes Development Report & Appendix 1 Brimhay Risk Map (insert) & Current and Future Development Opportunities report.

SP advised the Brimhay Risk map has been revised and added that there hasn't been any real change. SP added that SDR are talking to contractors and there may need to be a re-jig of figures but there should not be a need to go back to tender, and that hopefully in a few weeks SDR will have a clear site. RH asked if the site will be boarded with a footpath. SP advised that objections to the footpath have been made and it now has to go back to the Planning Inspector and that SDR will only need to give notice to close the footpath, as opposed to going through the planning route. SDR will proceed subject to getting planning next week.

The Board noted the current and future development report from Rural Homes Limited.

2b Partnership South West – HCA Grant Programme 2016 – 2021 Appendix 1, 2 & 3 (inserts)

SP advised SDR have previously been a member of the partnership for 10 years and that small housing associations can't bid directly to the HCA for grants. Once SDR re-join the partnership they will be eligible to bid for grants. A management charge applies and SP added that there is an open book with the local council. SF said there is a full list of who is in the Consortium already and another unknown partner is joining is and queried is it likely to upset the partnership? SP replied that this shouldn't be a problem that the unknown is probably another small housing association who will join and that it is a beneficial club and all the partners have to embrace the ethos but that more partners will mean more administration so no reduction in costs. RH noted the costs seemed high. SP said all partners pay the same on joining but added that SDR may get as much as £40,000 per unit and that bidding for grant is called continuous market engagement and there is no minimum size and can access the funding at any time throughout the term of the funding cycle.

The Board are recommended to

1) Approve the PSW Consortia Agreement for the period 2016 – 2021.

Proposed: RH2

Seconded: RH

2) Approve the HCA's Grant Agreement (Private RP Consortium) in relation to the Affordable Homes Programme 2016 - 2021

Proposed: RH2

Seconded: RH

The Board approved entering into the HCA Grant Agreement with Partnership South West for 2016 – 2021 and the PSW consortium agreement for the same period.

All in favour.

7 3 **Governance**

3a Deregulation update – (Verbal Report SP)

SP advised there was no update that the interim information in March became live in April and there are still a lot of issues to finalise. Business is as usual. SP added that small housing associations will still have to comply with regulations which are more onerous than larger housing associations.

3b Policy Development Report

FB advised the Board that some policies are out of date and due to a heavy workload SDR have commissioned a consultant. SS asked if only one consultant is dealing with all the reviews.

FB replied yes in the bulk but SDR will be using Harris Law for the HR, SP advised that big technical issues will be looked at. JD queried the timescale, FB advised by the end of the year.

The board noted the Policy Development report.

3c The Board, Chairman and Member Appraisals (Verbal Report SP)

SP advised that during Appraisal training it was suggested that Board Champions are out of date and to abandon this as it could put stress on board members and matters may not be examined fully. JD added that various people have expertise and that he was happy to abandon Board Champions. SP said that board appraisals are more important and that our HR consultant is currently drafting the new policy and process as our existing appraisal system requires review. The new process will hopefully be complete before the AGM and that the skill sets will be discussed at the AGM.

3d Chief Executive (confidential report emailed by the Chairman prior to the meeting)

Staff members left the meeting

A confidential minute is to be put with papers.

3f Approval of Shareholder(s) & Appendix A x 2

Martin Lightfoot has attended an away day training session with SDR and should members agree is eligible to be considered for election to the board.

Sally Fairman is eligible to be elected as a board member as she has served in recent times and completed induction.

The Board are recommended to approve application 1 and 2

Proposed: SS

Seconded: RH2

All in favour

3g Value for Money (insert)

FB referred to the VFM assessment and advised the Board that Charlotte of WMS uses local contractors and local supply chains. RH queried if the surplus was before finance costs as return on assets of 2.5% is quite low. CAB advised that this will shift up. ML said it would be better to say the return on assets increased last year. RH added that the report was very good and SP congratulated FB on the assessment.

The assessment was considered and endorsed by the Board.

The Board to approve.

Proposed: RH

Seconded: SS

All in favour

**8 4 Reports to Note
Finance**

The Board noted the report.

4a Treasury Report

The Board noted the loans and balances held.

9 5 Housing and Maintenance

5a Performance Dashboard & Appendix 1

SP said this is a very good result for SDR and that the actual void loss is less than 1%. SP added that the sensitive let delay led to going over target as SDR make sure that the property is let to the right tenant. FB added that SDR haven't had many problems in letting properties overall. SP congratulated the housing team and added that targets for customer satisfaction and rent arrears have also improved. SF asked if there will be problems when HB is paid direct to tenants. FB advised that at the moment tenants had a choice but this will change with universal credit which is paid direct to the tenant.

SP said SDR expect rent arrears will increase, that SDR are prepared for this and have worked to identify tenants that may be affected and have processes in place to support this, such as already paying in advance, and understanding of signposting services. Also asking promoting direct debits to pay their rent and that the number of direct debits has increased.

The Board noted the Performance Dashboard and Appendix 1.

5b Lettings Report

SP advised that turnover at FLH has been very high and that BVB, the Care Manager, has kept voids down despite this. SF queried the lettings for respite, SP advised this may be due to hospital discharges being made too soon.

RH2 queried our policy and SP replied that our policy is sound, that we can't give 2 to 1 that we need to stick to our core regime of 1 to 1. FLH is not registered for Nursing and therefore where service users need nursing care they are referred on.

The Board noted the lettings report.

5c Eviction Report

The Board noted the eviction report.

10 6 Complaints and Anti Social Behaviour Monitoring

The Board noted the report.

6a ASB Monitoring Report

The Board to note the report and actions taken regarding anti social behaviour cases.

The Board noted the ASB Monitoring Report

11 7 Health and Safety Report

The Board noted the report

7a Gas Servicing Report

The Board noted the gas servicing report.

12 8 Care Managers Report

SP advised that the member of staff concerned was recently dismissed for gross misconduct under SDR disciplinary procedure.

The Board noted the Care Managers Report

13 9 Project Report

The Board noted the Project Report

14 10 Any other Business

ML queried the balance of money in the repairs bill going down, CAB advised the £23,000 is askew and is not a responsive repair.

**15 11 Date of Next Meeting: 19th July 2017
AGM 13th September 2017**

The meeting closed at 7.20 pm.

Signed.....

Date.....

SOUTH DEVON RURAL ASSOCIATION LTD

A meeting of the Board of Management will be held on
Wednesday 19 July 2017 at 5 p.m.

South Park Community Centre, Buckfast Rd, Lower Mills, Buckfast, TQ11 0EB

AGENDA

1	Apologies	
2	Minutes of Previous Meeting: May 2017	
3	Matters Arising: IT Upgrade	
	Chairman's Action Ratify Chairman's Action to Authorise the purchase of The Laurels, Marldon as a shared ownership unit for the Ellis family.	
4	Declaration of Interests	
	Reports for Decision	Agenda Item
5	Financial Reports	1
	Q1 Management Accounts & Appendix 1	1a
	Audit Report & insert	1b
	Annual Accounts & insert	1c
	Capital Programme Components	1d
	Lloyds Loan Report & Appendix 1 & 2 (To be forwarded by email not yet complete)	1e
	Capital Programme & Appendix 1 & 2	1f
	Annual Report (not included – circulated previously)	1g
6	Development Report	2
	Rural Homes Development Report	2a
	VAT and TAX Advice Francis Clark – Brimhay - & Appendix 1 (insert)	2b
	Revised Financial Appraisal (Brimhay) & Appendix 1	2c
	Revised Tender and insert Appendix 1 VFM Report (Brimhay)	2d
	Partnership South West (Verbal Update SP)	2e
7	Governance	3
	Policy Development Report & Appendix 1 & insert	3a
	Board, Chairman and Member Appraisals (Verbal Update SP)	3b
	Reports to Note	
8	Finance	4
	Treasury Report	4a
9	Housing and Maintenance	5
	Performance Dashboard & Appendix 1	5a
	Lettings Report	5b
10	Complaints and Anti Social Behaviour Monitoring	6
	ASB Monitoring Report	6a
11	Health and Safety Report	7
	Gas Servicing Report	7a
12	Care Managers Report	8
13	Project Report	9

DOM: 18th October

AGM 13th September

South Devon Rural Housing Association					Appendix 1 (1a)	
	Budget	Q1	Q1	Variance	Percentage	Projection
	2017/18	2017/18	2017/18	To Budget	of annual	2017/18
	£	£	£	£'000	budget	£
					%	
Housing	1,392,664	348,166	367,867	19,701	26%	1,398,926
Forder Lane House	728,771	183,308	185,836	2,529	25%	733,086
South Devon House	80,085	20,021	19,755	(266)	25%	81,676
Management	54,401	13,600	16,252	2,652	30%	56,069
Total Income	2,255,922	565,095	589,710	24,615	26%	2,269,757
Expenditure						
Housing	247,749	63,643	73,606	(9,963)	29%	265,914
Development Costs	20,000	5,000	1,518	3,482	8%	20,000
Forder Lane House	663,890	165,973	152,442	13,531	23%	663,889
South Devon House	61,668	18,090	21,925	(3,835)	36%	60,310
Management	423,895	105,974	94,950	11,024	22%	425,607
Total Expenditure	1,417,202	358,680	344,441	14,239	24%	1,435,720
Operating Surplus excluding depreciation & finance costs (A)	838,720	206,415	245,269	38,854	29%	834,037
Depreciation						
Housing Properties	267,587	66,715	66,716	(1)	24%	280,193
Forder Lane House	34,283	8,571	8,571	(0)	25%	34,283
South Devon House	12,500	3,125	3,125	0	25%	12,500
Vehicle Depreciation	3,400	850	875	(25)	26%	3,400
Equipment depreciation	26,959	6,740	6,725	15	25%	26,959
Total Depreciation	344,729	86,001	86,012	(12)	24%	357,335
Amortised Grant	(60,030)	(15,148)	(15,322)	174		(60,593)
PPE/Investment Adjust		0		0		0
Fair Value Gain/loss				0		
Financial instruments adjust		-				
Operating Surplus including depreciation	554,021	135,563	174,579	38,668	32%	537,295
Surplus on disposal of assets	-	-		0		
Interest Payment & charges	521,564	130,391	126,530	3,861	24%	508,593
Interest Received	(500)	0	(356)	356	71%	(500)
Net Finance Costs (B)	521,064	130,391	126,174	4,217	24%	508,093
Surplus/(deficit)	32,957	5,172	48,405	(43,233)	261%	29,202
Interest Cover Calculation > 110% (A) divided by (B)	160.96%	158.31%	194.39%			164.15%
Surplus without sales	32,957	5,172	48,405	(43,233)	261%	29,202
Interest cover excluding sales	160.96%	158.31%	194.39%			164.15%

Financial Report

FOR INFORMATION

Purpose

To provide the Board with the draft Q1 figures for 2017/18.

Report

The Association's revised budgeted surplus for the year 2017/18 was £32,957 agreed at the January 2017 board meeting. The Q1 figures show a surplus of £48,405 compared to a budgeted surplus of £5,172.

The projected outturn for 2017/18 is £29,202.

The main variances are listed below:-

Housing

- There was no budget provision for any income from the Brimhay properties. £6,845 was generated in the first quarter of the year.
- The costs of the council tax and utilities for the empty Brimhay properties are now charged to revenue. The outturn has a projected spend for these properties but assumes demolition by the end of September 2017.

South Devon House

- There is a large electric bill currently being queried with our electric provider. We feel it is excessive given we now have PV panels installed.

Finance Costs

- The interest figures are below budget as £3,243 has been recharged as capitalised interest to the Brimhay capital schemes.

Recommendations

Board members are recommended to note the Q1 figures for 2017/18.

SOUTH DEVON RURAL HOUSING ASSOCIATION LTD
Author Claire Barnett

Board of Management

Agenda Item 1b

Audit Findings Report

FOR DECISION

Purpose

To present the audit findings report for board approval

Report

Audit Findings Report

A separate document from RSM has been produced. Stephanie Warboys - RSM Audit Director will attend the board to present and discuss the findings with the Board. It also contains the Draft Letter of Representation which is for signing once the report has been considered by the Board.

Recommendations

To approve the Audit Findings Report for the year ended 31 March 2017.

SOUTH DEVON RURAL HOUSING ASSOCIATION LTD
Author Claire Barnett

Board of Management

Agenda Item 1c

Annual Accounts

FOR DECISION

Purpose

To present the annual accounts for board approval

Report

Annual Accounts

The board received a management accounts report in May stating a surplus for the year of £235,449. The surplus has increased by £10,618 to £246,067.

The main change was highlighted at the May board. The depreciation had not been written out for 6 Kings Orchard which was £10,461. The remaining change of £157 was additional grant amortised during the year.

Recommendations

To approve the annual accounts for 2016/17.

SOUTH DEVON RURAL HOUSING ASSOCIATION LTD

Agenda Item 1d

Authors Claire Barnett and Francis Bourke

Board of Management

Capital Programme (Components)

FOR DECISION

Purpose: To inform the Board of Management of progress on the capital programme for replacement components.

The table below shows the component replacements completed for 2017/18.

Components replaced in 17/18	Number	Cost £	Comments
Bramble Close Kitchens	7	£36,505	Funded from 16/17 carry forward May 17
Heating system 14 Church Park	1	£9,782	
Heating System 2 The Orchard	1	£4,361	
Heating System 3 The Orchard	1	£7,312	
Kitchen 31 Broomborough	1	£2,501	
Total Spend to Date		£60,461	
Budget 17/18		£231,266	
Commitments		-	
Remaining budget		£170,805	

Recommendation

The Board are recommended to note the expenditure to date for 17/18.

SOUTH DEVON RURAL HOUSING ASSOCIATION LTD

Author Steve Prime, Claire Barnett

Board of Management

Agenda Item 1(e)

Approval of Lloyds Loan Offer

FOR INFORMATION

Purpose

To ensure the Association complies with the Regulatory Code, Best Practice and promotes continuous improvement. To ensure succession of Board Membership.

Report

Members approved the development strategy at the January 2017 meeting and approved the funding requirements in May, subject to due diligence and final report.

Attached is the formal offer from Lloyds Bank to SDR at **Appendix 1 – not yet available – will be sent by email.**

An executive summary on the loan agreement is shown at **Appendix 2– not yet available – will be sent by email.**

Recommendations

Board members are recommended to approve the Lloyds Loan and delegate authority to The Chairman and Chief Executive to sign all documents relating to the loan. In the absence of the Chief Executive and or Chairman, delegated authority be given to the Finance Director and Vice Chair.

Capital Programme 16/17 to 18/19						Appendix 1 (1f)
		Prior Years				
	Scheme	Spend	Budget	Actual	Budget	Comments
	Budget	incl 16/17	17/18	17/18	18/19	
	£	£	£'000	£'000	£'000	
South Devon House works	10,000		16	3	10	Office refurbishment work including new windows budget increased by £10,000 at Oct board
IT Upgrade	50,000		30	39	10	Server Replacement - software licences were identified as being out of date and not genuine licences which cost £8,303
Other Fixed Assets replacements			10	7	5	New washing machines for Forder Lane and new electronic keyboard for entertainment
Components replaced			231	60	200	See separate board report
Partnership South West Fees			6		6	To enable SDR to be part of the HCA 2016-21 programme
Old Totnes Road	62,242	106	260	13		See Development report. Currently on site but full spend not yet committed.
Brimhay Redevelopment	357,106	551	2,008	16	88	As per Oct board report. Does not include land sale for "ROC" area
	- 2,085				-2,085	Sale of land and gift aid from RHL plus interest repayments
Morleigh	6,284	501	12			Retention to be paid
Wrangaton		1		1		
Old Sidmouth Road		1		1		
Brentor		1		3		Transfer but costs to be funded by other provider
Dennings		1				
	483,546	1,162	2,573	143	-1,766	

Cashflow Summary**Appendix 2 (1f)**

	Income £'000	Expenditure £'000	Total £'000
Balances at 31/3/17	-	-	714
17/18 capital spend net of grant		2,342	
Components Budgeted expenditure		231	
Non cash depreciation	296		
Loan received/repayments	1,888	201	
Surplus 17/18	29		
Sale of Old Totnes Road	380		
Balances at 31/3/18	2,593	2,774	533
18/19 capital spend		119	
Components Budgeted expenditure		200	
Sale receipts and gift aid	2,085		
Non cash depreciation	255		
Loan received/repayments		232	
Surplus 18/19	33		
Balances at 31/3/19	2,373	551	2,355
Loan money to reuse on social housing projects			2,165
Working Capital			190

SOUTH DEVON RURAL HOUSING ASSOCIATION LTD
Author Claire Barnett

Board of Management

Agenda Item 1f

Capital Programme Report

FOR DECISION

Purpose

To update the board on the capital programme progress and expenditure to date and available cash for future schemes.

Report

Capital Programme 17/18 to 18/19

Appendix 1 shows all capital spend for 2017/18, and the budgets for 17/18 and 18/19. Board should note that when the IT servers were replaced it was identified that the software licences in place were not authenticated. These cost £8,303 for which there was no budget. The issue only came to light during the re-install, after the installation of the new hardware showed that the licences previously purchased under charitable rules, were not valid. The licences are a one off purchase.

Appendix 2 shows a simple cashflow statement stating available cash once all the cash transactions for the financial year have been processed, which shows the position at the end of the next 2 financial years.

This shows that all the proposed schemes could be funded.

Recommendations

To note the capital expenditure and the cashflow for 17/18 and 18/19.

South Devon Rural Housing Association Limited

Authors (s) Francis Bourke

Board of
Management

Annual Report

FOR APPROVAL

SDR's Annual Report 2017, has been circulated to all board members for comments. Board members have not raised any amendments to be made. In view of this, the Board are recommended to approve the Annual Report.

The Board are recommended to approve the Annual Report 2017.



SOUTH DEVON RURAL
HOUSING ASSOCIATION LIMITED

Brimhay Development
High-level tax report

11 July 2017

The advice in this report is based upon current UK taxation legislation and HM Revenue and Customs (HMRC) practice both of which are subject to change at any time, possibly with retrospective effect.

Certain tax planning is required by UK law to be disclosed to HMRC under the 'Disclosure of Tax Avoidance Schemes' (DoTAS), however we do not believe any planning mentioned in this report will need to be disclosed under these rules. In addition, a new General Anti-Abuse Rule (GAAR) has been introduced. This is a new development in the UK tax code and the impact is still uncertain. The GAAR applies where the obtaining of a tax advantage is one of the main purposes of an arrangement which cannot reasonably be regarded as a reasonable course of action.

We do not accept or assume any liability for any other purpose or to any other person whom this report is shown or into whose hands it may come, save where expressly agreed by our prior written consent.

Our report has been prepared entirely on the facts presented to us and summarised in this report. A misstatement or omission of facts, or a change or an amendment in any of the facts and representations relied upon, may require modification of all or part of our comments in this report. You should inform us if any facts or assumptions are incorrect.

This report has been prepared based on the laws, regulations, and judicial interpretations in force as at the date of this report insofar as they relate to the particular issue discussed in the report. It does not purport to address all possible tax considerations that may be relevant. Where reference is made to published HMRC opinions in the form of guidance (including those published in their manuals) recent judicial decisions make clear that these are not binding on HMRC – especially where tax avoidance is involved. By contrast the GAAR published guidance does have a quasi-legislative status.

This report reflects our analysis of current UK practice and our interpretation of the applicable laws and regulations. The UK tax legislation is circumscribed with anti-avoidance rules and jurisprudence, and sometimes such legislation can be introduced with retrospective effect. Consequently, our views are not binding on any of the tax authorities and there can be no assurance that they will not take a

position contrary to our comments and analysis.

It should be noted that there could be commercial, legal and other non-tax considerations that may affect the relevant planning. We are not responsible for identifying such issues, but are happy to work with others, if requested, to overcome any negative tax effects of such issues should they arise.

Any planning should be undertaken with GAAR in mind. HMRC have new powers to counteract a tax advantage that arises from an 'abusive' tax arrangement, even where the arrangement does not fall foul of specific tax legislation). The GAAR covers most taxes and the term 'tax advantage' is widely drafted. A 'tax arrangement' is defined as one where "it would be reasonable to conclude that the obtaining of a tax advantage was the main purpose or one of the main purposes".

Given the wide application of the GAAR, and the likelihood that its application to particular circumstances may increase over the years, it will be important to evidence and document the non-tax reasons for adopting suggestions.

Structural changes are rarely implemented for tax reasons alone; usually they are adopted for a mixture of commercial, tax and other reasons. The major commercial and other non-tax reasons for deciding to adopt any planning should be recorded contemporaneously.

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- ❖ South Devon Rural Housing Association Limited ('SDRHA') is incorporated under charitable rules and is a registered society under the Cooperative and Community Benefit Societies Act 2014 under registration number 14949R. The Association's Homes and Communities Agency number is LH0920.
- ❖ The principal activity of SDRHA is the provision of accommodation for people on low income and those in need of residential care. Typically, such accommodation is provided to tenants on affordable rental terms or on a shared ownership basis.
- ❖ SDRHA incorporated a trading subsidiary, Rural Homes Ltd ('Rural Homes') in September 2010 which has remained dormant until recently. Rural Homes will be the lead developer of all new properties which are to be sold by Rural Homes on the open market or let out by SDRHA to social housing tenants. In the longer term it is anticipated that Rural Homes will also provide construction services to third parties.
- ❖ SDRHA owns a site at Brimhay, Dartington which currently holds eighteen bungalows constructed in the 1960s. These bungalows would require significant works to raise them to current standards and as such SDRHA intends to redevelop the site. Planning consent has been granted for the demolition of the bungalows and development of the following properties in their place:
 - ❖ A block of 12 flats for social housing
 - ❖ 12 dwellings for open market sale
 - ❖ 12 bedroom supported living accommodation.
- ❖ SDRHA has secured financing in the form of a loan of £2.165m from CAF Bank. £276k has been drawn down from the loan to acquire a small parcel of land adjacent to the existing bungalows to enable the development to go ahead.
- ❖ It had been proposed that SDRHA would sell part of the land, which is currently occupied by social housing, to ROC (a local charity which supports children and adults with learning difficulties). ROC would then engage Rural Homes to develop the 12 bedroom supporting living accommodation. It is understood that this element of the project has been put 'on hold' and as such has not been considered further in this paper.
- ❖ The current proposal for the build out of the Brimhay site is as follows:
 - ❖ SDRHA will engage Rural Homes as the lead developer for the Brimhay project. Rural Homes, in turn, will engage the building contractor.
 - ❖ It is intended that the properties will be built over an 18-24 month period, with each phase including the construction of three open market properties, so as to minimise financing requirements between SDRHA and Rural Homes.
 - ❖ The affordable social housing will be constructed at an estimated build cost of £1.4m.
 - ❖ The dwellings to be developed for open market sale will be constructed at an estimated cost of £1.6m and sold directly by Rural Home.
- ❖ We understand that SDRHA will retain the 12 flats for the provision to people on low incomes on affordable rental terms in accordance with SDRHA's objectives. It is also proposed that, immediately prior to an open market property disposal, the land upon which those dwellings are sited will be transferred for market value consideration from SDRHA to Rural Homes. The land along with the property will then be transferred by Rural Homes to the buyer.
- ❖ This report sets out the tax issues and risks associated with the current proposal in respect of the Brimhay development project. In addition, it considers the tax issues of the two alternative proposals outlined further below.

This report considers the tax issues of three potential structuring options for the Brimhay development, as illustrated later in this report.

The overall objective is to minimise the tax payable on development profits without risking the tax exempt status of SDRHA.

Option 1 - Summary

- ❖ There is a risk that SDRHA is viewed as sharing in the profits of the Brimhay development. SDRHA would be obligated to dispose of the land at market value which may reflect the development. Any uplift in value of the land held by SDRHA as a result of the development is at risk of being subject to corporation tax. It would be sensible to separate the open market sale land and social housing land at the earliest opportunity, as discussed in Options 2 and 3.
- ❖ There is an existing risk that HMRC could argue that SDRHA has carried on non-Primary Purpose Trading ('PPT') activity by virtue of the recent acquisition of the additional land at Brimhay to complete the development. If HMRC successfully contended that this land was directly linked to the development of the properties for then SDRHA could already be deemed to be carrying on a development trade.
- ❖ The 'back-to-back' land transfers would give rise to unhelpful complexity and may discourage prospective purchasers from completing an acquisition of one of the properties. The additional complexity is also likely to increase professional fees incurred in relation to the overall project.
- ❖ There is a significant risk to input VAT recovery in respect of the construction costs incurred by Rural Homes if the dwellings are complete when the land is transferred by SDRHA to Rural Homes.

Option 2 - Summary

- ❖ Option 2 reduces the risk that SDRHA could be seen to be carrying on a part of the development activity since the open-market sale land would be transferred to Rural Homes before any development activities are undertaken. This facilitates the clear separation of the exempt and non-PPT elements to SDRHA and Rural Homes respectively.
- ❖ As noted for Option 1, there is an existing risk that HMRC could argue that SDRHA has carried on non-PPT activity by virtue of the recent acquisition of the additional land at Brimhay to complete the development.
- ❖ Option 2 also removes the additional complexity of the 'back-to-back' land transfers which should simplify the property sales from both the buyers' and Rural Homes perspectives.
- ❖ Rural Homes should be able to recover input VAT incurred on its costs as Rural Homes would be making taxable supplies of construction services to SDRHA and on the first grant of a major interest on the sale of the open market properties. If SDRHA decide to let the open market properties then further advice should be sought.

Option 3 - Summary

- ❖ Option 3 is similar to Option 2 in that it reduces the risk that SDRHA could be seen to be

carrying on a part of the development activity since the open-market sale land would be transferred to Rural Homes before any significant development activities are undertaken. This enables the separation of the exempt and significant non-PPT elements to SDRHA and Rural Homes respectively.

- ❖ However, there is a risk that HMRC could argue that SDRHA is carrying on an element of the non-PPT development through holding and retaining the infrastructure to be developed relating to the properties to be sold on the open market. From a charitable objectives perspective, it will be important to consider how the cost of the infrastructure works being borne by SDRHA is priced into the arrangements between SDRHA and Rural Homes to ensure that SDRHA is not giving anything away to Rural Homes at an undervalue. This gives added complexity which would be sensibly avoided.
- ❖ As for both of the earlier options, there is an existing risk that HMRC could argue that SDRHA has carried on non-PPT activity as a result of the recent acquisition of the additional land at Brimhay to complete the development.
- ❖ As for Option 2, it removes the additional complexity of the 'back-to-back' land transfers which should simplify the property sales from both the buyers' and Rural Homes perspectives.
- ❖ Rural Homes should be able to recover input VAT incurred on its costs as Rural Homes would be making taxable supplies of construction services to SDRHA and on the first grant of a major interest on the sale of the open market properties. If SDRHA decide to let the open market properties then further advice should be sought.

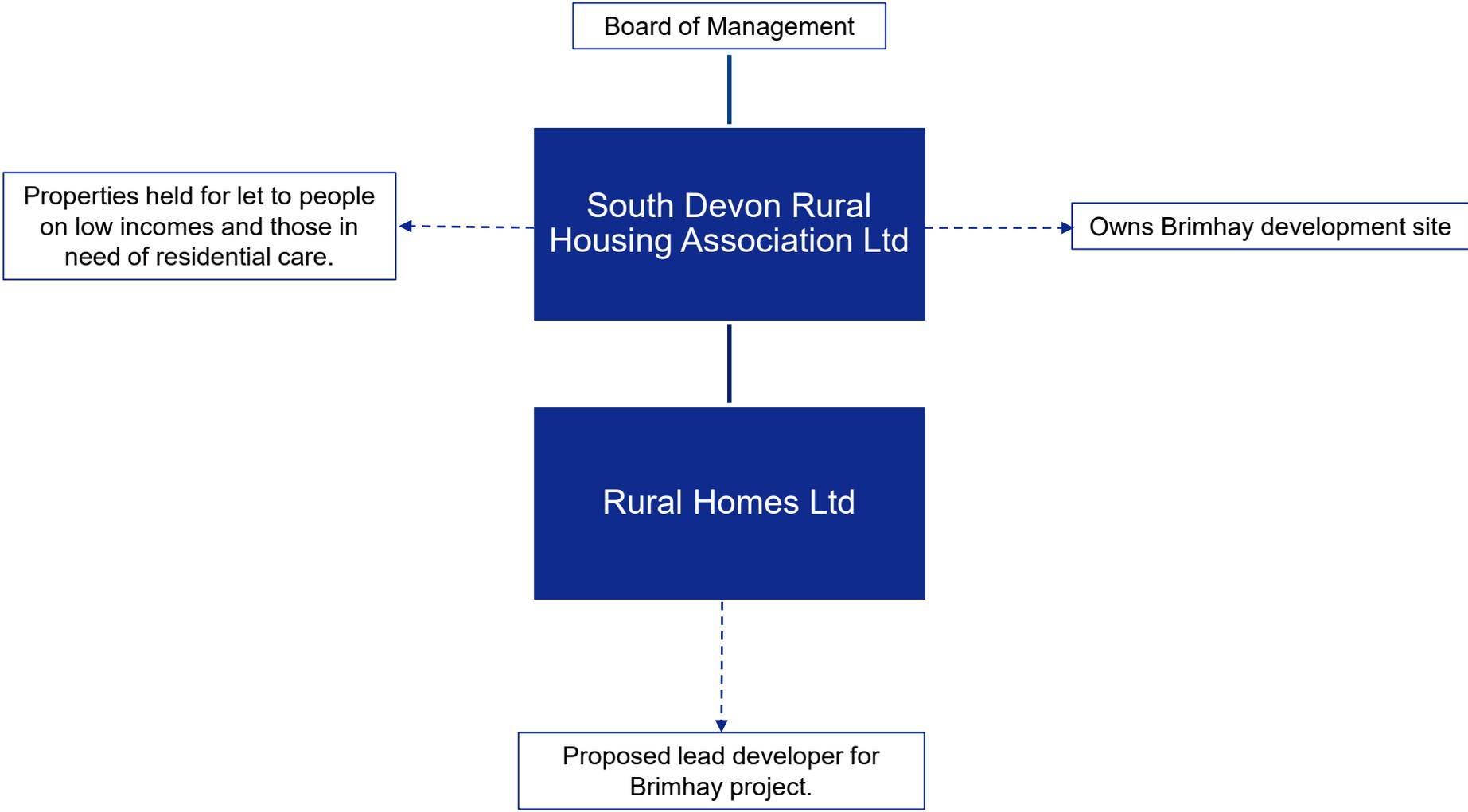
VAT

- ❖ If SDRHA transfer bare land to Rural Homes then this is an exempt transfer for VAT purposes unless an option to tax has been made. This could result in a clawback of input VAT previously recovered by SDRHA. Therefore SDRHA should consider whether it would be beneficial to make the option to tax.

Recommendation and Next Steps

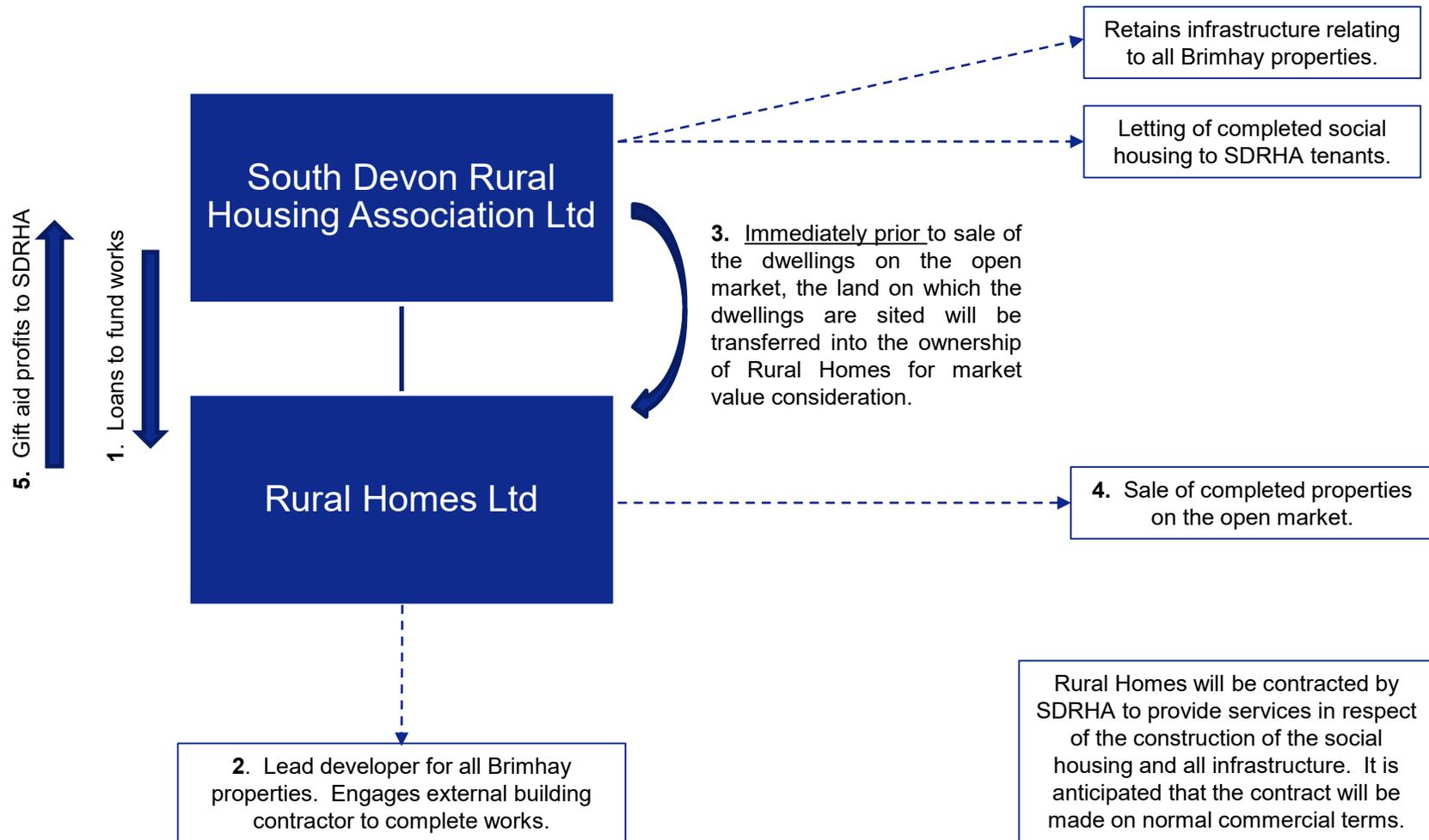
- ❖ We would recommend for the purposes of minimising tax risks that Option 2 is selected as the preferred option for the Brimhay development. The transfer of the open-market sales land to Rural Homes in advance of the development provides the cleanest separation of the exempt and non-PPT activities between SDRHA and Rural Homes.
- ❖ In the main, carrying on the non-PPT activity through Rural Homes will be a tax efficient structure albeit some corporation tax may be suffered in Rural Homes where the amount of the gift aid payments is less than the taxable profits for the period. It is important to recognise that in order to finance the repayment of any loans Rural Homes will need to retain a certain amount of the profits, and a corporation tax liability is therefore likely to arise.
- ❖ It would therefore be sensible to consider the cashflow and profit projections in respect of the project before deciding on the finer details of the chosen structure. For example, it may be sensible to inject a significant proportion of the project financing as initial share capital in Rural Homes since this would not be repayable in the same way as a loan and would therefore enhance Rural Homes' ability to make gift aid payments. We would be happy to review the projections if requested, and assess the tax position based on that model.
- ❖ SDRHA and Rural Homes should seek legal advice in terms of the structuring and property transactions.
- ❖ Next steps:
 - Discussion of report and Board of Management to select preferred option
 - PKF Francis Clark to assist SDRHA with reaching an agreement on the finer details of the structure and review financial modelling, if requested
 - Meeting of all parties – SDRHA, PKF Francis Clark and your lawyers – to agree upon the details and mechanics of the chosen structuring option.

Current association structure



Brimhay development – Structuring options

Option 1 – Your proposed structure



Issues for SDRHA

Financing

- ❖ The loan by SDRHA to Rural Homes for the development of the properties should be on commercial terms (i.e. with a commercial rate of interest and periodic repayments of principal and interest) with full security. This is important for two main reasons:
 - ❖ Firstly, the housing association funds can only be applied for non-charitable purposes if this is to produce an investment return.
 - ❖ Secondly, a loan by SDRHA to Rural Homes (a non-charitable entity) may result in a loss of corporation tax relief by SDRHA, unless HMRC are satisfied that the loan was made for the benefit of SDRHA and not for the avoidance of tax.
- ❖ Interest received from Rural Homes should be treated as exempt from corporation tax provided that it is employed for charitable purposes.
- ❖ As an alternative, SDRHA could consider investing some funding by way of share capital prior to the project commencing. This will assist Rural Homes' cashflow and as such is likely to help mitigate any corporation tax charges.

Social housing

- ❖ Rents received by SDRHA for the completed Brimhay social housing will fall under the letting exemption provided the income is used for charitable purposes.
- ❖ The construction and services costs paid by SDRHA to Rural Homes will be treated as forming part of SDRHA's base cost for the properties for capital gains purposes. It is anticipated SDRHA will be charged for the construction works on normal commercial terms.

Open-market sales

- ❖ Rural Homes is effectively being engaged to construct the properties on land owned by SDRHA. You are proposing that Rural Homes will sell the properties earmarked for open-market sale to third party customers (i.e. carry on the non-primary purpose trading) and that the land on which the properties are sited will be sold 'back-to-

back' by SDRHA through Rural Homes simultaneously. In entering into these transactions, the board of management will need to bear in mind that they have a duty to maximise the value of SDRHA's, which will entail obtaining a market value for the land sold to Rural Homes. This could include an uplift to reflect the developed nature of the land at that point.

- ❖ Rural Homes would be required to pay market value consideration for the properties. Any chargeable gain arising in the hands of SDRHA should be exempt from corporation tax to the extent that the proceeds are employed for charitable purposes.
- ❖ There is a risk that SDRHA is viewed as sharing in the profits of the Brimhay development. SDRHA would be obligated to dispose of the land at market value which may reflect the development. Any uplift in value of the land held by SDRHA as a result of the development is at risk of being subject to corporation tax. It would be sensible to separate the open market sale land and social housing land at the earliest opportunity, as discussed in Options 2 and 3
- ❖ Similarly the receipt of gift aid payments by SDRHA from Rural Homes should be treated as exempt from corporation tax provided that the payments are employed for charitable purposes. This is also subject to Rural Homes having sufficient distributable reserves to cover the full gift aid payment.
- ❖ The sale of land only is exempt from VAT, however the sale may be challenged by HMRC as the new dwellings will be on the land at the time that it will be sold. If it is challenged, the following may apply:
 - ❖ If it is considered that SDRHA will effectively be selling new dwellings to Rural Homes and the dwellings are complete at the time of the transfer of land, this is the first grant of a major interest in the dwellings and zero rated for VAT purposes.
 - ❖ If the dwellings are not complete at the time of the transfer, and it is considered that the dwellings are being sold on the land, the sale is also zero rated and any input VAT incurred relating to the project can be recovered subject to the normal rules. This is not considered to be the first grant of a major interest in the dwellings.
- ❖ SDRHA will not be considered a CIS contractor, no matter what structure option is taken.

Issues for Rural Homes

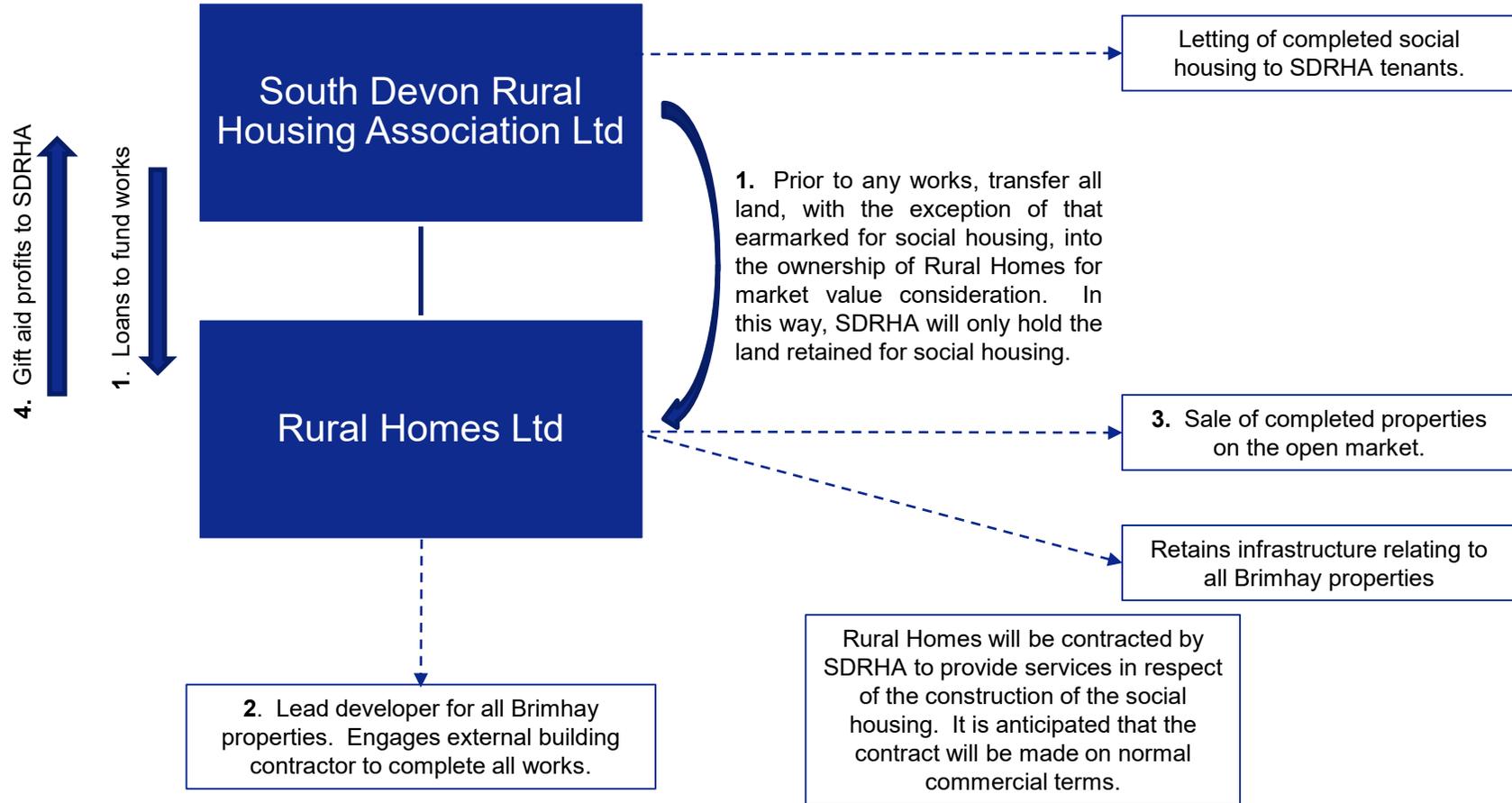
- ❖ The intention is for the non-PPT activity (being the development of properties for open market sale) to be carried on by Rural Homes in isolation. The profits related to such activities would not qualify for relief in the hands of Rural Homes or SDRHA and any profits received by Rural Homes will be subject to corporation tax at the prevailing rate (currently 19% but forecast to fall to 17% with effect from 1 April 2020).
- ❖ However, it would be possible for Rural Homes to mitigate its taxable profits by making payments to SDRHA under the Gift Aid Scheme. As long as SDRHA applies the gift aid for charitable purposes and Rural Homes does not receive any material benefit as a result of the gift aid payment, this would be an effective means of sheltering taxable profits that would otherwise arise. Please see Appendix One for further commentary regarding financing and gift aid.
- ❖ We understand that there is an intention to expand and develop the property development trade of Rural Homes and as such a certain level of cash and profits may need to be retained for these purposes. This could mean that it may not always be possible to extinguish the corporation tax liability since Gift Aid payments may be lower than taxable profits. As discussed earlier, it may be sensible for SDRHA to consider injecting funds as fresh share capital at the outset so as to ensure that Rural Homes has sufficient fixed funds for working capital purposes
- ❖ Interest payments made by Rural Homes to SDRHA would be deductible in determining Rural Homes' taxable profits.
- ❖ The transfers of the developed dwellings to Rural Homes should take place free from SDLT by virtue of the group relief provisions applying to bodies corporate who are in the same qualifying group.
- ❖ The sale of the dwellings will be the first grant of a major interest and zero rated for VAT purposes. However, as above, if HMRC challenge the sale of land by SDRHA the following treatment may apply:
 - ❖ If the dwellings are complete when the land is transferred from SDRHA, any further sale of the dwellings by Rural Homes will be exempt from VAT. This will affect the recovery of input VAT on the construction costs incurred by Rural Homes which would be a significant cost if irrecoverable.

- ❖ If the dwellings are not complete at the time of the transfer and Rural Homes will carry out works to complete the dwellings, Rural Homes will have person completing status. This means that the first sale of the dwellings will be taxable at the zero rate.
- ❖ Trading subsidiaries of a charity are not covered by any exemption and as such Rural Homes will be required to register and operate as a CIS contractor.

Summary

- ❖ There is a risk that SDRHA is viewed as sharing in the profits of the Brimhay development. SDRHA would be obligated to dispose of the land at market value which may reflect the development. Any uplift in value of the land held by SDRHA as a result of the development is at risk of being subject to corporation tax. It would be sensible to separate the open market sale land and social housing land at the earliest opportunity, as discussed in Options 2 and 3
- ❖ The 'back-to-back' land transfers give rise to unhelpful complexity and may discourage prospective purchasers from completing an acquisition of one of the properties. The additional complexity is also likely to increase professional fees incurred in relation to the overall project.

Option 2 – Transfer all land now (excluding social housing)



Issues for SDRHA

- ❖ The key practical difference from Option 1 is that all land, other than the plots for social housing, is transferred to Rural Homes before any development takes place.

Financing

- ❖ The loans from SDRHA to Rural Homes for the development of the properties should be on commercial terms (i.e. with a commercial rate of interest and periodic repayments of principal and interest) with full security.
- ❖ Interest received from Rural Homes should be treated as exempt from corporation tax provided that it is employed for charitable purposes.
- ❖ SDRHA could consider investing funds for a fresh issue of Rural Homes' share capital prior to the project commencing. This will assist Rural Homes' cashflow and as such is likely to help mitigate any corporation tax charges i.e. it should reduce the need to recycle cash between SDRHA and Rural Homes.

Social Housing

- ❖ Rural Homes is effectively being engaged on a services contract to construct only the social housing properties on land owned by SDRHA. This contract should be entered into on normal commercial terms. These costs will be treated as forming part of SDRHA's base cost of the properties for capital gains purposes
- ❖ Rents received by SDRHA in respect of the completed Brimhay social housing should be treated as exempt from corporation tax provided that they are employed for charitable purposes.
- ❖ Similarly the receipt of gift aid payments by SDRHA from Rural Homes should be treated as exempt from corporation tax provided that the payments are employed for charitable purposes. This is also subject to Rural Homes having sufficient distributable reserves to cover the full gift aid payment.

Open-market sales

- ❖ Rural Homes will acquire all of the land including existing infrastructure (with the exception of the land earmarked for social housing) prior to the building works commencing. This facilitates the clear separation of the exempt and non-PPT elements to SDRHA and Rural Homes respectively. This would minimise any risk that HMRC could contend that SDRHA is carrying on the non-PPT development activity which would be subject to corporation tax.
- ❖ In entering into these transactions, the board of management will need to bear in

mind that they have a duty to maximise the value of SDRHA's assets, which will entail obtaining a market value for the land sold to Rural Homes. Any chargeable gain arising should be exempt from corporation tax to the extent that the proceeds are employed for charitable purposes.

- ❖ The sale of bare land is exempt from VAT unless an option to tax has been made. If the sale is exempt, it will affect input VAT recovery under the partial exemption rules. If an option to tax has been made, the sale of land will be taxable at the standard rate.
- ❖ SDRHA will not be considered a CIS contractor, no matter what structure option is taken.

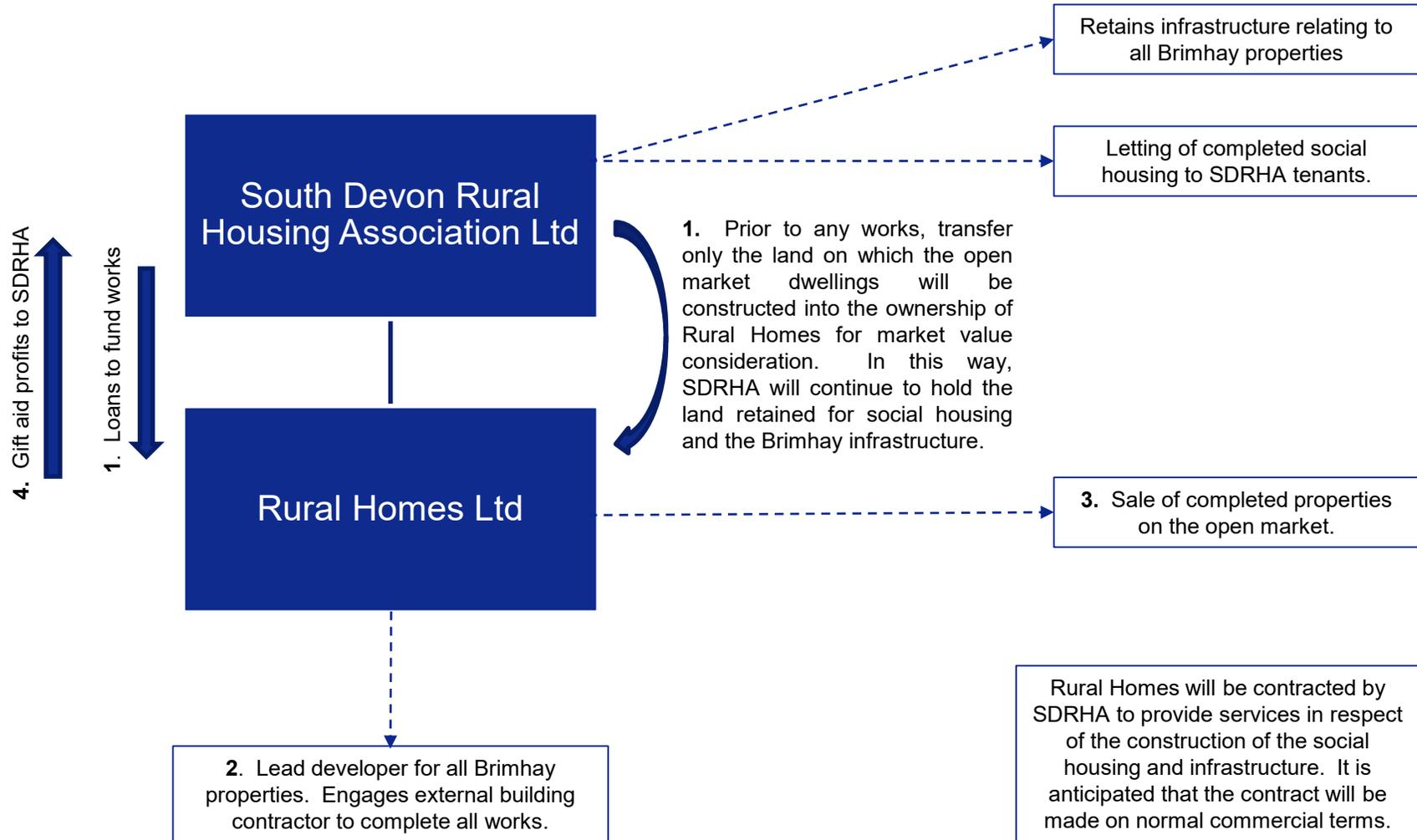
Issues for Rural Homes

- ❖ As mentioned earlier, the non-PPT activity (being the development of properties for open market sale) is clearly separated and carried on by Rural Homes in isolation. The profits related to such activities will not qualify for relief and will be subject to corporation tax at the prevailing rate (currently 19% but forecast to fall to 17% with effect from 1 April 2020).
- ❖ It is possible for Rural Homes to mitigate its taxable profits by making payments to SDRHA under the Gift Aid Scheme which is discussed in greater detail earlier in this paper. As long as SDRHA applies the gift aid for charitable purposes and Rural Homes does not receive any material benefit as a result of the gift aid payment, this would be an effective means of sheltering taxable profits that would otherwise arise.
- ❖ Rural Homes would be responsible for constructing the infrastructure services for all properties on the Brimhay development.
- ❖ Rural Homes has mentioned that it intends to expand and develop the property development trade and as such a certain level of cash and profits may need to be retained for these purposes. This could mean that it may not always be possible to extinguish the corporation tax liability since admissible Gift Aid payments may be lower than taxable profits. As discussed in Appendix One, it may be sensible for SDRHA to consider injecting funds as fresh share capital at the outset so as to ensure that Rural Homes has sufficient funds for working capital purposes.
- ❖ Interest payments made by Rural Homes to SDRHA will be deductible in determining Rural Homes' taxable profits.

- ❖ The transfers of the land to Rural Homes should take place free from SDLT by virtue of the group relief provisions applying to bodies corporate who are in the same qualifying group.
- ❖ Rural Homes will be constructing brand new dwellings for sale. The construction services and sale of the new dwelling is zero rated if the conditions outlined in this report are met.
- ❖ The construction services provided by Rural Homes to SDRHA to build the 12 flats is zero rated.
- ❖ Trading subsidiaries of a charity are not covered by any exemption and as such Rural Homes will be required to register operate as a CIS contractor.

Summary

- ❖ Option 2 reduces the risk that SDRHA could be viewed as sharing in the profits of the development activity since the open-market sale land would be transferred to Rural Homes before any significant development activities are undertaken i.e. all development profits would accrue to Rural Homes. This facilitates the clear separation of the exempt and non-PPT elements to SDRHA and Rural Homes respectively.
- ❖ Nonetheless there is an existing risk that HMRC could argue that SDRHA has carried on non-PPT activity by virtue of the recent acquisition of the additional land at Brimhay to complete the development. If HMRC successfully contended that this land was directly linked to the development of the properties for sale then SDRHA could already be deemed to be carrying on a development trade.
- ❖ Option 2 also removes the additional complexity of the 'back-to-back' land transfers which should simplify the open market property sales from both the buyer's and Rural Homes perspective.



- ❖ The key practical difference to Options 1 and 2 is that only the land on which the open market sale properties will be built is transferred to Rural Homes. The land for social housing and infrastructure would be retained by SDRHA.
 - ❖ The tax analysis for Option 3 is very similar to Option 2 and therefore we have only summarised the key points.
 - ❖ Option 3 is similar to Option 2 in that it reduces the risk that SDRHA could be seen to be sharing in the profits of the development activity since the open-market sale land would be transferred to Rural Homes before any significant development activities are undertaken. This enables the separation of the exempt and significant non-PPT elements to SDRHA and Rural Homes respectively.
 - ❖ There is a risk that HMRC could argue that SDRHA is carrying on an element of the non-PPT development through holding and retaining the infrastructure to be developed. SDRHA will be required to ensure it receives a value from Rural Homes which reflects the risk and costs borne in respect of the infrastructure development. It will be important to consider how this will be priced into the arrangements between SDRHA and Rural Homes to ensure that SDRHA is not giving anything away to Rural Homes at an undervalue. This could be a difficult exercise as normally a developer would be responsible for the infrastructure works. This gives added complexity which would be sensibly avoided.
 - ❖ There is an existing risk that HMRC could argue that SDRHA has carried on non-PPT activity as a result of the recent acquisition of the additional land at Brimhay to complete the development. If HMRC successfully contended that this land was directly linked to the development of the properties for sale (i.e. those properties held as stock) then SDRHA could already be deemed to be carrying on a development trade.
 - ❖ As for Option 2, this option removes the additional complexity of the 'back-to-back' land transfers which should simplify the property sales from both the buyers' and Rural Homes perspectives.
- speculative venture and lose its charitable tax exempt status.
- ❖ For this reason we believe that Option 2 is preferable to Option 3.

Summary

- ❖ In our opinion retaining the infrastructure in SDRHA increases the risk of HMRC arguing that part of the overall development profit is subject to tax in the hands of SDRHA.
- ❖ In turn, this may increase the risk of SDRHA being deemed to take part in a

- ❖ Housing associations can encounter complex tax issues in terms of Corporation Tax, VAT, Stamp Duty Land Tax ('SDLT') and other taxes. This element of the report sets out the tax issues in more detail and particularly those relevant to housing associations carrying on development through trading subsidiaries for open market sale.

Corporation Tax

- ❖ Housing associations are treated as companies for the purposes of the Taxes Acts and are chargeable to corporation tax on their income and chargeable gains, subject to reliefs which may be available.
- ❖ We understand that SDRHA is registered with HMRC as a charity and is therefore chargeable to tax under the provisions of Part 11 Corporation Tax Act ('CTA') 2010 and this forms the basis of our corporation tax analysis.

Charities exemption

- ❖ Through being taxed as a charity, SDRHA will qualify for exemption from tax on most forms of income and gains insofar as they are applied for charitable purposes.
- ❖ The following are the main exemptions:
 - ❖ Profits of a property rental business –CTA 2010 provides an exemption from tax for the income of a property business. The exemptions do not apply to profits from buying and selling land or profits arising from the development of land. If a charity sells land held as an investment asset any gain will normally be a capital gain. Taxation of Chargeable Gains Act 1992 ('TCGA 1992') provides an exemption for capital gains provided the gain is applied to charitable purposes only. However, if a contract for the sale of land includes a provision for the charity to share in future profits from the development of that land any such profits received won't be exempt for corporation tax.
 - ❖ Interest and other annual payments - CTA 2010 provide for an exemption to charitable companies in respect of: all interest, Gift Aid donations and other annual payments.
 - ❖ Trading income - A charity's exempt from tax on the profits of any trade carried on in the UK or elsewhere provided its income is applied solely to charitable purposes and which is either:
 - ❖ exercised in the course of the actual carrying out of a primary

purpose of the charity. PPT is a trade exercised in the course of carrying out a primary purpose of a charity such as a charitable residential care home providing serviced residential accommodation in return for payment.

- ❖ mainly carried out by beneficiaries of the charity. For example, the manufacture and sale of items by disabled people working for a charity whose purpose is the relief of disabled persons
- ❖ a non-PPT the turnover of which falls below certain small trading exemption limits.
- ❖ Capital gains – A charity is exempt from tax on capital gains, provided the gains are applied for charitable purposes.
- ❖ Non-charitable trading is trading which doesn't fall within PPT but which is undertaken to raise funds to be applied for charitable purposes. It is clear that SDRHA's proposed development of 12 dwellings for open market sale will be treated as non-PPT since it falls outside the SDRHA's charitable objects. The profit from non-charitable trading is taxable unless it is exempt under the small trading exemption (i.e. generally where non-charitable trading profits do not exceed £50k).

Use of trading subsidiaries

- ❖ Charities carrying out trading to which the statutory tax exemptions don't apply (e.g. non-PPT) may arrange for a trading activity to be carried on by a wholly owned subsidiary trading company. Using this approach it is possible for some or all of the subsidiary company's trading profits to be passed to the charity using the company Gift Aid Scheme.
- ❖ Companies owned by charities are liable to pay tax on trading profits in the same way as other non-charitable companies. But, like other companies, they can get tax relief for charitable payments to a charity under the company Gift Aid scheme. Subject to certain restrictions a company donating all of its taxable profits to charity will get a tax deduction equal to the amount of the profits, so that no Corporation Tax will be payable. Generally, a company can only deduct a company Gift Aid donation from its profits for the accounting period in which the monetary donation is actually paid or if it has been paid within 9 months of the end of the accounting period.
- ❖ In the hands of the charity the donation isn't trading income. The donation is taxable as income but is exempt from tax provided it is applied for charitable purposes.

- ❖ As set out in a Technical Release issued by the Institute of Chartered Accountants in England and Wales (ICAEW) (TECH 16/14BL), donation payments by a subsidiary company to its parent charity are typically considered to be distributions and therefore subsidiary companies must not pay more to the charity than the level of profits available for distribution, even if the level of taxable profits is higher. Any part of a payment from a subsidiary company to a charity which exceeds the subsidiary company's profits available for distribution is therefore unlawful under the Companies Act 2006. The company will therefore not get a tax deduction for any unlawful distributions. For example, if a gift aid payment of £1,000 is made when distributable reserves are £600 then the excess of £400 over distributable reserves would not be tax deductible.
- ❖ When deciding how much of its profits to give to its parent charity, a trading company will need to take account of the following:
 - ❖ any limitations imposed by the Insolvency Act 1986 and the Companies Act 2006 on the amount it can pay out
 - ❖ retention of sufficient profits to avoid a cash drain
 - ❖ any restrictions imposed by the Memorandum and Articles of Association of the company and any other requirements that may be imposed upon the directors
- ❖ Charities which own companies to carry on non-exempt trading activities will usually need to consider investing funds in the company when the company is set up. The company may also need injections of money to fund expansion or development of its business after it has been established. There are special rules in the Taxes Acts that apply to investment of a charity's funds in a trading company. If these rules aren't followed the charity will risk losing some or all of its tax exemptions. To qualify for relief an investment must be made:
 - ❖ for the benefit of the charity
 - ❖ not for the avoidance of tax
- ❖ Investments will be regarded as made for the benefit of the charity if they're commercially sound and meet the requirements of English charity law. Usually, charities should ensure that investments are secure, carry a fair rate of return (actually paid) and, in the case of loans, provide for recovery of the amount invested.
- ❖ All investment decisions, including a decision to invest in a subsidiary company, should be properly minuted, including the factors on which the decisions are based. Depending on the size of the proposed investment, the decision may be based on the following - business plans, cashflow forecasts, projections of future profits
- ❖ Most commercial companies keep part of their profits to provide them with funds for day-to-day expenses, working capital and normal development of their business. However, companies which intend to donate all of their profits to charity every year may not be able to retain the funds they need to carry on in business. Charities may therefore want to ensure when a company is set up that it's provided with enough share capital to enable it to shed its profits every year and stay in business.
- ❖ Although the 9 month rule should assist with cash flow, the passing of profits up to the parent charity may result in a serious drain on the company's cash. If so, care should be taken to avoid a pattern of frequent injections of funds by the charity in order to keep the company in business.
- ❖ Such a practice might put at risk both the charity's tax exemptions and the company's deductions for its Gift Aid payments. In some cases where there's a serious cash drain in the company, it would be prudent for the company to keep part of its profits. In these circumstances some tax will become payable by the company.
- ❖ Clearly it would be sensible for Rural Homes to carry on the non-PPT activities since this should, through payment of gift aid, mitigate the corporation tax chargeable on the development profits attributable to the open market sales. However, it will be important to closely review the financing of Rural Homes and the cashflow and profit forecasts relating to the Brimhay development in order to maximise the available tax relief by way of Gift Aid whilst protecting SDRHA's charitable status.
- ❖ In our view, the overall objective is to minimise the tax payable on development profits without risking the tax exempt status of SDRHA.

VAT

Construction

- ❖ There are no specific VAT reliefs for housing associations with regards to the construction of new dwellings, however more generally, services made in the course of constructing by developers and sub-contractors (including building materials ordinarily incorporated into dwellings) are charged at the zero rate of VAT under Group 5, Schedule 8, VAT Act 1994. To qualify for zero rating, the new dwellings must be built from scratch and, before construction starts, any pre-existing buildings are demolished completely to ground level. Additionally, the dwellings must meet the definition of a dwelling as described at Note 2 to Group 5, Schedule 8, VAT Act 1994 and HMRC's guidance. A building is designed as a dwelling or number of dwellings where in relation to each dwelling the following conditions are satisfied:
 - the dwelling consists of self-contained living accommodation, i.e. a living room, kitchen, bathroom and bedroom;
 - there is no provision for direct internal access from the dwelling to any other dwelling or part of a dwelling;
 - the separate use of the dwelling is not prohibited by the terms of any covenant, statutory planning consent or similar provision;
 - the separate disposal of the dwelling is not prohibited by the terms of any covenant, statutory planning consent or similar provision; and
 - statutory planning consent has been granted in respect of that dwelling and its construction or conversion has been carried out in accordance with that consent
- ❖ The services that are made in the course of the construction of new dwellings include work carried out that allows the construction of a building to take place and that allows a building to be used, so long as those services are carried out under a single project. The work does not need to be carried out by the same contractor. Examples of services include;
 - demolition of existing buildings where the new dwellings will be built in their place. The bungalows must be demolished completely to ground level, however any slab at ground level may be retained. We recommend that photographs are taken once the bungalows have been demolished should there be a challenge from HMRC on this point.
 - ground works such as levelling and draining
 - site clearance
 - means of providing water and power
 - means of providing site access e.g. roads, footpaths, parking areas
 - provision of soft landscaping
- ❖ HMRC could challenge zero rating on the above if there is a delay in the construction.
- ❖ There are some services that are deemed to be unconnected to the construction of a dwelling and should be charged at the standard rate. Examples of these include;
 - the provision of on-site catering
 - the cleaning of site offices
 - Some landscaping
 - works outside the site of the building
 - site investigation or demolition work carried out before planning permission for the construction of a building that qualifies for the zero rate has been granted
- ❖ Additionally, there are services that are not specifically excluded from zero rating, these include;
 - Architects, surveyors, consultants and supervisors
 - Goods hired on their own, e.g. plant and machinery, although plant hired with an operator can be zero rated
 - scaffolding, formwork or false work, although the service of erecting or dismantling can be zero rated
 - security fencing
 - mobile offices

- ❖ Building materials for VAT purposes are articles that are ordinarily incorporated into a building. An article is incorporated in a building when it is fixed in such a way that its fixing or removal would either require the use of tools or result in either the need for remedial work to the fabric of the building.
- ❖ Once construction is complete, any further supplies of construction services are no longer eligible for the zero rate. Completion takes place at a given moment in time. HMRC's guidance suggests that the following factors are considered if there is any doubt as to when the building is complete;
 - when a Certificate of Completion is issued
 - the accordance to approved plans and specifications
 - the scope of the planning consent and variations to it
 - whether the building is habitable or fit for purpose

Sale of new dwellings

- ❖ The first grant of a major interest (i.e. the sale of the freehold or a leasehold exceeding 21 years) in a new dwelling is zero rated where the dwelling meets the definition of a dwelling and the vendor has 'person constructing' status.
- ❖ The initial payment by the occupier of a shared ownership property for the share of equity can be zero rated. However, subsequent rental payments and any additional staircase payments are exempt from VAT.
- ❖ Person constructing status in relation to a new dwelling is a person acting as, or have at any point in the past, acted as a developer, i.e.:
 - A person that has physically constructed or commissioned another person to physically construct the building on land that is owned or you have an interest in, or
 - a contractor or subcontractor that provided construction services to the developer or another contractor for the construction of the building.
- ❖ More than one person can have 'person constructing' status, however 'person constructing' status is not transferred when the property is transferred. An example is where a developer takes over and finishes a partly completed building. Both the first and second developers have 'person constructing' status because they have both been involved in physically constructing the building.

- ❖ the sale of land that will form the site of new dwellings provided the buildings are clearly under construction is zero rated.
- ❖ The sale of land containing new civil engineering works, but those works are a minor part of the supply, is exempt from VAT unless an option to tax has been made on the land. For example the sale of a development site which has a new road or pipes laid for draining.
- ❖ Supplies of land and buildings are normally exempt from VAT under Group 1 Schedule 9 VAT Act 1994, however VAT registered businesses can opt to tax land. Once opted supplies of land or buildings by that person will normally be standard rated (note that residential dwellings cannot be opted).
- ❖ Building materials that are ordinarily incorporated in a qualifying dwelling are zero rated as part of the zero rated supply of the building. Goods that are not incorporated in the building, such as loose furniture, are liable to VAT at the standard rate.
- ❖ Input VAT can normally be recovered on costs that are used in making taxable (including zero-rated) supplies. However, if you intend to make a zero rated sale in a building, you cannot deduct input VAT on certain goods that are incorporated in the building i.e. items such as carpets, most fitted furniture and most incorporated gas and electrical appliances.

Input VAT recovery

- ❖ With the exception of certain specified costs, input VAT can be recovered to the extent that it relates to a taxable supply. Input VAT incurred on costs that relate to exempt supplies cannot normally be recovered. Input VAT that relates to both taxable and exempt supplies, can be recovered to the extent that it relates to taxable supplies using a partial exemption standard method or an agreed special method.
- ❖ The potential taxable supplies in relation to the Brimhay Development are either zero rated or standard rated as follows;
 - The first sale of brand new dwellings – zero rated
 - The initial payment by the occupier of a shared ownership property – zero rated
 - The sale of land with partly complete dwellings – zero rated
 - The sale of land that has an option to tax – standard rated

- ❖ The potential exempt supplies in relation to the Brimhay Development are as follows;
 - Any subsequent sale (other than the first sale) of residential dwellings.
 - The sale of bare land that has not been opted to tax
 - Shared ownership rental payments and any additional staircase payments
 - Rental income

- ❖ If there are delays in selling the dwellings and they are let out for a period of time, the rental income is exempt and there may be a clawback of any input VAT previously recovered. More detailed advice can be provided if necessary.

SDLT

- ❖ Broadly, a land transaction entered into by a charity (including a not-for-profit housing association such as SDRHA) purchaser is exempt from charge to SDLT (by way of charities relief) so long as the following conditions are satisfied:
 - ❖ the charity must intend to hold the subject matter of the transaction for qualifying charitable purposes; and
 - ❖ the transaction must not have been entered into for the purpose of avoiding SDLT by either the purchaser or any other person.

- ❖ To qualify for relief a charity must:
 - ❖ be established for charitable purposes only
 - ❖ be subject to the courts in
 - the UK or
 - another member EU member State or
 - Iceland or
 - Norway
 - ❖ be registered if required to do so by the laws of the territory in which it is situated
 - ❖ be administered or controlled by “fit for purpose “ persons

- ❖ HMRC can withdraw the relief if, within 3 years of the transaction, if the charity still owns the property, and either stops being a charity or uses the property for purposes

that aren't charitable. If the additional land at Brimhay was acquired by SDRHA within the last three years then it may be important to consider whether any SDLT relief could be clawed back.

- ❖ Clearly any acquisition by Rural Homes of land currently owned by SDRHA will not qualify for charities relief since the acquirer (Rural Homes) is not a charitable company. In the absence of any other SDLT reliefs, SDLT would be charged on such transfers. SDRHA and Rural Homes form a group for SDLT purposes and as such any transfers to Rural Homes should take place free from SDLT by making a claim for the group relief.

Construction Industry Scheme ('CIS')

- ❖ For organisations involved in construction operations, the requirements under the Construction Industry Scheme (CIS) to register as a CIS contractor doesn't extend to payments made for construction operations by charities. This means SDRHA will not be considered a CIS contractor, no matter what structure option is taken. However, trading subsidiaries of a charity are not covered by the exemption and as such Rural Homes will be required to register as a contractor for CIS.

- ❖ The requirement for Rural Homes to register and operate as a CIS contractor exists no matter which structure option is taken. We can assist with the registration if requested.

- ❖ Once registered Rural Homes will be required to verify with HMRC (using HMRC's online portal) the sub-contractors used in the construction operations. The verification process will determine the relevant percentage Rural Home's needs to deduct from payments for the labour element of its sub-contractors invoices, and this will either be at 0%, 20% or 30%.

- ❖ As a CIS contractor, Rural Homes will be required to submit monthly CIS returns detailing out payments and deductions it has taken from its sub-contractors as well as remitting the CIS deductions to HMRC.

SOUTH DEVON RURAL HOUSING ASSOCIATION LTD

Authors Steve Prime, Alan Fox

Board of Management

Agenda Item 2

Development Report

FOR DECISION

Purpose

To ensure the Association meets its regulatory and legal obligations, promotes continuous improvement and value for money. Updating members on progress and agreeing key areas for review.

Development Progress Report

Old Totnes Road

Contracts for retaining wall and works to slab level commenced 15th May. Work is progressing well.

Market Place, Wadebridge

Not able to proceed due to lawyers (Kindle) unable to find original lease await indemnity or reconstituted leases.

Management Agreement – SHIP Project

SHIP project Plymouth, management agreement now completed (12/5/2017) expect start on site soon, 9 month contract.

Current and Future Development Opportunities Report

(Development Services provided by Rural Homes Limited)

Project	Stage	Type	Units	Comments
Brentor	Talks with landowner	Exception site future SDR funding required c£800,000 -£1million	Up to 9 – Dartmoor NP – great site would hope SDR can fund	Meeting with Parish Council 10/7 – progress to community consultation
Kingsbridge	Early negotiations	Mixed – Future JV SDR/RHL + partner funding required £800,000-£1 million	56 – now revised to 23 – potential for RHL to apply to HCA build fund	Negotiations – SDR to purchase site if FA positive – planning issues
Colyton, East Devon	Negotiations	Exception site £800,000 - £1 million	8-10 – SDR funded	Ongoing – costing to bring to planning & FA. Site layout prepared for pre app.
Wrangaton	Negotiations	Mixed funding £1.5million	Up to 44 units potential partners RHL	Option to purchase being sought @ £450,000 – minor planning issues
Other sites	Kingsbridge	The Mounts	10	Early negotiations Ongoing – planning issues
Development Services (RHL)	Talks	SWHS require further development services	various	RHL negotiating fees
	Quotation	Project Management services	27	RHL quote to project manage the build of 27 eco houses in Totnes – not successful.

Recommendation:-

Note the Development Report and the future development report from Rural Homes Limited

SOUTH DEVON RURAL HOUSING ASSOCIATION LTD

Author Steve Prime, Claire Barnett

Board of Management

Agenda Item 2(b)

VAT and Tax Advice (Due Diligence) Brimhay

FOR INFORMATION

Purpose

To ensure the Association complies with the Regulatory Code, Best Practice and promotes continuous improvement and value for money.

Report

SDR are due to start work on the largest development project in the history of the organisation and undertake through its subsidiary Rural Homes Limited, the building of 12 homes for market sale. Whilst the project was first discussed at board in 2012 and the concept of RHL undertaking development for profit on behalf of SDR in 2009, it is appropriate that we refresh the advice in respect of the project. Other reports will refresh the Financial Appraisal with a Revised tender Report also.

Francis Clark Report is shown at

Recommendations

Board members are recommended to note the report and the recommendations therein and authorise the Chief Executive to implement them.



Shelton Development Services Ltd.

Board Approval Report

Scheme name	Brimhay July 17 board Affordables only	Date	2017/06/21 0:00:00
Address	Brimhay - Forder Lane - Dartington - DEVON - TQ9 6HX	Appraisal by	CB
Funding year	2017/18	Site area	
Administrative Area	South Hams	Version	
Project/File ref		Date last saved	2017/07/11 8:28:05byUserA
Units	12	Saved file name	_Unfiled\Brimhay July 17 board Affordables only

Financial Summary

Costs	Scheme	Cost per Unit	Per M ²	Per ft ² *
Land	-723,200	-60,267	-927	-86
Build	1,539,125	128,260	1,973	183
On costs	416,590	28,417	534	50
Total scheme costs	1,282,515	106,876	1,644	153
Other capital income				
Shared ownership sales				
Grant				
Internal subsidy (Including rent conversions)	0			
Early Rental Income	49,824	4,152	64	6
Other capital savings				
Long term loan	1,282,515	106,876	1,644	153
Rent yield (year one)	4.45%			
Profit on property sale				
Net present value	-424,973			
Internal rate of return	0.92%			

*Conversion rate of 10.7639 ft² per M²

Financial Impact

Approved parameters	Net present value	Payback	Net loan	Debt per unit	Yield (rent)	New build sales income	Internal Subsidy (Including rent conversions)	Void sales
This scheme	-424,973	3,472,231	1,282,515		13.88%		0	179,847

Financial performance

	Affordable Rent	
Peak debts	1,329,241	1,329,241
Year of peak debt		14
Repayment year		
Net present value	-424,973	
Internal rate of return	0.92%	
Internal subsidy created (used)		
Land	-723,200	
Works costs	1,539,125	
Development admin	0	
Interest	75,590	
On costs	416,590	
Total gross costs	1,282,515	
Grant		
Other grant	0	
Net cost		
Shared ownership receipts		
Number units	12	
Property value	2,160,000	
Year surplus generated	25	
Year 110% interest cover achieved	20	
Year 70% gearing achieved		
Asset cover when scheme comes into management	168.42%	

SOUTH DEVON RURAL HOUSING ASSOCIATION LTD

Author Steve Prime, Claire Barnett

Board of Management

Agenda Item 2(c)

Revised Financial Appraisal

FOR INFORMATION

Purpose

To ensure the Association complies with the Regulatory Code, Best Practice and promotes continuous improvement and value for money.

Report

A revised financial appraisal is shown at **Appendix 1**. The appraisal takes into account all costs associated with the delays due to planning issues on Brimhay. This appraisal is produced using the figures provided by Randall Simmonds for the cost of the 12 flats. However it should be noted that this includes all site preliminaries and all the infrastructure cost of the road. Clearly part of this cost will need to be “recovered” from Rural Homes Ltd. There is a land value return of £1,000,000 included in the financial appraisal for the sale of plots to Rural Homes Ltd, this is based on a valuers figures.

The Board Approval Report shows that the cost is £1,282,515. A proportion of the preliminaries and infrastructure would need to be funded by Rural Homes Ltd. The road is £109,950, external drainage £126,800, connection to utilities £65,000 and main contractors preliminaries £181,310. Totalling £483,060. Rural Homes is planning to gift aid to the Association. The latest estimate is £490,000.

The original report showed a deficit under £100,000 with the Association building 12 flats for very little cost. The October 2016 report showed a deficit of £600,000 to the Association. This financial appraisal would indicate with Rural Homes Ltd contributing towards some of the preliminaries and infrastructure plus the gift aid that the deficit would be less than £600,000. There is also the possible South Hams grant of £200,000. This would mean the cost to the Association would be about £400,000 for the 12 flats. This would be sustainable to the Association as the Board Approval report shows that the flats are paid for over 25 years based on the full cost. The Association would convert part of the CAF loan into long term funding and reinvest the remaining £1,765,000 on other social housing projects.

The costs which cannot be capitalised and not include in the revised financial appraisal are shown below as a cost to the association and project which have been dealt with through the Income and Expenditure Account.

2015/16 £21,559 Void costs.

2016/17 £23,300 utility and council tax bills.

Recommendations

Board members are recommended to note the report

SOUTH DEVON RURAL HOUSING ASSOCIATION LTD

Author Steve Prime, Claire Barnett

Board of Management

Agenda Item 2(d)

Revised Tender Report and VFM Report

FOR INFORMATION

Purpose

To ensure the Association complies with the Regulatory Code, Best Practice and promotes continuous improvement and value for money.

Report

A revised tender and VFM Report is shown at **Appendix 1**. The budget report is based on costs as of today provided by the contractor and will be the contract price, all be it in two phases. Initial works will comprise demolition, setting up the site and further design works necessary before the build can start. In addition to the contract budget, a client contingency of £50,000 should be held to cover additional costs for ecological works and supervision, legal challenge, and disruption falling outside the main contract.

Recommendations

Board members are recommended to approve the Coyde Construction contract price for the Affordable and Infrastructure part of the Brimhay Redevelopment and client contingency of £50,000.

SOUTH DEVON RURAL HOUSING ASSOCIATION LTD

Authors (s) Francis Bourke

Board of Management

Agenda Item 3a

Policy Development Programme

FOR INFORMATION

Purpose

To ensure the Association meets it's regulatory and legal obligations, promotes continuous improvement and value for money services. Updating members on progress and agreeing key areas for review.

Please review Appendix 1 in conjunction with the Financial Regulations and Standing Orders Insert.

Key Policies and Development Areas:

Subject Development/Policy Title	Date Last Reviewed	Review Due Date	Reviewed By
----------------------------------	--------------------	-----------------	-------------

Corporate & Governance			
Board Members' Handbook	November 2015	11/19	SP (Updated 11/16)
Board Membership and Renewal	May 2014	05/17	SP
Tenant Board Membership	May 2014	05/17	SP
Admission of Shareholders	May 2014	05/17	SP
Complaints Policy	May 2014	07/17	FB
Whistleblowing	July 15	07/18	BB/FB
Equality and Diversity Policy	May 2014	07/17	FB SMT
No Smoking Policy	July 2014	07/17	SP
Motor Vehicle Policy	June 2015	03/18	CB
Resident Involvement and Co regulation Policy	January 2013	05/17	FB
Value for Money	July 2016	05/17	FB
CCTV	July 2014	07/17	SP

Finance			
Depreciation Policy	November 2013	05/17	CB
Financial Regulations and Standing Orders	July 2017	07/19	CB
Risk Management Policy	April 2014	05/17	FB/CB/SP/BVB

Subject Development/Policy Title	Date Last Reviewed	Review Due Date	Reviewed By
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Human Resources			
HR Handbook	March 2014	05/17	FB/CB
Code of Conduct - Staff	March 2014	05/17	FB/CB
Lone Workers Policy	July 2015	07/18	FB

Maintenance and Development			
Maintenance Policy	November 14	11/17	FB
Tenants Improvements, etc.	November 14	11/17	FB

Housing Management			
Customer Charter and Communication Plans	July 2014	07/17	FB
Anti-social Behaviour Policy	January 2015	10/17	FB
Lettings Policy	November 2013	10/17	FB
Lodgers & Sub-letting Policy	July 2015	07/18	FB
Parking Policy	New	05/17	FB
Overcrowding Policy	July 2015	07/18	FB
Compensation Policy	March 2014	10/17	FB/CB
Pets Policy	May 2014	10/17	FB
Succession Policy	July 2015	07/18	FB
Car Parking & Abandoned Vehicles Policy	March 2014	10/17	FB
Service Charge Policy	January 2015	01/18	FB/SP
Domestic Violence	September 2014	09/17	FB
Rent Increase Policy	Oct 15	10/18	FB/SP/CB
Rent Arrears Prevention and recovery Policy	November 2011	10/17	FB
Tenancy Management	January 2013	05/17	FB
Decanting Tenants	22 October 2014	10/17	FB

Support & Care Specific			
Safeguarding Adults	March 2015	03/18	BVB
Volunteer Policy	October 2015	10/18	BVB

Board are recommended to approve the Financial Regulations and Standing Orders.

Appendix 1 (3a)

Key Changes to Financial Regulations and Standing Orders July review.

Housing Corporation has been replaced by Homes and Community Agency throughout the document.

Operations Manager has been updated to Operations Director throughout the document.

P4 3.3 has had the following words added “unless the Board elects to allow an extension on a year by year basis if it is in the best interests of the association”

P4 Quorum – reduced from 5 to 3 board members for board meetings.

P9 11.3 has had the following words added “and for clarity in circumstances where affixing of the Association’s seal is required and a second signatory is not available, in the interests of continuity, the Chief Executive may affix the seal under his signature alone where the Board have previously approved the transaction in normal business.”

P10 12.3.2 has had the following words added “However, contractors and consultants may be used by the association at any time provided they have successfully met SDR due diligence requirements at 12.3.5.”

P19 Virements point 3.8 the virement levels have increased from £2,500 to £5,000 for both parts.

Purchase Orders 4.3 after Chief Executive signature “or delegated officer” has been added.

4.9.8 the words “from Construction line” have been removed and now only states “from an approved contractors list”.

5.6 this is a wholly new paragraph.

5.7 the credit card limit has increased to £3,000 from £1,000.

5.24 the must be signed by was Chairman and Chief Executive this has been replaced by “at least one board member and the Chief Executive or Chief Executive’s delegate.”

Insurances 8.5 “competitive tenders” replaced by “Competitive market enquiries”.

P31 Segregation of Duties 2nd paragraph has had the following added to the end of the paragraph “if the expenditure does not form part of an approved budget.”

The key signatories have been updated to reflect the current lead board members and Rural Homes has been added.

Standing Orders and Financial Regulations

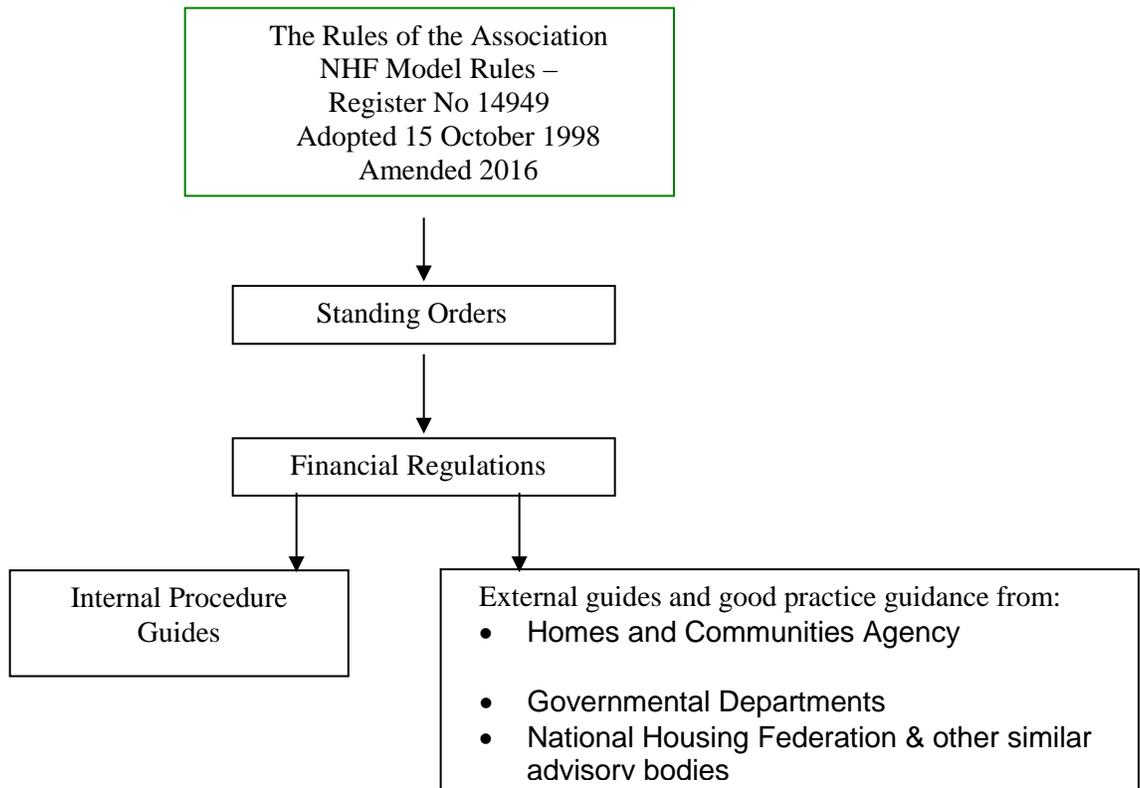
Revised July 2017 all previous versions are rescinded

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Agenda Item 3a

Part 1 General introduction1. The inter-relationship of the Rules of the Association, the Standing Orders, the Financial Regulations, and other documents.

- 1.1 The Association's Rules and Standing Orders outline how the Association shall be controlled and managed. The Financial Regulations, which form part of the Standing Orders, incorporate the financial policies, and cover the arrangements for supervision and control of the finances, assets, and other resources of the Association.
- 1.2 The Board is responsible for approving and amending the Standing Orders and Financial Regulations.
- 1.3 In addition to the Financial Regulations, detailed financial procedures are contained in a range of procedure guides, including those prepared within the Association and those produced by external agencies (and particularly the Housing Corporation) with which the Association must comply. The inter-relationship of documents:-



- 1.4 Nothing in the Standing Orders and Financial Regulations shall override instructions or conditions imposed upon the Association by the Homes and Communities Agency or other regulatory body. Nothing in the procedure guides shall override the principles embodied in these Standing Orders and Financial Regulations.

Part II Standing Orders

1. GENERAL MEETINGS

- 1.1 Those provisions relating to the powers of General Meetings, their convening and conduct, which are contained in the Association's Rules, are not repeated in full in these Standing Orders. What follows shall be interpreted as additional to, or in amplification of, the Rules and shall in no way be a replacement or alteration of them.
- 1.2 The Annual General Meeting (AGM) of the Association shall be held between the dates of 1 April and 30 September each year at a time and day determined by the Association, through its Board.
- 1.3 The Order of Business at the AGM shall be:-
- a) To elect a Chairman of the meeting, if neither the Chairman nor Vice-Chairman of the Association is present;
 - b) To approve the Minutes of the last AGM and any Extraordinary General Meetings not previously approved;
 - c) To receive the Annual Report, the contents of which are indicated at C17.1 of the 'Rules';
 - d) To appoint the External Auditors for the forthcoming year;
 - e) To elect Board Members;
 - f) To transact any other business of the Association included in the notice of the meeting.
- 1.4 A Special General Meeting (SGM) of the Association may be called by the Board or upon a written requisition to the Secretary signed by members collectively holding not less than one-tenth of the voting rights, stating the purpose for which the meeting is to be convened.
- 1.5 The Secretary shall issue notices convening the meeting within 14 days of receipt by him of the requisition. Any such notices shall be delivered to Members 14 clear days before the meeting.
- 1.6 The order of business at a SGM shall be: -
- (a) To elect a Chairman of the meeting, if neither the Chairman nor Vice-Chairman of the Association is present;
 - (b) To approve the Minutes of any SGM held since the last Annual General Meeting,
 - (c) To deal with the business indicated in the notice calling the SGM.

2. BOARD MEETINGS

- 2.1 The Board shall meet at least four times in every calendar year at such times and places as they deem fit. The Secretary shall give seven clear days notice of the date and place of such meetings in writing to every Board Member.
- 2.2 The Secretary may call special meetings of the Board and shall do so if required by notice in writing given to him by the Chairman of the Board or by two Board Members.
- 2.3 The order of business at ordinary Board meetings shall be:-
- a) at the first meeting after the AGM, to elect a Chairman and Vice-Chairman;
 - b) in the absence of the Chairman and Vice-Chairman, to select one of their number to Chair the meeting;
 - c) to approve the Minutes of the last meeting;
 - d) to consider matters arising from those Minutes which are not on the Agenda for the meeting;
 - e) to receive and examine reports and recommendations of any Committees and where appropriate approve those recommendations;
 - f) to consider any other business shown on the Agenda and included in the notice of the meeting;
 - g) to deal with any urgent business either allowed by the Chairman or approved by vote of a majority of members present.
- 2.4 Special Board Meetings may deal only with the business indicated in the Notice of Meeting.

Agenda Item 3a

3. CHAIRMAN

- 3.1 The Chairman and Vice-Chairman of the Board shall also be the Chairman and Vice-Chairman respectively of the Association.
- 3.2 Where, due to resignation, dismissal or other cause, there is no Chairman or Vice-Chairman, the Board may appoint any board member to serve as interim Chairman until the next AGM. At the Board Meeting next following that AGM the Board shall elect a new Chairman or Vice-Chairman (either of whom may if desired be the former interim Chairman) in the normal way pursuant to rule E2 in the Association's Rules.
- 3.3 No Board Member shall serve in the role of Chairman for more than two consecutive terms of three years unless the Board elects to allow an extension on a year by year basis if it is in the best interests of the association

4 QUORUM

- 4.1 There shall be no business transacted at any general meeting, Board or any Committee, unless there is a quorum of members at the start of discussion of Agenda Items.
- 4.2 The quorum for each type of meeting of the Association is as follows:

• Meeting	• Quorum
• General Meeting of the Association	• One tenth of all shareholders with a minimum of six and a maximum of twenty five (Rule C22)
• Board Meetings	• Three Board Members or half the Board (whichever is lower)
• Committees	• Three Board Members
• Working Groups with delegated authority	• Three Board Members
• Working Groups	• Two Board Members. (No decisions may be made without consulting the Board as a whole)

- 4.3 For General Meetings, if no quorum of Members is present after thirty minutes of the time appointed for the Meeting, it shall be adjourned for one week to the same time and place, or to such other time and place as the Board may determine. If there is no quorum within thirty minutes of the reconvened meeting, the meeting shall stand adjourned for one week to the same time and place or to such other time and place as the Board may determine. If there is

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no quorum within thirty minutes of the third meeting then the Members present shall be deemed a quorum.

- 4.4 Where there is no quorum within thirty minutes of the commencement time of a Board Meeting or a Committee or during such a meeting the Chairman correctly states that there is no quorum, then that Meeting shall stand adjourned. Consideration of the business not transacted shall be undertaken at a time fixed by the Chairman or at the next ordinary meeting of the Board or Committee, regardless of whether it is quorate or not.

5. MINUTES

- 5.1 The Minutes of any General Meeting or Board Meeting shall be corrected as necessary and confirmed at each subsequent Meeting by an affirmative resolution of Members present. The Minutes of any Committee shall be presented to a subsequent Board meeting for notification or ratification.
- 5.2 The approved Minutes shall be signed by the Chairman of the subsequent Meeting.
- 5.3 The Secretary shall arrange for the safe custody of Minutes so that their correctness may be easily verified.

6 ADMISSION OF THE PUBLIC

- 6.1 The public may be present at General Meetings.

7. CONDUCT OF MEETINGS

- 7.1 All meetings shall be conducted in accordance with the Rules and Standing Orders.
- 7.2 Voting at Board and Committee meetings shall be by a show of hands. The Chairman shall not normally vote. The Chairman shall be entitled to use a casting vote only where there is an equality of votes
- 7.3 In relation to the conduct of the meeting, the ruling of the Chairman shall be final.

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7.4 Chairman's Action:

The Chairman of the Board or of any Committee is empowered to take urgent decisions on operational matters that are within the authority of the Board or Committee that he/she Chairs. Before using such delegated authority, they shall consider what consultation with other members is appropriate and whether a special meeting should be called. The views of any members who are consulted should be recorded and all decisions taken using Chairman's Action shall be reported to the next meeting for information and ratification.

8 MEMBERS' INTERESTS

- 8.1 Any Board Member who has a personal or financial interest in any way whatsoever in a contract or other transaction which is to be discussed by the Board or a Committee, shall immediately disclose such an interest. That Board Member shall not be allowed to vote on the issue or remain during its discussion. This shall apply in like manner to a Board Member who has a close relative so interested. All such declarations shall be recorded in the Minutes of the meeting.
- 8.2 No Board Member, by virtue of office or employment, may accept any fee or reward for work undertaken on behalf of South Devon Rural Housing Association.
- 8.3 The Association shall not conduct any business with a person or body which would have been prohibited by Part 1 Schedule 1 of the Housing Act 1996. To this end the Secretary shall be required to establish whether, following a declaration of interest by a Board Member, the Association can lawfully conduct the business intended to be discussed at the meeting.
- 8.4 The Secretary shall maintain a Register of Board Members' interests, and Board Members shall declare any pecuniary or financial interest that they may have that might relate to any contract or other transaction that could be discussed by the Board or Committees. The Register shall be reviewed annually and be open to inspection by the Association's members.
- 8.5 All Board Members shall in the exercise of their duties and powers as Board Members act solely in the interests of the Association and not in the interests of themselves or any third person, party or other body.
- 8.6 Board Members shall keep confidential all information that they receive as Board Members concerning the business of the Association and its affairs and shall not disclose such information to non-Board Members (other than such information which is already in the public domain).

9 EMPLOYEES' INTERESTS

- 9.1 The Secretary shall keep a record of all declarations of pecuniary interests of employees and this record shall be available at all reasonable times for inspection by any Member of the Association. An interest in a contract or the like by an employee shall be so declared to the Board before the acceptance of any tender or quotation.
- 9.2 Any candidate for a position in the employment of the Association who canvasses Board Members directly or indirectly shall be disqualified.
- 9.3 No Board Member of the Association may recommend anyone for appointment or promotion, except as part of a formal participation in an appointments panel; although, if requested, a written reference may be given.
- 9.4 The Association shall ask for details on his application of any relationship that any candidate for employment may have with any Board Member or Senior Officer of the Association. Any candidate who fails to make such a disclosure shall be disqualified and, if appointed, shall be dismissed.
- 9.5 Every Board Member and senior officer of the Association shall be required to disclose to the Secretary any known relationship with any candidate for appointment. Such information shall be communicated to the Selection Panel before appointment.
- 9.6 Where a relationship to a Board Member of the Association is so disclosed, then Standing Order 10.1 shall apply.

10 THE BOARD'S RESPONSIBILITIES

10.1 The Board is ultimately responsible for the overall control of the affairs of the Association, including the monitoring of performance of all its functions and the determination of resources to meet its financial and other obligations. It must ensure the financial viability of the Association and any projects it commissions. Specific responsibilities shall include:-

- a) Overall control of the Association;
- b) Aims and values of the organisation;
- c) Strategic objectives;
- d) Accountability;
- e) Delegation;
- f) Determining the composition and terms of reference of Committees;
- g) Reviewing periodically the membership of the Board in accordance with the Association's aims, constitution and rules;
- h) Overseeing the Association's adherence to the Regulatory Code of the Housing Corporation;
- i) Reviewing existing Policies and approval of new policies;
- j) Approval of the Association's Business Plan, budgets and accounts;
- k) Ensuring the periodic review of the efficiency and effectiveness of the Association's work and the standard and level of the services provided and promoting continuous improvement thereof through Best Value.
- l) The appointment of the Chief Executive and the conduct of disciplinary matters in respect of that post;
- m) Matters which may involve major changes of policy of the Association;
- n) Any extension or restriction in the scope of the Association's activities or functions;
- o) Major matters with regard to relationships with central government, the Housing Corporation, local authorities, other statutory bodies and other Housing Associations;
- p) Any items which are referred to it by a General Meeting (including making recommendations to the AGM as to the appointment/removal of external auditors, and approving external auditor's remuneration);
- q) Any matter referred to it by the Financial Regulations; and

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- r) Considering initial reports on fraud and attempted fraud.
- 10.2 The Board may create Standing and other Committees, Sub-Committees or Working Groups to which it may delegate or refer business for detailed consideration. The Board shall appoint the Chairman of any committee. The membership of any committee shall be determined by the Board and shall include at least one person who also serves on the Board and other such persons as the Board thinks fit.
- 10.3 To streamline the workload of the main Board, the Board may, in a number of areas, delegate full authority for decision making to a relevant Committee.
- 10.4 Specifically, responsibilities for the following shall not be delegated to a Committee.
 - (a) Appointment of the Chief Executive;
 - (b) Approval of an annual financial budget;
 - (c) Approval, annually, of a five year business plan;
 - (d) Approval of annual accounts; and
 - (e) Approval of the Association's Policies.
- 10.5 Any matter may be referred by the Board to a General Meeting of the Association.
- 10.6 Although specific responsibilities are defined in these Standing Orders, the supreme governing body of the Association is the General Meeting and it may make decisions or direct the Board on any matter relating to the business of the Association.
- 10.7 In discharging its responsibilities, the Board may seek access to independent professional advice, subject to the advice being affordable within the budget for the year in which the advice is sought.

11 DELEGATIONS TO THE CHIEF EXECUTIVE

- 11.1 The Chief Executive (CE) shall be ultimately responsible for the operational management of the Association's affairs. The CE must assist the Board in determining its strategic objectives and ensuring the achievement of such objectives through the effective deployment of the Association's resources and productive relationships with external agencies.
- 11.2 Subject to these Standing Orders and Financial Regulations, and in accordance with policies and decisions made by the Board, the CE shall take the actions he considers necessary to ensure the efficient and effective management and administration of the Association's activities.

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11.3 To the extent of the powers delegated above, the CE has delegated authority on behalf of the Association to enter into contracts and deeds and where appropriate to authorise the affixing of the Association's seal in accordance with the Association's Rules and for clarity in circumstances where affixing of the Association's seal is required and a second signatory is not available, in the interests of continuity, the Chief Executive may affix the seal under his signature alone where the Board have previously approved the transaction in normal business.

12 CONTRACTS

12.1 Contracts may only be placed where appropriate procedures have been followed in accordance with Section 4 of the Financial Regulations.

12.2 Standard forms of contract appropriate to the type of works being considered shall be used in all cases except where external consultants have recommended and justified a more suitable alternative. All building contracts over the sum of £500,000 shall be executed under the Association's seal.

12.3 Contractor and Consultant Selection

12.3.1 To assist with Egan compliance the Association shall select where feasible, but not exclusively, Works Contractors and Consultants from the centralised Government listing which is compiled and maintained by Constructionline.

12.3.2 All new Contractors and Consultants expressing a desire to work with the Association for development related work, shall be directed towards Constructionline for vetting prior to inclusion on the list. However, contractors and consultants may be used by the association at any time provided they have successfully met SDR due diligence requirements at 12.3.5.

12.3.3 The CE shall have delegated authority to use contractors and enter into contracts with contractors who have already been accepted onto another RSL's approved list of contractors, where confirmation has been received in writing from that RSL that the contractor is on their approved list and has conducted work in an acceptable and satisfactory manner.

12.3.4 In the event of a specialist Consultant or Contractor not being registered with Constructionline then approval shall be subject to the relevant checks being made as set out below and approved by the Chief Executive:

12.3.5 The relevant checks shall be:

- a) Banker's references;
- b) current trading accounts;
- c) current employment references;

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- d) tax and insurance information;
 - e) equal opportunities policies; and
 - f) health & safety policies.
- 12.4 In the event that a contractor does not have his own equality and diversity or health and safety policy, he may adopt and must adhere to the Association's own policies.
- 12.5 Following all relevant checks, formal approval for adding a new contractor or supplier shall require the approval of the Board. The CE shall have delegated authority to use contractors subject to obtaining the approval of the Board where the work is of an urgent and/or specialist nature.
- 12.6 The Association shall maintain a list of approved contractors. In addition, it may add other services related suppliers/installers/contractors (e.g.. window cleaner & lift maintenance consultants, etc) to this list.
- 12.7 The list shall be appraised every two years and reported to the Board. Notwithstanding this any contractor who undertakes work in accordance with any contracts let shall be subject to continuous monitoring of performance against the contract. Failure to achieve the minimum threshold may result in the contractor being removed from the approved contractors' list.

13 INSURANCES

- 13.1 The Chief Executive shall maintain in the name of the Association insurances in respect of:
- a) Employer's liability
 - b) Public liability
 - c) All buildings and structures in the Association's ownership.
 - d) Professional indemnity
 - e) Directors' & Officers' liability
 - f) Buildings contents (including furniture and equipment)
 - g) Information technology equipment
 - h) Motor vehicles owned or leased by the Association.
 - i) Lifts and other plant
 - j) Any other insurance which the Chief Executive considers to be necessary as a cost effective method of risk management.

14 GIFTS, HOSPITALITY, CONFIDENTIALITY ETC.

- 14.1 Board Members and staff should treat with extreme caution any offer, gift or favour of hospitality that is made to them personally as the person, persons or organisation making the

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offer may be seeking to gain business with the Association or otherwise take advantage of such offer, gift or favour of hospitality. If it is considered that the person making the offer is attempting to gain advantage then the offer should be refused.

- 14.2 While there can be no hard and fast rules about the acceptance or refusal of tokens of goodwill, Board Members and staff are bound by the Association's policy on gifts and hospitality and must take personal responsibility for all such decisions bearing in mind the potential for damage to public confidence in the Association. All acceptances of gifts and acts of hospitality must be noted in the Association's Disclosure of Interests Register kept by the Association Secretary. More information and guidance can be found in the Association's Code of Conduct Policy.
- 14.3 Board Members and staff should, where possible, seek to avoid the personal use of consultants, contractors, suppliers or professional advisers who undertake work on behalf of the Association. If the use of such individuals or bodies cannot be reasonably avoided, special advantage should not be sought. Basic details should be recorded in the Fraud Register Book.
- 14.4 Board Members and staff may from time to time acquire information which is not available to the general public, individuals or bodies who might have an interest in the Association's affairs. Such information might, for example, be in respect of individuals, companies, negotiations for the purchase of land or property etc. The disclosure of such information would constitute a betrayal of trust and it would be for the Board and the Chief Executive to decide upon the gravity of such a breach and take appropriate action in line with the Association's confidentiality policy.
- 14.5 All of the above applies equally to gifts and hospitality given as well as received.

15 STANDARDS FOR CONDUCT

- 15.1 The Association's Standards for Board Members' Conduct are based on three groups of principles:
- a) The Association's Mission, Objectives and Values;
 - b) The NHF Code of Conduct (Currently 2015 version with some exceptions); and
 - c) The Seven Principles of Public Life as set out by the Nolan Committee.
- 15.2 The Association and its Members and staff shall at all times abide by the NHF Code of Conduct which shall be distributed to all Members and staff. Items already covered by these Standing Orders shall take preference over those covered in the Code of Conduct, including the Association's Policy on Conduct

16 RISK MANAGEMENT

- 16.1 The overall strategy of the Association shall be to manage all risks that would adversely affect its ability to meet its current Corporate Objectives.
- 16.2 The Board shall have overall responsibility to ensure that the Association's risk strategy is appropriate and periodically reviewed. The Chief Executive shall be responsible for the implementation of the risk strategy and for carrying out a periodic review of risk management procedures.
- 16.3 The risk management programme shall include an annual review of the process that considers the overall strategy, highlights actions that might be taken to improve risk management, and assesses the effectiveness of the controls being relied upon.
- 16.4 In support of the risk management programme, the Board shall be responsible for ensuring that there is a suitable framework in place. To be effective, that framework must cover the following areas:
- a) control environment;
 - b) reporting of risk;
 - c) disaster recovery strategy; and
 - d) monitoring.
- 16.5 The Board shall gain assurance of the control environment through:
- a) a high regard for integrity and ethical values;
 - b) internal audit programmes that ensure controls work effectively;
 - c) a commitment to competence through investment in staff training;
 - d) a positive attitude to auditors' recommendations with implementation of agreed improvements;
 - e) a desire to avoid errors and mistakes; and
 - f) an effective management structure.
- 16.6 The reporting of risks shall be comprehensive, covering:
- a) Description;
 - b) Impact on the business;
 - c) Likelihood;
 - d) Officer responsible;
 - e) Existing Controls in place;
 - f) Whether any action can be taken to reduce or manage identified risks
 - g) Further action necessary to reduce risk; and
 - h) Timescale for further action.

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- 16.7 Identified key risks shall be reported and monitored by the Board or any relevant Committee as appropriate, with all other risks being covered by Management Team.

17 AMENDMENT AND REVOCATION

- 17.1 The Board may alter, rescind or add to any part or element of these Standing Orders by a simple majority vote of those present at a quorate meeting. The Chief Executive shall consider, periodically, the need for amendments to Standing Orders and report on this matter to the Board.
- 17.2 A copy of these Standing Orders and the Financial Regulations shall be available to members and staff of the Association.

18 INTERPRETATION

- 18.1 Interpretation of terms in these Standing Orders shall be provided in the Association's Rules.
- 18.2 Where there are references in the Standing Orders to the male gender, they shall apply equally to the female gender.
- 18.3 The ruling of the Chairman of the Board as to the meaning or application of these Standing Orders shall be final.

PART III: Financial Regulations

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1. INTRODUCTION

- 1.1. The conduct of the affairs of the Association is governed by the Rules of the Association, the Association's Standing Orders and these Financial Regulations. These Regulations should be read in conjunction with those documents.
- 1.2. The Rules of the Association deal with a number of finance related matters including:
 - a) the use of the Company seal
 - b) the keeping of proper books of account
 - c) the completion of annual accounts and submission of annual returns
 - d) the appointment of auditors
 - e) borrowing and investment powers
- 1.3. These Regulations do not seek to duplicate what is already contained in the Rules of the Association; they are intended to supplement the Association's Rules and to provide a more detailed framework for the day to day operations of the Association.
- 1.4. These Regulations shall be binding upon the Association's officers and on those acting for the Association whether as employees, as persons seconded from some other organisation, or as agents or consultants.
- 1.5. All references to the Board shall be taken to mean the Board of Management, or Committees of the Board acting under properly delegated authority.

2 AUTHORISATION OF EXPENDITURE

- 2.1 Expenditure shall be incurred only when it has been included in an approved budget or supplementary approval; when specific Board approval is required and has been obtained; or under delegated authority as detailed herein.

REVENUE EXPENDITURE

- 2.2 Where specific items of expenditure, e.g. on equipment, are included in the revenue budget, no further Board approval shall be required, providing tendering conditions laid out elsewhere are followed. General items continue to require approval as dictated by limits of spending authority.
- 2.3 In considering the budget, the Board may earmark items for further consideration. In these cases, specific Board approval shall be required.

DEVELOPMENT SCHEMES

- 2.4 Sections 2.5 to 2.11 shall be read in conjunction with the Association's Development Policies and Procedures.
- 2.5 The proposed development programme shall be reviewed each year and agreed by the Board. Inclusion of a scheme in this programme shall not constitute approval of expenditure, unless and until approved as set out below.

Approval Procedure

- 2.6 For all new build schemes, a scheme proposal, including a financial appraisal, shall be presented to the Board for approval at outline stage.

A further report shall be made to the Board when the final design is presented, incorporating the following:

- a) A financial statement showing estimated costs and income arising from the proposals including the impact of the proposals on average rents and on the business plan.
 - b) Comparisons of expenditure and income levels with those reported in the scheme proposals including reasons for differences arising.
 - c) A statement of the cost/value relationship.
 - d) A Risk Assessment incorporating the effect of the scheme on the Association's 30 year financial model.
- 2.7 Where a programme of individual purchases whether rehabilitation, purchase and repair, or existing satisfactory is to be undertaken, the overall programme shall be agreed by the Board. Approval for individual purchases within the agreed programme shall then be delegated to the Chief Executive. Such purchases may only be approved following an appropriately detailed survey of each individual property.
- 2.8 Acquisition of land with independent valuation shall be approved by the Chief Executive where a capital allocation exists and approval under paragraph 2.6 has been obtained. Where no allocation exists approval must be sought from the Board.
- 2.9 Where a scheme is to be acquired from a developer, Board approval shall be required before any negotiated price is finally agreed.
- 2.10 Where a scheme is to be built the Association shall seek competitive tenders. All tenderers shall be asked to provide information on their Key Performance Indicators (KPI's) and this information shall be used to supplement the tender figure in selecting the contractor. (NB The contractor shall not be selected on price alone, and failure to provide KPI information may disqualify a contractor from the tender process.)

Partnership agreements

- 2.11 Where works or purchases are to take place within a **partnership agreement**, the initial agreement shall be reached following competitive tender. This should normally involve considerations wider than scheme costs, in particular addressing issues such as service quality and housing plus factors. Authority to commit expenditure on purchases or works shall be delegated to the Chief Executive, provided these fall within the agreed programme and budget.

CAPITAL EXPENDITURE ON OFFICES AND EQUIPMENT

- 2.12 The Chief Executive shall be responsible, in consultation with the Board and other officers for the annual submission of capital expenditure proposals to support the budget.
- 2.13 The Board may earmark certain items for further consideration. In such cases specific Board approval shall be required before expenditure is incurred.
- 2.14 Expenditure on office equipment for new staff shall be taken as agreed at the time the appointment is agreed, whether this is following the staffing plan or the result of an agreed departure from it. The Chief Executive shall have authority to agree the necessary expenditure within budget.

3 BUDGETARY CONTROL

- 3.1 The Chief Executive shall be responsible for the annual preparation of estimates of income and expenditure for the Association in consultation with the Board, and for the updating and monitoring of related sections of the business plan.
- 3.2 The annual budget shall be approved by the Board not later than March each year.
- 3.3 The Chief Executive shall be responsible for producing regular budgetary control statements, and for presenting full quarterly management accounts and performance indicators to the Board.
- 3.4 The Chief Executive shall be responsible for producing quarterly summarised management accounts and reports of performance against budgets to the Board.
- 3.5 Each officer shall be responsible for keeping within the approved budget or supplementary approvals, relevant to his/her area of responsibility, and shall be responsible for certifying invoices in respect of authorised expenditure in his/her designated areas.

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- 3.6 When it appears that expenditure on an approved budget head might exceed the budget provision by more than 10% overall, the Chief Executive shall be responsible for the submission of supplementary estimates to the Board. It shall be the clear responsibility of any officer responsible for a budget area to bring such anticipated overspending to the attention of the Chief Executive immediately together with recommendations to bring it back within budget.

VIREMENTS

- 3.7 Over-expenditure on a particular budget head may be met by virement of budgetary provision from an underspent budget head, subject to the following paragraphs in this section, thereby avoiding the need for supplementary budget approval.
- 3.8 The Chief Executive may authorise virements of up to £5,000 between sub-headings but not into salary costs. Virements greater than £5,000 between sub-headings, shall require the approval of the Board. Virements between revenue and capital budgets shall not be permitted.
- 3.9 There shall be no virement into salary costs budgets without the approval of the Board.
- 3.10 Any proposal to vary annual budgets by incurring expenditure not provided for in the original budget and which cannot be met by virement shall be referred by the appropriate officer to the Board.
- 3.11 Requests for budget increases, which cannot be met from existing revenue resources, shall be referred to the Board.
- 3.12 All budget increases granted by the Board shall constitute approval to incur expenditure.
- 3.13 Use of the Board's general or earmarked balances or reserves shall be referred to the Board for approval.

4 ORDERS, CONTRACTS, AND CONSULTANCIES: PROCEDURAL REQUIREMENTS

- 4.1 Expenditure may only be incurred if authorised in accordance with Section 4.2 and:
- a) By virtue of an official order signed by an officer designated in Schedule 1, **or**
 - b) By a JCT (Joint Contracts Tribunal) contract or agreement entered into in accordance with the procedures set out below and no work shall commence until the documents have been signed.

PURCHASE ORDERS - QUOTATION PROCEDURES

Please note all values exclude VAT

4.2 Purchase orders shall be considered in two categories:

- a) Corporate/administration orders (hereafter referred to as Purchase Orders), and,
- b) Maintenance or repair orders (hereafter referred to as Works Orders).

All orders shall be in the prescribed form. The officers designated in Schedule 1 shall initial orders within the file contained on the Computer system.

4.3 **Purchase Orders**

A Purchase Order shall be completed for each purchase relating to corporate or administrative expenditure.

- The officers designated in Schedule 1 may issue Purchase Orders for goods or services up to the value of £500.
- Purchase Orders valued above £500 and less than £5000 shall require the Chief Executive's signature (or delegated officer) in addition to that of the Designated officer.
- Purchase Orders of a value greater than £5000 and less than £10,000 shall be issued only after the Chief Executive has obtained at least two written competitive quotations. The lowest quotation shall be accepted unless specifically certified by the CE.

Each invoice shall be cross-referenced against the relevant Purchase Order and authorised by as required by Schedule I when processed for payment, and shall be numbered and kept on file by the designated officer.

4.4 **Works Orders**

For works orders up to £500, all members of staff are authorised to place orders on the OmniLedger system for responsive maintenance works.

Quotations between £500 - £10,000

4.5 All works orders expected to be over £500 shall be referred to the Surveyor or Operations Director.

4.6 For works between £500 and £5,000, the Surveyor or Operations Director shall have delegated authority to place the works order on OmniLedger. The Chief Executive shall sign the printed works order before it is placed on file.

4.7 For works expected to be more than £5,000 but less than £10,000, the Operations Director or Finance Director shall obtain at least two written competitive quotations. For this purpose records shall be maintained by the Surveyor. This shall show details such as:

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- the name of the contractors invited to quote,
 - how the quote was requested (by telephone, letter, email, fax etc),
 - brief details of the works requested,
 - time scale requested,
 - the subsequent quotation received,
 - the contractor awarded the job,
 - the number of the subsequent Works Order raised on Omniledger and
 - an authorising signature from Chief Executive etc.
- 4.8 Where jobs are repeated in broadly identical form, such as replacement of central heating systems, quotations need only be obtained periodically, but this shall not be less than annually. Any detraction from these guidelines should be recorded and authorised.

TENDERS FOR OVER £10,000

- 4.9 For works over £10,000 per transaction, a full tendering exercise shall be carried out and shall follow the procedures detailed in this paragraph.

4.9.1 The Operations Director shall send the specification of the works required to the invited contractors, requiring that the tender be returned to the Association in a plain envelope marked "**Tender for xxxx**" and specifying a closing date.

4.9.2 Tenders shall be obtained by whichever of the following methods is most appropriate in any particular case:

- By invitation to contractors selected after advertisement or from Constructionline or from an approved list. The number of tenders to be obtained should not normally be less than four and shall never be less than three without Board approval;
- For work of a character for which there is a limited number of suitable contractors, tenders may be obtained by invitation to known contractors in the particular field;
- In exceptional circumstances, and subject to a written report from the Chief Executive a single contractor may be selected by the Board to tender.

4.9.3 For transactions over £10,000, contractors should generally be drawn from the approved contractors list or Constructionline. However, the Association reserves the right to approve a transaction above £10,000 given to a contractor NOT on Constructionline or the approved contractors list. This shall be on an exceptions basis only, and must follow all other tender procedures. It shall also require approval by the Chief Executive or Chairman's Action – which must be obtained in writing BEFORE any works order is placed.

4.9.4 A formal tender opening procedure shall be arranged by the Operations Director or Chief Executive. The Tender Opening Panel shall consist of the Surveyor,

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Operations Director, and at least one member of the Board. Tenders shall be recorded in a Tender Book to be signed by those present, and the lowest tender shall normally be accepted. The Chief Executive shall also sign the works order, to confirm that the Tender Opening Panel is authorising the works order to be raised. Where the lowest tender is not accepted then a written report must be prepared for the Chairman of the Association requesting approval.

- 4.9.5 After a works order has been raised, a formal written contract or agreement shall be signed between the Association and the successful contractor.
- 4.9.6 The Chief Executive shall be responsible for ensuring that a formal record is kept of all tender proceedings and documentation. All quotations over £10,000 and all tenders shall be reported to the Board.
- 4.9.7 For all tenders, the relevant officer must ensure that full details of the competitive processes employed and the prices obtained are provided to the Board. If the transaction is part of the Association's Major Repairs or Cyclical Repairs Programme, then the Board may be informed about the transaction and purchase order AFTER the event, as the Major Repairs and Cyclical Repairs budgets shall already have been approved by the Board. This may be done to ensure the smooth running of the planned maintenance programme.
- 4.9.8 For development works, all contractors MUST be drawn from an approved contractors list if developing through partnership arrangements. For planned maintenance, every effort should be made to use contractors through Constructionline where practical. Given the size of the Association and the size of some of the Association's good contractors, this might prove to be difficult in all circumstances, particularly if the transaction is for below £10,000. With this in mind, contractors not on Constructionline may be considered and used for transactions below £10,000,. At the same time, the Association's suppliers must be encouraged to join Constructionline, to allow the Association to fall in with good practice within the Sector.
- 4.9.9 Use of new contractors on a trial basis shall require the agreement of the Chief Executive (up to £10,000) or Chairman (over £10,000), following the formal relevant new contractor's checks.
- 4.9.10 The CE has delegated authority to use contractors and to enter into contracts with contractors who have been accepted onto another RSL's approved list of contractors, where confirmation has been received in writing from that RSL that the contractor is on their approved list and has conducted work in an acceptable and satisfactory manner.

ADMINISTRATION OF CONTRACTS

- 4.10 Bonds or guarantees shall only be sought where the Homes and Communities Agency or other regulators so require or if a partnership requires one.
- 4.11 Payment on account to contractors of authorised contracts shall only be made in accordance with the contract on a certificate signed by, or on behalf of, the person named in the contract and shall show the gross value to date, retention money, amount paid to date and the amount therein certified.
- 4.12 The Chairman or Chief Executive may approve variation of contracts on their original terms and conditions by anything up to 10% of the original value. Above this level Board approval is required for scheme changes during contract. This may be delegated to an appropriate committee.
- 4.13 Where term contracts or schedules of rates have been employed, the designated officer shall submit a quarterly report to the Board setting out the values of works placed with each contractor.

PARTNERING

- 4.14 Where a formal partnership arrangement is to be entered into, the initial agreement shall be reached following competitive tender. This should normally involve considerations wider than scheme costs, in particular addressing issues such as service quality and housing plus factors. Authority to commit expenditure on purchases or works is delegated to the Chief Executive, provided these fall within the agreed programme and budget.
- 4.15 Board approval shall be required for any new partnering agreement.
- 4.16 The Board shall review the working of any partnering agreement annually and receive periodic reports of sums committed and expended under the agreement, highlighting any significant variations from the agreed programme, whether in terms of properties or costs.

5 PAYMENTS, BANKING AND BORROWING ARRANGEMENTS

5.1 CERTIFICATION OF INVOICES

Invoices shall be passed to designated officers, as listed in Schedule 1, to be checked for arithmetical or clerical errors and for certification. Certification by the designated officer shall be by full signature and shall indicate that:

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- the goods or services have been received in line with the purchase or works order and are satisfactory;
- the price is as agreed with the supplier.

5.2 Certified invoice up to the value of £2,000 shall be passed to the Designated Finance Assistant for authorisation. Certified invoices above £2,000 in value shall require the counter signature of the Chief Executive, Finance Director, Operations Director, or of a Board Member authorised in Schedule II as a cheque signatory. Authorisation shall be by full signature and shall indicate that:

- the expenditure has been authorised in accordance with Section 2 of these regulations;
- payment may be processed by the Finance Assistant or other authorised officer.

5.3 CHEQUE SIGNING/FASTER PAYMENT ARRANGEMENTS

Cheques shall be signed by two of the signatories listed in Schedule 2. Where cheques exceed £10,000, at least one signatory must be a Board member, unless the payment is for an approved capital budget, which the Chief Executive and Finance Director can authorise, but notify the Chairman at the next meeting with the Chief Executive. Exceptionally, two staff members may sign a cheque or make a faster payment to Inland Revenue or the Pension Providers (within the standard contribution rates) notwithstanding that the value exceeds £10,000.

5.4 An officer should avoid signing cheques in respect of expenditure which he/she has authorised or made payable in his/her favour, although this may be unavoidable.

5.5 The invoice shall be stamped and initialled by the cheque signatories. All requests for cheque signatures must be accompanied by the relevant invoice etc. which must have been certified by the designated officer.

5.6 It is recognised that most payments will be made by BACS and those payments can be made using the authorisation levels set out in this document. Copies of transactions will be kept and available for viewing by the Chairman at his/her regular meetings with the CE.

5.6 USE OF COMPANY CREDIT/DEBIT CARDS

The Association shall have a Credit Card, which shall have a spending limit not exceeding £5,000 per month. The Credit Card may be used only under the express authority of the Chief Executive, who shall be the only signatory to the Credit Card held by South Devon Rural HA.

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- 5.7 A separate credit card may be held by the Head of Care and Support for Forder Lane House purposes with a limit not exceeding £3,000 per month. The Credit Card for Forder Lane House may be used only with the express permission of the Head of Care and Support.
- 5.8 The Credit Cards may be used for any expenditure in or out of the office, where this is a more efficient means of settlement than invoicing. However it shall not be used as a substitute for invoicing and settlement by cheque or faster payment where this would be the normal means of payment.
- 5.9 The Credit Cards shall not be used to make cash withdrawals.
- 5.10 After use, a payment request form shall be completed for any use of the Credit Cards, in the same way as if a cheque were being requested. Both the payment record and a VAT receipt must be attached to the form.
- 5.11 The Designated Officer shall countersign the Credit Card record of use, in the monthly bank reconciliation.
- 5.12 Debit cards on the Association's main CAF account may be used where the payment is urgent or is deemed the best way of procuring goods. The Chief Executive and Finance Director will hold debit cards on behalf of the Association to be used in accordance with the financial limits set out in this document. These cards must only be used by these named officers and at no time share the PIN with any other member of staff, board member or member of the public. Debit cards should only be used when the credit card cannot be used either due to the financial value of the purchase or the suppliers payment restrictions, or where beneficial to the organisation to use the debit card to avoid unnecessary expenditure.

DIRECT DEBITS

- 5.13 Where a supplier will only accept payment by Direct Debit, the relevant contract must be signed by the Chief Executive, Finance Director or Operations Director.

SALARIES

- 5.14 The terms and conditions of employment of staff shall be set by the Board, and shall broadly follow the NHF Recommended Terms and Conditions of Employment for Staff in Small Housing Associations. The Board shall approve the overall budget for salaries.
- 5.15 Within the total annual salary budget approved by the Board, the Chief Executive has delegated authority to increase individual salaries where merited. A report on the reason for any such increase shall be kept on the individual's personnel file. A percentage average

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increase for staff salaries will be established within the overall budget and any proposed increase beyond this must be approved by the Board. The Chief Executive or Finance Director will provide a report stating reasons for the change.

- 5.16 The Chief Executive shall prepare a confidential report to the Board outlining any changes in the overall salaries budget, itemising the effect on the budget of and the rationale for any changes. The report shall not refer to individual salary changes.
- 5.17 The Chief Executive shall write to all members of staff to inform them of their new salaries for the coming year.
- 5.18 Following approval of the budget, but before the start of the new financial year, the Chief Executive shall present to the Designated Officer an approved schedule of annual salaries to be paid to individual employees.
- 5.19 The Designated Officer shall thereafter make salary payments to staff within the agreed salaries list and terms and conditions, by bank automated transfer, PAYE, pension and other deductions shall be paid by cheque/faster payment as above.
- 5.20 Salary payments shall be made on 15th day of each month, or the last working day prior to that date. By exception, Care Team staff may be paid weekly where they have expressed such a wish.

BANKING AND INVESTMENT

- 5.21 All arrangements with regard to the Association's bank accounts and the issue of cheques shall be made through the Board.
- 5.22 Where necessary, the Chief Executive or his nominee shall be responsible for the day to day arrangements for the investment of cash balances. The list of institutions with which money may be invested must be approved by the Board.
- 5.23 The Association shall have a Treasury Management policy, which shall be reviewed regularly, and which shall cover in more detail matters relevant to this section. (Standing Order 13.7 [iii]).

BORROWING

- 5.24 The Board shall be responsible for all arrangements in respect of the borrowing of funds. Board approval must be obtained before any agreement is entered into, and agreements to borrow must be signed by at least one board member and the Chief Executive or Chief Executive's delegate..

6 FINANCIAL RECORDS, INVENTORIES AND ACCOUNTS

FORMS OF FINANCIAL RECORDS

6.1 Records shall be held sufficient to comply with the Rules of the Association, the requirements of the Homes and Communities Agency, and the Statement of Recommended Practice; together with such other records as shall be deemed necessary by the Chief Executive and the Board. The Chief Executive shall establish a corporate diary for the Association which shall include:

- the frequency with which accounts shall be reconciled and trial balances extracted;
- timetabling to prepare the budget and to meet reporting requirements;
- timetabling for preparation and audit of the annual accounts.

PROPERTY REGISTER

6.2 The Chief Executive shall be responsible as the Secretary of the Association for the maintenance of a register of land and buildings acquired by the Association, incorporating a register of mortgages and other charges or encumbrances against the properties.

INVENTORIES

6.3 The Chief Executive shall be responsible for the maintenance of an inventory of office fittings, furniture and equipment (where purchase price exceeds £250).

6.4 All items which are readily “disposable” (especially IT or training equipment) shall be marked with tamper-proof labels, and the serial numbers recorded.

INFORMATION TECHNOLOGY

6.5 Information shall be stored, analysed and reported on by use of a networked computer system. The Association shall be registered under the Data Protection Act.

6.6 Accounting information shall be kept under password, and only the Chief Executive, Finance Director or Operations Director shall have access to those programmes. Only the Chief Executive, Finance Director and Operations Director shall have access to salary information, unless the Chief Executive delegates certain payroll duties to another member of staff.

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- 6.7 The Association may participate in the Devon Choice Based Lettings System, and information on applicants for housing may thereby be shared electronically with South Hams District Council and other RSLs.
- 6.8 All information shall be backed up daily, and back up records shall be kept off-site.
- 6.9 The Association shall have an IT Strategy which covers security arrangements relevant to financial procedures in more detail.

7 RENTAL INCOME (including service charges)

- 7.1 This section shall be read in conjunction with the Association's policies and procedures regarding rent setting, rent collection, arrears and evictions.
- 7.2 The Operations Director shall be responsible for ensuring the efficient collection of rents, and pursuit of arrears.
- 7.3 The Finance Director and Operations Director shall be responsible for ensuring:
 - a) the efficient day to day operation of the rent accounting system, and
 - b) approving any changes to the rent accounting system, for authorisation by the Chief Executive.
- 7.4 The Board shall approve a policy for debts to be written off. The Chief Executive shall report to the Board annually, or more frequently if necessary, any debts which are considered irrecoverable.
- 7.5 Cash received in the office shall be banked daily if it exceeds the limit for the office safe (currently £1,000). Pending banking, cash shall be lodged in a locked box, emptied daily.

8 INSURANCES

- 8.1 The Chief Executive shall be responsible for effecting all necessary insurances, subject to presenting an annual report to the Board and reporting any major changes in policy detail as they arise.
- 8.2 Officers shall give prompt notification to the Chief Executive of all new risks, properties or equipment which require to be insured and of any alterations affecting existing insurances.
- 8.3 Officers shall immediately notify the Chief Executive in writing upon becoming aware of any loss, liability or damage or any event likely to lead to a claim.
- 8.4 No admission of liability, waiver of rights, or promise of payment shall be made without the insurer's written consent. The Association's insurers provide a standard response to claims

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made against the Association, and only this response, in its precise wording, may be used. Such responses shall be made only by the Chief Executive.

- 8.5 At intervals of not less than three years, but not more than five years, competitive market enquiries shall be sought for the Association's insurances.

9 AUDIT ARRANGEMENTS

- 9.1 The Association's accounts shall be externally audited annually, as soon as possible after the financial year end (31st March), and in no case later than the end of June.
- 9.2 The Association shall consider seeking competitive tenders to carry out external audit, where it deems this will be advantageous to the Association
- 9.3 The Association shall undertake a continuous programme of internal audit, which shall not duplicate the work of our external auditors, but shall examine all systems and procedures to ensure compliance with the requirements of relevant regulatory bodies, and best practice, as appropriate to an association of its size and activity.

10 FRAUD

- 10.1 The Association is the custodian of public funds and shall make strenuous efforts to avoid the misuse of its funds, either directly or indirectly. The Association is committed to an effective anti-fraud and corruption strategy to encourage prevention, promote detection and identify a clear pathway for investigation. The Association's expectation is that Board Members, members and employees at all levels shall lead by example to ensure that high standards of probity and accountability are established and adhered to, and that personal conduct is above reproach at all times.
- 10.2 A principal purpose of these regulations is the avoidance of fraud, or more specifically to remove the opportunity of fraud. Reference should also be made to the Association's anti-fraud and corruption policy and procedures.
- 10.3 External and internal audit procedures shall be supplemented by regular checks by staff to ensure proper application of funds.

11. SUPPORTED AND RESIDENTIAL CARE ACCOMMODATION

- 11.1. The principles detailed elsewhere in this paper shall apply equally to supported and residential care accommodation managed by the Association, with the addition of the following provisions.

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- 11.2. The Chief Executive is responsible for day-to-day expenditure in the running of the supported and residential care accommodation, which responsibility may be delegated in whole or in part to the Head of Care and Support.
- 11.3. All arrangements for support, including the agreements on fee levels, are the responsibility of the CE, in consultation with the Head of Care and Support as necessary.
- 11.4. The Finance Director shall be responsible for recording and processing all receipts of fees due for care and support related services and shall advise the Operations Director (or other designated officer) of any shortfall in payment, to enable the exercise of proper control of such debts.
- 11.5. Tenants' monies and valuables should not normally be held by the Association.
- 11.6. Equipment within the supported and residential care accommodation must be maintained according to manufacturer's recommendations, and it shall be the Head of Care and Support's responsibility to ensure this. Where equipment fails and is beyond reasonable repair, the Head of Care and Support or other designated officer (dependent on level of authority) may purchase suitable replacements.
- 11.7. Grant funding – It is part of the Head of Care and Support's function (in conjunction with the Chief Executive), to maximise income from statutory, charitable and grant-making sources to enhance the quality of life of residents. Proposals and progress on this area shall be reported at least annually to the Board.
- 11.8. Fundraising – Where charitable fundraising takes place, money raised shall be held by the Association for the exclusive benefit of residents or communities of the supported and residential care accommodation.

SCHEDULE I - DELEGATIONS OF AUTHORITY

Revised Delegation of Authority (approved September 20012)

Budget Head	Designated Officer	Authorisation of invoice	Limits to authority to lodge orders
Repairs	Housing Assistant (all staff may place orders)	Designated Finance Assistant to limit of £2,000. Invoices above £2,000, and all orders lodged by the Housing Assistant, to be countersigned by Chief Executive/Finance Director or Operations Director to a limit of £10,000 or by Board Member authorised in Schedule II. Invoices over £10,000 to be signed by the Chief Executive and a Board Member authorised in schedule II.	Up to £500, any staff member may order a repair. Between £500 and £10,000, Chief Executive / Operations Directors counter-signature/ Finance Director required plus Designated Officer.
Service charges	Operations Director	}	Up to £500 Designated Officer Above £500, Chief Executive/ Finance Director or Operations Director counter-signature required plus Designated Officer.
FLH	Head of Care and Support	}	
Office supplies	}	Designated Finance Assistant of £2,000. Invoices above £2,000 to be countersigned by Chief Executive/Finance Director/Operations Director to a limit of £10,000 or a Board Member authorised in Schedule II. Invoices over £10,000 to be signed by the Chief Executive and a Board Member authorised in schedule II.	
Travel	} Finance Assistant		
Loan Interest	} Finance Assistant	}	
Training	} Finance Assistant	}	
Miscellaneous	}	}	

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Board expenditure	Finance Assistant	Chief Executive/Finance Director/Operations Director or Chairman	Up to £500 Designated Officer. Above £500, Chief Executive's/Finance Director/Operations Director counter-signature required plus designated officer.
Development	Chief Executive	Chairman/Vice-Chairman	As approved by the Board.
General	Finance Director	In the absence of the Chief Executive where smooth and efficient running of the Association is needed	The Finance Director or Operations Director will act as Deputy Chief Executive and inherit all powers and financial limits in such cases where approved by the Chairman and ratified at the earliest time through a Board meeting.

All of the above require written quotations when expenditure exceeds £5,000 and formal tenders over £10,000. The tender process as set out in para 4.9 above may be used at lower levels if considered appropriate. For all levels of authority, where the title of the post changes (but not levels of authority or responsibility) during the period it shall be deemed appropriate for that person to have delegated authority as listed above.

SEGREGATION OF DUTIES

As a general principle, the roles of placing an order for work, goods or services and of authorising the invoice for payment should be segregated. Thus, the person placing an order for work, goods or services should not be the person authorising the invoice for payment. In stating this, it is acknowledged that in a small organisation like South Devon Rural HA this may not always be possible.

As an exception to the general principle, the Chief Executive may specifically delegate responsibility to the Finance Director or the Operations Director to deputise during his planned absence, as needs dictate. Such authority shall be limited to the raising of orders valued up to £2,000. Should orders exceeding £10,000 be required in the absence of the Chief Executive, or should his absence be unplanned, then the Finance Director shall request the counter-signature to the Order of a Board Member authorised as a cheque signatory in Schedule II where this is required if the expenditure does not form part of an approved budget.

Agenda Item 3a

Any use of this delegated authority shall be reported to the Chief Executive immediately upon his return, or, if this is expected to be delayed beyond 14 days, to the Chairman of the Board, and shall be brought to the attention of the cheque signatories and recorded when payment is made.

SCHEDULE II

LIST OF AUTHORISED SIGNATORIES

Cheque Signatories

The following are authorised cheque signatories for our accounts with CAF Bank.

Chairman	Rod Hewett
Vice Chairman	Prana Simon joint James Davis

Chief Executive	Steven Prime
Finance Director	Claire Barnett
Operations Director	Francis Bourke
Finance Assistant	Linda Bellamy
Head of Care and Support	Bonnie Van Beek

Homes and Communities Agency Signatories

The following are authorised signatories for all Homes and Communities Agency scheme and grant submissions, including electronic submissions:

Board Members	James Davis Prana Simon
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Chief Executive	Steven Prime
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Rural Homes Limited (Acting as Agent for SDR)

Alan Fox

SOUTH DEVON RURAL HOUSING ASSOCIATION LTD

Board of Management

Author Claire Barnett

Agenda Item (4a)

Treasury Report

FOR INFORMATION

Purpose

To ensure the Association complies with the Regulatory Code, Best Practice and promotes continuous improvement.

Report

The tables below show South Devon Rural Loans and cash balances held in various bank accounts.

Summary of Loans Received and Made as at 28th June 2017

Bank	Amount £	Rate %	
Lloyds TSB	4,000,000	5.495	30 years to Sept 2037
Lloyds TSB	3,000,000	3.565	25 ½ years to Sept 2037
Triodos	2,795,217	3.5	Repayments started April 2015
Totnes TT	35,000	5	To finance PV panel installations
Totnes TT	16,667	4	To finance PV panels at Sutcliffe CI
CAF Loan A 10111545	276,800	2.5	2.25% above base rate Maximum loan £2,165,000 non utilisation fee 1.125% pa
CAF Bramble	700,053	2.5	2.25% above base rate
CAF Loan B 10112560	2,057,772	2.5	£2.1m Loan for the purchase of Broomborough and Kellock Drive 2.25% above base rate, min 2.25%
Total Borrowings	12,881,509		Rules allow up to £25,000,000
Rural Homes Ltd	15,000	6	Further advance of £2,000 made 14/2 and £1,000 made 14/3

Total principal to be repaid in 17/18 is £200,815.

Summary of Accounts as at 28th June 2017

Bank	Investment £	Terms	Rate%	Comments
CAF Platinum	26,743	30 day notice	0.15	30 day notice
CAF Gold	160,267	Deposit	0.05	
CAF current	67,901	Current	0.00	Main account
Santander	250,083	Call account	0.49	No notice required.
Lloyds TSB	13,361	Current	0.00	Cash & Cheques now banked at Lloyds
Lloyds 32 day notice	60,000	32 day notice	0.32	New deposit placed June 17

Recommendations

To note the loans and balances held.

Agenda Item 5a Appendix 1							
Performance Dashboard	Performance 2016/17	QTR 1	QTR 2	QTR 3	QTR 4	Target 2017-18	Commentary
ASSET MANAGEMENT							
Annual Gas Safety Checks Completed	100%	100%				100%	
Emergency	100%	100%				100%	
Urgent	100%	95%				95%	
Contractor Satisfaction	98%					90%	
RENT ARREARS							
GN Tenant rent arrears as % of annual debit	0.59%	0.58%				1.25%	
Forder Lane resident rent arrears as % of annual debit	1.20%	1.22%				3.00%	
Total Rent amount written off as a % of rent debit	0.08%					1.00%	
ALLOCATION AND VOID MANAGEMENT							
Void loss on homes as a % of gross rent	0.07%	0.21%				1.00%	
Average re-let time (including major works)(days)	15	19					
Average relet time (excluding major works)	13	16				14	Over target due to delays in 2 properties to facilitate relocation of Brimhay residents.
Number Of Lettings	18	9					
% Of Lettings to BME Households		0					
ANTI SOCIAL BEHAVIOUR							
Total no of ASB Cases	4	0					
% Of ASB Actions Completed On Time	100.00%	N/A				90.00%	
No of ASB cases open	2	0					

South Devon Rural Housing Association Limited

Author (s) Francis Bourke

Board of Management

Agenda Item (5a)

Performance Dashboard – Quarter 1

FOR INFORMATION

Purpose

To ensure the association monitors performance in key service areas, and advises the board of progress, improvements and areas that may need improving.

SDR monitor performance in a number of ways, to ensure quality of customer service and value for money. One of the ways SDR monitors performance is by using Key Performance Indicators (KPI's). This performance, is monitored, analysed and acted on by the management team.

The performance dashboard (**Appendix 1**) show how SDR are doing on some of the main KPI's. Green indicators show we are meeting or exceeding targets, amber indicators shows we are within 5% of targets, and a red indicator shows we are out of target and need to improve.

South Devon Rural Housing Association Limited

Author (s) Francis Bourke

Board of Management

Agenda Item 5b

Lettings Report – Quarter 1

FOR INFORMATION

Purpose

To show the board all lettings activity in quarter 4, including Forder Lane House.
See attached table.

South Devon Rural Housing Association

Lettings Report Qtr 1

Agenda Item 5b

Period:	01/04/2017	To:	30/06/2017			
Address	Property Type	Family Make Up	Void	Ethnicity	Date Let	Comments
12 Brimhay Bungalows	1 Bed Bungalow	Single person	11/05/14	White British	11/06/17	
31 Broomborough Court	2 Bed Flat	Couple with 1 child	17/04/17	White British	11/06/17	
25 Broomborough Court	1 Bed Flat	Single female	08/05/17	White British	21/05/17	
3 Hillside Terrace	1 Bed Flat	Single Male	08/05/17	White British	14/05/17	
1 Moreleigh Heights	3 Bed House	Couple with 3 children	15/05/17	White British	21/05/17	
5 Sutcliffe Close	2 Bed Bungalow	n/a	29/05/17	n/a	VOID	
11 Bramble Close	3 Bed House	Single person with 3 children	05/06/17	White British	18/06/17	
3 Brimhay Bungalows	1 Bed Bungalow	n/a	12/06/17	n/a	VOID	
4 Sutcliffe Close	2 Bed Bungalow	n/a	12/06/17	n/a	VOID	
16 Hartley Court	2 Bed Flat	n/a	19/06/17	n/a	VOID	
2 Broomborough Court	1 Bed Flat	n/a	26/06/17	n/a	VOID	
21 Forder Lane House	Room in Care Home	Single male	17/03/17	White Other	30/04/17	
9 Forder Lane House	Room in Care Home	Single female	28/03/17	White British	04/04/17	
10 Forder Lane House	Room in Care Home	Single female	14/04/17	White British	02/05/17	
8 Forder Lane House	Room in Care Home	Single female	17/04/17	White British	04/05/17	
7 Forder Lane House	Room in Care Home	Single female	18/04/17	White Other	18/04/17	

6 Forder Lane House	Room in Care Home	Single male	01/05/17	White British	02/05/17	
6 Forder Lane House	Room in Care Home	Single male	25/05/17	White British	31/05/17	
8 Forder Lane House	Room in Care Home	Single female	25/05/17	White British	04/06/17	
6 Forder Lane House	Room in Care Home	n/a	08/06/17	n/a	VOID	
8 Forder Lane House	Room in Care Home	n/a	20/06/17	n/a	VOID	

Members are recommended to note the report.

South Devon Rural Housing Association Limited

Authors (s) Francis Bourke

Agenda Item (6)

Board of Management

Complaints Monitoring

FOR INFORMATION

Purpose

That the Board note complaints and actions taken. The Association maintains a complaints monitoring register and as part of its desire to promote continuous improvement, the Board receives regular reports on complaints the Association has received. The outcomes help to develop and improve service delivery.

Complaints Monitoring

All complaints received by the Association are recorded. All complaints at stage 2 and above are reported upon in this report in more detail. All complaints which progress to stage 3 will be the subject of a separate written report in accordance with the Association's policy.

Record of complaints in the period 01st April 2017 - 30th June 2017

Stage 1	Stage 2	Stage 3	Comments

Board are recommended to note the report.

Agenda Item 6a

South Devon Rural Housing Association Limited

Authors (s) Francis Bourke

Board of Management

Anti Social Behaviour
Monitoring

FOR INFORMATION

Recommendation

That the board note details and actions taken regarding anti social behaviour cases.

The Association maintains a register monitoring reports and incidents of harassment and anti social behaviour and as part of its desire to promote continuous improvement. The outcomes help to develop and improve service delivery.

Anti Social Behaviour and Harassment Monitoring Period 01/04/17 to 30/06/17

Agenda Item 6a

Date Complaint Received	Target Response Date	Actual Response Date	Tenancy Type	Complaint Details	Actions Taken	Responsible Officer	Status: Open/Closed
25.11.16	25.11.16	25.11.16	Assured Shorthold Tenancy	Tenant physically assaulted neighbour.	Notice served, possession order obtained	SC	Closed SUTC05 Closed. Tenant Evicted May 17.
29.03.17	29.03.17	29.03.17	SHIRE Assured Shorthold Tenancy	Youth nuisance	Police requested joint visit to discuss tenancy implications of youth nuisance. Joint visit arranged.	SC	Open AVON06 Closed. Youth has moved out of property. Apr 17.

South Devon Rural Housing Association Limited

Authors (s) Francis Bourke

Board of Management

Gas Servicing Report

FOR INFORMATION

Purpose

To provide board members information on the management of gas servicing.

The Association maintains a Gas Servicing register and as part of its desire to promote continuous improvement, the Board receives regular reports on progress on the delivery of the Gas Safety and Servicing Contract. The current contract is placed with Evans & Co. Where individual properties have not had their annual service and are 3 months or more overdue, an action plan to ensure servicing is carried out will be reported upon below.

Monitoring Report

Records of all SDRHA's properties with gas appliances are kept along with current service records in accordance with the Gas Safety and Servicing Policy and Procedure.

Records of Servicing/Safety Checks

01st April 2017 to 30th June 2017

Number of Properties	Number Serviced to date	Number outstanding over 3 months	Comments
108	108	0	Servicing visits ongoing on schedule

The Board are recommended to note the report.

SOUTH DEVON RURAL HOUSING ASSOCIATION LTD

Board of Management

Agenda Item 8

Care and Support

FOR INFORMATION

Purpose: To inform the Board of Management of the performance and monitoring of Forder Lane House Care Home, Day Care and Support Projects.

Staffing Report

Staffing remains stable.

We now have now recruited a new deputy manager Claire Harrison who will be replacing Jonathan Cowen on the 17th July.

The staff sickness levels in the month of June/July have been unusually high, this will continue to be managed under the Bradford Point System which remains effective.

Staff Training and Development

Training Requirement	Statutory/Ordinary	Number of staff trained	Dates Of Training
Moving and Handling	Statutory	All Staff	11 th April 17
Adult Safeguarding	Statutory	All staff	24 th April 17
Report and record Keeping	Statutory	All Staff	10 th May 17
People moving and Handling Trainer /assessor Course	Statutory	Deputy Manger	4 th 11 th 18 th and 24 th May 17
Dysphagia Awareness workshop	Statutory	3 Staff	8 th June 17
First Aid	Statutory	All Staff	28 th July 17

Occupancy levels July 2017

Number of Rooms	Number Occupied	Comments
25	24	

Activities

The residents continue to attend Tia Chie on a Friday and trips out on the mini bus. We have re introduced bingo, which has proved very successful, we also invited the Brimhay residents of which one attended. One of our residents holds a fortnightly quiz in the upstairs lounge and the cook provides fresh cakes and refreshments.

We are starting to plan for our yearly garden party which we are proposing to hold on the 26th August

Managers Report

We continue to build relationships with the Intermediate Care Team and receive regular referrals for short and long stay residents.

We have completed the redevelopment of our paperwork as well as updating and reviewing our care plans.

One of our residents, a qualified social worker who is in her mid sixties moved in to Forderlane at the beginning of January. The resident was under going treatment for cancer as well as being unable to walk due to being knocked over by a vehicle. This resident is now walking and will be leaving Forderlane at the end of July. The resident will be writing personally to Steve Prime, to show her gratitude for all the assistance the staff at Forder lane have given her during her rehabilitation. Her words were "I came to Forderlane in a wheelchair and will be walking out of here without the need for a wheelchair and able to drive my own car home". As a social worker she stated that she had visited plenty of residential homes in her time but that Forder lane was something else and that she would come back to visit on a regular basis.

Hospital Admissions

1 hospital admission

Health and Safety

Report

The Association monitors incidents, accidents and near misses

Monitoring Report

Records of accidents and near misses

May 2017- July 2017

Accident book entries	Accidents	Comments
14	14	Most falls minor/skin flaps or no injury
CQC reported	0	Person hospitalised broken leg/ head injury
Ambulance called	2	Treated at scene minor injury

Two of the accidents were reported under RIDDOR requirements.

Recommendations

Board Members are recommended to note the report

SOUTH DEVON RURAL HOUSING ASSOCIATION LTD

Board of Management

Author Steve Prime

Agenda Item 9

PROJECT REPORT – Consider Confidential

FOR INFORMATION

Purpose: To inform the Board of Management of progress on key and emerging projects.

1 Staffing Report

Minnie Dabinett successfully completed her apprenticeship with SDR.

2 Sub-Market Rental Scheme (SHIRE)

SP has approached SHDC to request Brimhay 'affordable rent apartments' be taken into the SHIRE scheme with an appropriate financial equity stake. (This will be subject to further financial appraisal).

4 South Devon House

Offices fully let. Staff are now parking in the public car park as all parking spaces let to lessee's.
Remaining window fitted to ground floor.

5 New Business Opportunities

- Rural Homes Limited are following a number of development opportunities for SDR.
- Rural Homes Limited have signed a development agreement with SWHS.
- SP is actively searching for local housing stock which is either with small organisations (under 100 units) or outlying from larger housing associations and therefore have potential to be acquired by SDR.

6 George Ellis Project

A property has been sourced and solicitors instructed.

Recommendations

Board Members are recommended to note the report.

**REPORT OF THE BOARD OF MANAGEMENT
AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017
FOR SOUTH DEVON RURAL HOUSING ASSOCIATION LIMITED**

SOUTH DEVON RURAL HOUSING ASSOCIATION LIMITED

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SOUTH DEVON RURAL HOUSING ASSOCIATION LIMITED

**ASSOCIATION INFORMATION
FOR THE YEAR ENDED 31 MARCH 2017**

BOARD OF MANAGEMENT

Mr J Davis	Elected as Chairman March 2017
Mr R Hewett	Resigned as Chairman March 2017
Ms P Simon	Vice Chairman
Mrs C Burrows	
Mr A Venning	Resigned May 2016
Mr S Stewart	Elected July 2016
Mr S Petty	Elected September 2016
Mr R Hands	Elected January 2017
Mr A Munroe	Elected March 2017

CHIEF EXECUTIVE AND SECRETARY

Steven William Prime

REGISTERED OFFICE

South Devon House
Babbage Road
Totnes
Devon
TQ9 5JA

South Devon Rural Housing Association Limited is an Exempt Charity and is a registered society under the Cooperative and Community Benefit Societies Act 2014 14949R.

The Association's Homes and Communities Agency (HCA) registration is LH0920.

AUDITOR

RSM UK Audit LLP
St Philips Point
Temple Row
Birmingham
B2 5AF

BANKERS

CAF Bank Ltd
25 Kings Hill Avenue
Kings Hill
West Malling
Kent ME19 4JQ

SOLICITORS

Tozers	Stephens Scown
Southernhay West	Curzon House, Southernhay West
Exeter	Exeter
Devon	Devon
EX1 1UA	EX1 1RS

SOUTH DEVON RURAL HOUSING ASSOCIATION LIMITED

REPORT OF THE BOARD OF MANAGEMENT FOR THE YEAR ENDED 31 MARCH 2017

The Board of Management presents its report with the financial statements of the Association for the year ended 31 March 2017.

PRINCIPAL ACTIVITIES

The principal activities of the Association in the year under review were those of providing quality accommodation for people on low incomes and residential care. The Association is a registered society under the Co-operative and Community Benefit Societies Act 2014 and is registered with the Homes and Communities Agency. Rural Homes Ltd is a wholly owned subsidiary of the Association, so the consolidated accounts include both the Association and the Subsidiary. Rural Homes Ltd has gradually increased its activity, working both with the Association and with another housing association. The project management will increase further in 2017/18.

REVIEW OF BUSINESS

The results for the year and financial position of the Group and Association are as shown in the financial statements. This has been a very positive year for South Devon Rural.

The Association had a budgeted surplus of £53,000 excluding sales, £283,000 including sales. The surplus on operating activities before taxation is £246,000 representing a decrease of £13,000 on the previous year surplus of £259,000. This included surplus on the sale of 2 properties of £203,000. The main reasons for the reduction in surplus was expenditure incurred relating to the Brimhay scheme, which should have been redeveloped but delayed by planning issues.

Turnover for the year has increased from £2,003,000 in 2016 to £2,140,000 in 2017 an increase of £137,000 (6.8%). The operating surplus has increased by £68,000 (14.5%) from £469,000 in 2016 to £537,000 in 2017.

The Association's net assets of £1,055,000 have increased by £246,000 from £809,000 in 2016. It should be noted that fixed assets are shown at book value of the properties owned by the Association, which is currently significantly below their market value. The Association shows its assets held as social housing properties at cost, with the table showing housing properties carried net of depreciation at £17,575,000. Note 11 of the accounts contains more detailed information.

South Devon Rural made further additions to the housing stock during 2017.

The Association was approached to purchase a S106 property in a Rural area. Hillside Terrace, Lapford a 2 bed flat was acquired in April 2016 and has been let as an affordable property.

After a successful and smooth stock transfer in 2016, Sovereign Housing Association asked if the Association were interested in acquiring 44 units in Totnes. This stock transfer was completed in October 2016 with the support of CAF bank who financed the purchase. This has been extremely positive for the tenants and South Devon Rural. The feedback from the tenants has been very positive commenting on the local support provided and resolving issues in a prompt manner.

Four 3 bedroom properties were built in Moreleigh. They are part of the SHIRE (South Hams Intermediate Rent Enterprise) scheme. These were let to local families in September 2016.

There are a number of development projects including the Brimhay development which Rural Homes Ltd and South Devon Rural hope to be working on in the next year to deliver more affordable rented properties to local people. Further funding is currently being negotiated to fund these schemes. The intention is to have a development program that is secured on existing assets to develop homes on sites with market sales, which following the sales, will enable a continued program of affordable homes being built.

Forder Lane House, the Association's residential care home continues to perform well, with voids of 4.73% (2016: 2.4%) as a percentage of total rent for the year.

Housing Properties at cost before depreciation have increased from the 2016 figure of £18,157,000 to £20,371,000. This includes 35 properties purchased under the SHIRE scheme with a cost of £4,971,000. The net book value of the Association's fixed assets has increased from £15,594,000 to £17,575,000. Details of fixed assets are shown in Note 11.

South Devon House is a thriving business hub, with a mix of longer term rentals, as well as providing the registered offices for the Association. Further office space was created during 2016/17 and the offices are all fully let with waiting lists.

SOUTH DEVON RURAL HOUSING ASSOCIATION LIMITED

**REPORT OF THE BOARD OF MANAGEMENT
FOR THE YEAR ENDED 31 MARCH 2017**

The Work Hub provides start up businesses with a range of services, from a postal address only, to a fully serviced office at affordable prices.

A community fund has been established to which communities in the South Hams and Teignbridge areas have access. The fund is available to all residents. Funds were recently used to help a local food bank and support a local Rugby club.

The Association reviewed its asset management policy in March 2015. This is driven by decent homes standards and value for money. It was agreed at the March 2015 board meeting, subject to HCA approval to sell a void Grade II property in Dartington, as the Association found it challenging to maintain the property to Decent Homes Standard and the repair costs were substantially higher than other stock held. The Association has HCA approval to sell 6 properties in Dartington. 2 properties have been sold. The remaining 4 properties will only be sold once they become vacant.

There is a planned component replacement programme of £1million over the next 5 years to ensure all properties are well maintained. The association spent £119,000 on components in 2016/17.

The Association continues to manage its stock very well. Housing arrears as a percentage of total rent receivable were 0.59% (2016: 0.55%) after excluding Housing Benefit due, but not yet received and 1.1% (2016: 3.57%) including Housing Benefit. Total rent losses from housing voids were 0.07% (2016: 0.005%).

RENT SETTING POLICY

The Association has a commitment to convert rents to affordable rents. Each void property is reviewed to see if suitable for conversion before relet. 5 properties were relet as affordable rents which will generate an additional £8,000 per annum. The 1% rent reduction has continued to be applied in 2016/17 to existing tenancies, which has resulted in less cash available to reinvest in further social housing properties. The rents for Forder Lane House are not subject to the same government policy and were not changed for existing tenants in 2016/17.

NHF CODE OF GOVERNANCE

Mr R Hewett was appointed Chairman at the Board Meeting on 26 October 2016. Ms P Simon and Mr J Davis were appointed Joint Vice Chairman at the Board Meeting on 26 October 2016.

The Board of Management complies with the principal recommendations of the NHF Code of Governance (2015). There are some areas that the Board still has to implement.

Details of the members of the Board of Management are shown on page 2. In accordance with its rules one third of the Board of Management retires each year. There are 3 new potential board members currently undergoing induction who should join the Board in 2017/18.

SOUTH DEVON RURAL HOUSING ASSOCIATION LIMITED

REPORT OF THE BOARD OF MANAGEMENT FOR THE YEAR ENDED 31 MARCH 2017

Value for Money (VFM)

Our definition of VFM is simple – we want to produce as much value as possible for the money and resources we have available. The value we produce is directly related to our social purpose as set out in our mission statement which is as follows:

SDR is a socially responsible business delivering quality homes and support services which change people's lives. We are engaged and innovative; and work in collaboration with others to enhance the wellbeing and independence of individuals and communities.

For us, therefore, achieving VFM is about making a bigger difference by delivering quality homes and the best support services we possibly can with the resources available. We will do this mindful of the legitimate and sometimes competing interests of our key stakeholders: tenants, local communities, local partner organisations, taxpayers and funders.

Our strategic approach to VFM and use of resources:

Our VFM strategy may be summarised as:

- being clear about what we do – our purpose, objectives and the value we produce
- recognising how our operating context influences what we do:
 - the needs and aspirations of our stakeholders, particularly the profile of our customers,
 - local and national context.
- ensuring the system of value production is optimised:
 - do the right things – a business plan that focuses resources on the right activities by making informed choices to achieve our corporate priorities
 - with the right assets - ensure we have the right physical and human assets for the right cost
 - in the right way – efficient and effective delivery
 - using the right tools – we need the right tools to allow us to evaluate success and apply learning – to check we have delivered the right outcomes, including making a surplus and efficiency gains for reinvestment in our social objectives.

Our embedded approach to the delivery of VFM on a day to day basis:

Our Board head up the association's approach to VFM holding the executive team to account for VFM performance.

The need to maximise VFM is embedded as a culture of the association. An Investment In People (IIP) assessment was carried out at SDR, which incorporated Value For Money as its assessment theme. SDR were awarded the IIP accreditation, with a number of positive comments on its approach to Value For Money, and have continued this momentum.

We are part of a benchmarking group of housing associations in the Southwest of England. We use this to compare our performance to others and identify how we can improve the way we deliver our services.

Our VFM achievements and plans are reported using this annual self assessment and in our newsletters and annual report to residents.

What we have achieved over the last twelve months to 31 March 2017:

Installation of Solar Panels: (Social Value)

Further to the installation of solar panels on a number of SDR properties, through SDR funding or working in partnership with local community providers, this supports customers in reducing their fuel bills and also reduces the carbon footprint, and has generated income for SDR of £16,409 in 16/17.

Responsive Repairs

Further to the outcome of the responsive repairs pilot in 2014/15, West Country Maintenance Service (WMS) have been managing SDR's response repairs throughout 2015/16, and 2016/17. There has been a continued reduction in individual job repair costs and increase in customer satisfaction. This arrangement will continue during 2017/18 and will be reviewed regularly through budget meetings and contract meetings, with a possible view of a more formal arrangement. Customer satisfaction in this area has improved, and recorded at 98% in quarter 4 2016/17. In addition to receiving customer satisfaction information

SOUTH DEVON RURAL HOUSING ASSOCIATION LIMITED

REPORT OF THE BOARD OF MANAGEMENT FOR THE YEAR ENDED 31 MARCH 2017

from WMS, SDR also carry out further surveys. Part of SDR's quality assurance program is checking the checker, i.e. when a gas safety check has been carried out, SDR will commission another independent engineer to check that recent safety check.

This decision supports SDR's Value For Money objectives, as there will be a benefit in resources such as staff time, and allowing SDR more time to focus on compliance and business analysis. We will retain some key contractors for some works, such as gas servicing.

Asset Strategy: (Social Value)

Further to implementing a planned maintenance programme, it identified that the 6 Grade II cottages owned by SDR repairs cost at least double an average general needs property. They will also require significant spend on planned maintenance in the coming years.

The sale of these properties will give the opportunity to build new homes, which will be easier to maintain, cost less to run, and perform more efficiently for tenants. 2 of the Grade II properties have now been sold, 1 this year, 1 in the last financial year allowing £470,000 cash to reinvest in further development opportunities, such as building more affordable homes.

Performance/Benchmarking:

As a member of the Small Provider Benchmarking group, SDR can measure our performance with similar sized providers. SDR achieved upper quartile in key performance indicators.

Through improving our performance and quality, this can reduce resource costs, for example in collecting rent arrears or managing anti social behaviour. Improving service delivery, supports community projects and improving customer satisfaction.

Information Technology (IT):

Websites for the Totnes Work Hub, SDR, Forder Lane House and Rural Homes Ltd have been updated. These changes include a more customer friendly version which can be accessed from any mobile phone or Ipad through an app.

Training on a number of areas on OMNI (SDR's IT system) has been received which supports improved business analysis and good practice.

SDR have implemented a new phone system, which supports business analysis, free calls, and an improved customer service experience. This is a more efficient system as the phones are transportable.

SDR have agreed a new broadband provider reducing costs by up to 31.5%.

SDR have implemented new housing software called My Tenancy, which enables tenants to access their rent accounts, personal details and report a repair.

Re organisation of Staff duties:

This has enabled more efficient delegation of tasks and duties, which supports resources at senior management level. This supports delivering an improved customer service to tenants.

As noted earlier, achieving VFM is about making a bigger difference by delivering quality homes and services with the resources available. We do this by delivering value through our assets and operations.

This reorganisation has included employing a part time maintenance inspector, recruiting a new housing officer and housing apprentice and merging a repairs role with housing assistant role. This ensures an increased, focused and efficient housing management service to customers.

Financial return on assets:

The association aims to invest in the right properties, to the right standard, in the right places, for the right costs, for the right return.

The association has a very varied property portfolio. The financial return on these assets is generated primarily from the rental income less the costs of managing and maintaining the property and the interest costs from the property's funding.

SOUTH DEVON RURAL HOUSING ASSOCIATION LIMITED

**REPORT OF THE BOARD OF MANAGEMENT
FOR THE YEAR ENDED 31 MARCH 2017**

The table below shows SDR's return on assets for the year ended 31 March 2017 and the previous two years.

	31 March 2015	31 March 2016	31 March 2017
Association Properties (at cost)	16,619	18,157	20,371
Surplus before financing costs	461	469	537
Return on assets	2.77%	2.58%	2.64%
No of Properties	259	271	316

The surplus generated is re-invested partly to maintain existing stock and partly to generate new returns through social housing and new income streams. The proportion of our surplus that is used for existing housing and to generate new housing and income varies from year to year.

As you can see the return on assets is stable, but the aim is to invest in additional housing provision which gradually increases the return SDR receives in surplus from additional rental incomes.

We have been working to increase the return on our assets in the following ways:

i) Improving the quality of our homes:

Over recent years we have been building new homes to a high environmental standard. These are improving on older properties which have a higher level of maintenance costs and are of a lower standard from an environmental point of view.

SDR have reviewed spend on replacing components, which has resulted on increasing the overall budget for the next 4 years, delivering improvements, such as new kitchens, bathrooms, heating, windows & doors. The aim will be to meet and exceed our component replacement plan.

ii) Delivering economies of scale:

Some of the costs of property management are fixed in nature and therefore the return from the asset portfolio can be increased by growing the portfolio and creating economies of scale.

Financial return from other services:

In addition to return generated from property assets the association has increasingly been generating value and income from the provision of management services to other providers.



SOUTH DEVON RURAL HOUSING ASSOCIATION LIMITED

REPORT OF THE BOARD OF MANAGEMENT FOR THE YEAR ENDED 31 MARCH 2017

Social Return on Investment:

The value generated by the association's activities is much wider than the financial returns noted above. The association also generates social and environmental returns.

We have identified the following ways that we delivered social and environment returns during the year ended 31 March 2017, through providing solar panels to properties supporting customers to have reduced fuel bills.

SDR acquired 42 properties from Sovereign Housing, not only has this increased rental income for SDR, this has enabled tenants to receive a prompt more localised service to tenants, which Sovereign could not provide.

Social return from the provision of housing:

By the end of year ended 31 March 2017 we were providing homes to 283 households. SDR also manage a further 60 homes for other organisations.

As well as generating an economic return for the association, providing housing generates social returns in the form of outcomes for residents, the local community and the country as a whole. Through using local contractors and suppliers this also generates further income and employment to the local community.

The outcomes for residents from the provision of a home, based on feedback from our residents, include:

- Independence
- Increased confidence
- More privacy
- Autonomy and control
- A sense of safety
- Psychological well-being
- Improved relationships
- Greater sense of community and belonging
- Reduction in need for other services such as the NHS/Police
- Increased chance of employment

Developing homes also provides work for those involved in developing the properties and providing the services to those properties over their life.

Research undertaken in our sector also indicates new housing provides outcomes for the local community around each home. New homes can help revitalise an area, local businesses benefit from the trade from residents and local schools can benefit from additional pupils.

Environmental returns:

During the year ended 31 March 2017 we received income of £16,409 from our photovoltaic cells which are on 77 of our properties. In addition these cells reduced the energy costs of the buildings for the residents.

As a result the association reduced its impact on the environment reducing the Association's carbon footprint and reduced energy costs to tenants.

Costs of delivering services:

SDR benchmark the cost of providing our services with a number of similar sized housing associations in the Southwest through a benchmarking group - South West Benchmarking Group (SWBM). The average for 16/17 is not yet available, this table will be updated once the data has been collated, so the 14/15 figures are shown for comparison.

SDR is a very distinctive organisation with other services making up a significant element of our core services and our stock is spread across a wide geographical area. This means that comparison of costs have to take account of the above.

SOUTH DEVON RURAL HOUSING ASSOCIATION LIMITED

**REPORT OF THE BOARD OF MANAGEMENT
FOR THE YEAR ENDED 31 MARCH 2017**

Measure	SWBM (Average) 15/16	SDR actual 2016/17 (gen needs)
Weekly management cost per property	£20.73	£22.02
Weekly operating cost per property	£87.53	£71.48
Weekly routine maintenance cost per property	£8.80	£5.98
Operating costs as % of turnover	71.18%	63.59%

Weekly management costs have always been higher than the benchmark group. There still needs to be further work to allocate costs to appropriate service areas to reduce the management overhead. Our costs for delivering services are higher than the benchmarking group. One of the key reasons for this is the dispersed nature of our stock.

Back office cost savings:

In addition to generating economies of scale through growth, more value for money can be generated by making savings in back office costs whilst still maintaining the quality of service.

The setting up of Rural Homes Limited as SDR's development and project management company will identify the true cost of SDR's development activity, but will also allow for any profit generated from commercial project management, to be gift aided to SDR. It is anticipated that anything up to £400,000 of profits may be generated and donated in the next few years.

Performance:

We collect performance data which is reported quarterly to the Board and back to our tenants via the annual report and newsletters. The table below shows a selection of key performance indicators as at 31 March 2017 along with a comparison to the average performance of the SWBM group.

Measure	SWBM average	SDR target 2016/17 (gen needs)	SDR actual 2016/17 (gen needs)
General needs rent arrears	3.20%	2%	0.59%
Rent lost through voids	0.51%	1%	0.7%
Average re-let time	22 days	14 days	16 days
Emergency repairs completed to target	100%	100%	100%

The performance in all SDR's key performance indicator dashboard was above target except average relet time. This under performance is due to 1 property being allocated under a sensitive let process which delayed the allocation.

Improvement plans for the current year to 31 March 2018:

SDR plan to improve the value we deliver from our resources in the following ways.

Increasing returns through new business:

Areas incorporated into the new business plan, will be strengthening governance, improving asset management analysis to support strategic decisions, identify new business opportunities in the care sector, identifying development opportunities including partnership working and utilising Rural Homes Limited, increasing revenue profile and reputation in selling housing management services to other organisations.

Achieve value for money savings:

We will therefore be continuing to look for value for money savings from our suppliers through the use of tendering, obtaining competitive quotes, procurement clubs and benchmarking.

We will continue to improve the efficiency and effectiveness of our processes. Housing staff have been issued with iPad's where they can access the housing system remotely, whilst on site, giving direct access to customer accounts. This has supported the strong performance on rent arrears, supporting improved income for the organisation.

SOUTH DEVON RURAL HOUSING ASSOCIATION LIMITED

REPORT OF THE BOARD OF MANAGEMENT FOR THE YEAR ENDED 31 MARCH 2017

Improving our performance:

We set key performance indicator targets each year. As noted earlier in this report there are some areas where we are looking to improve our performance. During the current year we are undertaking the following actions to improve the association's performance.

Performance management framework:

The association has introduced a performance management framework.

The aim of the framework is to monitor and publish key performance indicators in an accessible format. This will be amended to provide more relevant and meaningful information, with a revision of targets.

Our Main Housing Software:

SDR is also looking at investing in planned maintenance modules, to support improvement of projections and decision making in this area.

SDR will be implementing an image management system, which will involve having the organisations main documentation on line and easily accessible.

These new systems also allow us to deliver a more efficient service and also allow us to gain improved business analysis.

Joint Working Initiatives:

Working on joint working initiatives have progressed with other organisations, these include areas such as repairs and housing management and development.

These initiatives could offer more efficient service to customers, and cost savings for both organisations. This includes developing Rural Homes Limited, where proceeds can be gift aided back to SDR.

Totnes Work Hub/Office Leases: SDR carried out a review of Totnes Work Hub to review hot desk activity and found it was very low whilst at the same time demand for start up office space was at a premium. A decision was made to create a new office. SDR have built a new office in the hub area, which has been let which will generate additional annual revenue of £4,320.

RESPONSIBILITIES OF THE BOARD OF MANAGEMENT

The Co-operative and Community Benefit Societies Act 2014 and Registered Social Landlord legislation require that the Board of Management prepare financial statements for each year which give a true and fair view of the state of the affairs of the Group and Association and of its surplus for that period. In preparing those financial statements the Board of Management are required to:

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

The Board of Management are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Association and to enable them to ensure that the accounts 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 2015 and they are also responsible for maintaining an adequate system of internal control and safeguarding the assets of the Association and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

SOUTH DEVON RURAL HOUSING ASSOCIATION LIMITED

**REPORT OF THE BOARD OF MANAGEMENT
FOR THE YEAR ENDED 31 MARCH 2017**

COMPLIANCE WITH THE HOMES AND COMMUNITIES AGENCY GOVERNANCE AND FINANCIAL VIABILITY STANDARD

The Board confirms that the Group complies with the requirements of the revised governance and financial viability standard applicable for the year from 1 April 2016.

OFFICERS INSURANCE

The Association provides insurance against the liabilities of all Board of Management members and officers in relation to the Association.

INTERNAL AUDIT

The Board is ultimately responsible for the Association's system of internal financial control which is designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information.

The Association is exempt from Internal Audit. However the Association does commission internal audits periodically. The board considers that the internal control procedures are effective.

PROVISION OF INFORMATION TO THE AUDITOR

The directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditor is unaware. Each of the directors have confirmed that they have taken all of the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit

AUDITOR

A resolution to reappoint RSM UK Audit LLP, Chartered Accountants, as auditor will be put to the members at the Annual General Meeting.

ANNUAL GENERAL MEETING

The annual general meeting will be held on 13th September 2017.

ON BEHALF OF THE BOARD

.....
Mr J Davis – Chairman

.....
Ms P Simon – Board Member

.....
Mr S Prime - Secretary

.....
Dated:

SOUTH DEVON RURAL HOUSING ASSOCIATION LIMITED
INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF
SOUTH DEVON RURAL HOUSING ASSOCIATION LIMITED

Opinion on financial statements

We have audited the group and parent association financial statements of South Devon Rural Housing Association Limited for the year ended 31 March 2017 (the "financial statements") on pages 13 to 39. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and Association's affairs as at 31 March 2017 and of the income and expenditure of the Group and the income and expenditure of the Association for the year then ended;
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014, Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Scope of the audit of the financial statements

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

Matters on which we are required to report by exception

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

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

Respective responsibilities of the Board and auditor

As explained more fully in the Responsibilities Statement of the Board of Management set out on page 10, the Board are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

This report is made solely to the Association's members as a body, in accordance with Part 7 of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the Association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and the Association's members as a body, for our audit work, for this report, or for the opinions we have formed.

RSM UK Audit LLP
Statutory Auditor
Chartered Accountants
St Philips Point, Temple Row,
Birmingham, West Midlands, B2 5AF

Date:

SOUTH DEVON RURAL HOUSING ASSOCIATION LIMITED

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2017**

	Note	2017	2016
		£'000	£'000
TURNOVER	3	2,140	1,998
Operating costs	3	(1,609)	(1,538)
		_____	_____
OPERATING SURPLUS	5	531	460
Gain on disposal of property, plant and equipment (fixed assets)	6	203	221
Interest receivable	7	1	4
Interest and financing costs	8	(475)	(429)
Fair value deficit on investment property	13	(21)	(6)
		_____	_____
SURPLUS ON ORDINARY ACTIVITIES BEFORE TAXATION		239	250
Tax on surplus on ordinary activities	9	-	-
		_____	_____
SURPLUS FOR THE YEAR and TOTAL COMPREHENSIVE INCOME FOR THE YEAR		239	250
		=====	=====

These financial statements were approved by the Board on 19th July 2017.

The consolidated results relate wholly to continuing activities.

The accompanying notes form part of these financial statements.

SOUTH DEVON RURAL HOUSING ASSOCIATION LIMITED

**ASSOCIATION STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2017**

	Note	2017	2016
		£'000	£'000
TURNOVER	3	2,140	2,003
Operating costs	3	(1,603)	(1,534)
		<hr/>	<hr/>
OPERATING SURPLUS	5	537	469
Gain on disposal of property, plant and equipment (fixed assets)	6	203	221
Interest receivable	7	2	4
Interest and financing costs	8	(475)	(429)
Fair value deficit on investment property	13	(21)	(6)
		<hr/>	<hr/>
SURPLUS ON ORDINARY ACTIVITIES BEFORE TAXATION		246	259
Tax on surplus on ordinary activities	9	-	-
		<hr/>	<hr/>
SURPLUS FOR THE YEAR and TOTAL COMPREHENSIVE INCOME FOR THE YEAR		246	259
		<hr/> <hr/>	<hr/> <hr/>

These financial statements were approved by the Board on 19th July 2017.

The association results relate wholly to continuing activities.

The accompanying notes form part of these financial statements

SOUTH DEVON RURAL HOUSING ASSOCIATION LTD
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2017

	Note	2017 £'000	2016 £'000
FIXED ASSETS			
Housing properties	11	17,560	15,584
Other Fixed Assets	12	360	485
Investment Properties	13	360	250
Investments	14	10	10
		<hr/>	<hr/>
Total fixed assets		18,290	16,329
		<hr/>	<hr/>
CURRENT ASSETS			
Debtors	16	63	92
Assets Held for sale	17	118	75
Cash at bank and in hand		780	630
		<hr/>	<hr/>
		961	797
CREDITORS: Amounts falling due within one year	18	(640)	(571)
		<hr/>	<hr/>
NET CURRENT ASSETS		321	226
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		18,611	16,555
		<hr/>	<hr/>
CREDITORS: Amounts falling due after more than one year	19	(12,642)	(10,804)
Deferred Capital Grant	20	(4,930)	(4,951)
		<hr/>	<hr/>
LONG TERM LIABILITIES		(17,572)	(15,755)
		<hr/>	<hr/>
TOTAL NET ASSETS		1,039	800
		<hr/>	<hr/>
RESERVES			
Non-equity share capital	23	-	-
Income and Expenditure Reserve		1,039	800
		<hr/>	<hr/>
TOTAL RESERVES		1,039	800
		<hr/>	<hr/>

The financial statements were approved by the board and authorised for issue on 19th July 2017 and are signed on its behalf by:

Board Member

Board Member

SOUTH DEVON RURAL HOUSING ASSOCIATION LTD

**ASSOCIATION STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2017**

	Note		2017 £'000	2016 £'000
FIXED ASSETS				
Housing properties	11		17,575	15,594
Other Fixed Assets	12		360	485
Investment Properties	13		360	250
Investments	14		10	10
Investment in Subsidiary	15		15	10
			18,320	16,349
CURRENT ASSETS				
Debtors	16	64	92	
Assets Held for sale	17	112	68	
Cash at bank and in hand		776	625	
		952	785	
CREDITORS: Amounts falling due within one year	18	(645)	(570)	
NET CURRENT ASSETS				
			307	215
TOTAL ASSETS LESS CURRENT LIABILITIES				
			18,627	16,564
CREDITORS: Amounts falling due after more than one year				
Deferred Capital Grant	19	(12,642)	(10,804)	
	20	(4,930)	(4,951)	
LONG TERM LIABILITIES				
			(17,572)	(15,755)
TOTAL NET ASSETS				
			1,055	809
RESERVES				
Non-equity share capital	23	-	-	
Income and Expenditure Reserve		1,055	809	
TOTAL RESERVES				
			1,055	809

The financial statements were approved by the board and authorised for issue on 19th July 2017 and are signed on its behalf by:

Board Member

Board Member

SOUTH DEVON RURAL HOUSING ASSOCIATION LTD
CONSOLIDATED AND ASSOCIATION STATEMENT OF CHANGES IN RESERVES
31 MARCH 2017

	Group		Association	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
<u>Revenue reserves</u>				
At beginning of the year	800	550	809	550
Surplus for the year, being total comprehensive income	239	250	246	259
	-----	-----	-----	-----
At end of the year	1,039	800	1,055	809
	-----	-----	-----	-----

SOUTH DEVON RURAL HOUSING ASSOCIATION LIMITED

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2017**

	Note	2017 £'000	2016 £'000
NET CASH GENERATED FROM OPERATING ACTIVITIES	A	813	866
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of tangible fixed assets		(2,464)	(1,552)
Purchase of other plant and equipment		(48)	(31)
Works on assets held for sale		(43)	(6)
Proceeds on disposal of tangible fixed assets		448	245
Grants received		-	40
NET CASH USED IN INVESTING ACTIVITIES		(2,107)	(1,304)
CASH FLOW FROM FINANCING ACTIVITIES			
New secured loans		2,100	1,036
Loan Arrangement Fees		(32)	-
Repayment of borrowings		(150)	(106)
Amortised Loan costs		-	(4)
Interest received		1	4
Interest and financing costs		(475)	(429)
NET CASH FLOW FROM FINANCING ACTIVITIES		1,444	501
NET INCREASE IN CASH AND CASH EQUIVALENTS		150	63
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		630	567
CASH AND CASH EQUIVALENTS AT END OF YEAR	B	780	630

A. CONSOLIDATED CASHFLOW FROM OPERATING ACTIVITIES

	2017 £'000	2016 £'000
Surplus for the year	239	250
Adjustments for:		
Loan issue fee amortisation	5	2
Depreciation charges	316	311
Amortised grant	(61)	(62)
Disposal of housing properties	(203)	(221)
(Increase) in assets held for sale	-	(13)
Fair value (gains)/losses on financial instruments	-	4
Fair value losses on investment properties	21	6
Interest receivable	(1)	(4)
Interest payable	475	429
Operating cashflow before movements in working capital	791	702
Decrease/(increase) in debtors	29	25
Increase/(decrease) in creditors excl bank loans	(7)	139
	22	164
Net cash generated from operating activities	813	866

SOUTH DEVON RURAL HOUSING ASSOCIATION LIMITED

**ASSOCIATION CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2017**

	Note	2017 £'000	2016 £'000
NET CASH GENERATED FROM OPERATING ACTIVITIES	A	824	881
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of tangible fixed assets		(2,469)	(1,562)
Purchase of other plant and equipment		(48)	(31)
Works on assets held for sale		(44)	(6)
Proceeds on disposal of tangible fixed assets		448	245
Investments made		(5)	-
Grants received		-	40
NET CASH USED IN INVESTING ACTIVITIES		(2,118)	(1,314)
CASH FLOW FROM FINANCING ACTIVITIES			
New secured loans		2,100	1,036
Loan Arrangement fees		(32)	-
Repayment of borrowings		(150)	(106)
Amortised Loan costs		-	(4)
Interest received		2	4
Interest and financing costs		(475)	(429)
NET CASH FLOW FROM FINANCING ACTIVITIES		1,445	501
NET INCREASE IN CASH AND CASH EQUIVALENTS		151	68
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		625	557
CASH AND CASH EQUIVALENTS AT END OF YEAR	B	776	625
A. ASSOCIATION CASHFLOW FROM OPERATING ACTIVITIES			
		2017 £'000	2016 £'000
Surplus for the year		246	259
Adjustments for:			
Loan issue fee amortisation		5	2
Depreciation charges		316	311
Amortised grant		(61)	(62)
Disposal of housing properties		(203)	(221)
(Increase) in assets held for sale		-	(6)
Fair value (gains)/losses on financial instruments		-	4
Fair value losses on investment properties		21	6
Interest receivable		(2)	(4)
Interest payable		475	429
Operating cashflow before movements in working capital		797	718
Decrease/(increase) in debtors		28	25
Increase/(decrease) in creditors excl bank loans		(1)	138
		27	163
Net cash generated from operating activities		824	881

SOUTH DEVON RURAL HOUSING ASSOCIATION LIMITED

**NOTES TO THE CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2017**

B. CASH AND CASH EQUIVALENTS

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Cash and cash equivalents represent:-				
Cash at bank	753	603	749	598
Short-term deposits	27	27	27	27
	<u>780</u>	<u>630</u>	<u>776</u>	<u>625</u>

SOUTH DEVON RURAL HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

1. LEGAL STATUS

South Devon Rural Housing Association Ltd (“the RP”) is a company limited by guarantee and is an English registered social housing provider.

The address of the Company’s registered office and principal place of business is South Devon House, Babbage Road, Totnes, Devon, TQ9 5JA.

The RP’s principal activities are providing quality accommodation for people on low incomes and residential care. The Association is a registered society under the Cooperative and Community Benefit Societies Act 2014 and is registered with the Homes and Communities Agency.

2 ACCOUNTING POLICIES

BASIS OF ACCOUNTING

These financial statements have been prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP) including FRS102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland”, the Housing SORP 2014 “Statement of Recommended Practice for Registered Housing Providers” and they comply with the Accounting Direction for Private Registered Providers of Social Housing 2015, and under the historical cost convention, modified to include certain investment properties at fair value.

Monetary amounts in these financial statements are rounded to the nearest whole £1,000 except where otherwise indicated.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate those of the Association and all of its subsidiaries (i.e. entities that the Group controls through its power to govern the financial and operating policies so as to obtain economic benefits). All financial statements are made up to 31 March 2017.

All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the group.

GOING CONCERN

The Association has prepared a budget and cash flow forecast covering a period of not less than one year from the date of approval of the financial statements. These forecasts indicate that the Association has a satisfactory level of working capital and, accordingly, the financial statements of both the Association and the Group are prepared on a going concern basis.

SOUTH DEVON RURAL HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

TURNOVER AND REVENUE RECOGNITION

Turnover comprises rent receivable and service charge income receivable in the period, other services provided at the invoice value and revenue grants receivable in the period. Gains from the sale of properties are shown beneath the Operating Surplus in the Statement of Comprehensive Income.

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

TANGIBLE FIXED ASSETS – HOUSING PROPERTIES

Housing Properties are properties for the provision of social housing and principally properties available for rent. Completed housing properties are stated at cost less accumulated depreciation and impairment losses. Costs include the cost of acquiring land and buildings, and expenditure incurred during the development period.

Works to existing properties, which replace a component that has been treated separately for depreciation purposes, along with those works that enhance the economic benefits of the assets, are capitalised as improvements.

Administration costs relating to development activities are capitalised where they arise as a direct result of the development activity. Loan interest is capitalised only to the extent that it relates to specific developments prior to completion.

Housing properties in the course of construction are stated at cost and are transferred into housing properties when completed.

DEPRECIATION OF HOUSING PROPERTIES

Freehold land or assets under construction are not depreciated.

The group separately identifies the major components of its housing properties and charges depreciation so as to write-down the cost of each component to its estimated residual value, on a straight line basis over the following years:

- Structure 100 years
- Roof 50 years
- Doors and windows 15 years
- Heating 15 years
- Wiring 50 years
- Kitchens 20 years
- Bathrooms 20 years
- PV panels 20 years

SHIRE properties have also been broken down into components and the structures have economic lives of 75 (Hartley Court leasehold properties) or 80 years.

DONATED LAND AND OTHER ASSETS

Land or other assets which have been donated by a government source is added to costs of assets at the fair value of the land at the time of the donation. The difference between the fair value of the asset donated and the consideration paid is treated as a non-monetary grant and included within the Statement of Financial Position as a liability. The terms of the donation are considered to be performance related conditions. Where the donation is not from a public source, the value of the donations less the consideration is included in income.

SOUTH DEVON RURAL HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

INVESTMENT PROPERTIES

Investment properties (including properties held under an operating leases) consist of commercial properties and properties not held for social benefit. The Association has one property – South Devon House which is split between an investment property and a property held for social benefit. The parts of South Devon House which are for the Association offices and the Work Hub area are held for social benefit. The split has been based on the floor area occupied by the Association offices and work hub and the areas which are commercially rented. The investment areas are measured at fair value. Changes in fair value are recognised in either income or expenditure. Investment property is not subject to a depreciation charge.

IMPAIRMENT OF FIXED ASSETS

An assessment is made at each reporting date of whether there are indications that a fixed asset (including housing properties) may be impaired or that an impairment loss previously recognised has fully or partially reversed. If such indications exist, the RP estimates the recoverable amount of the asset.

Shortfalls between the carrying value of fixed assets and their recoverable amounts, being the higher of fair value less costs to sell and value-in-use of the asset based on its service potential, are recognised as impairment losses in the income and expenditure account.

GOVERNMENT GRANTS

Government Grants include grants receivable from the Homes and Communities Agency (“HCA”), local authorities and other government bodies. Government grants are recognised at fair value of the asset received or receivable when there is reasonable assurance that the grant conditions will be met and the grants will be received.

Government Grants received for housing properties are recognised in income over the useful economic life of the structure of the asset.

SHIRE (South Hams Intermediate Rent Enterprise) housing properties have been bought off the open market since 2008. They are shown in fixed assets housing properties at cost. The grant element shown in the financial statements is the amount received from the South Hams District Council towards the total purchase costs. South Hams District Council’s position is secured by a legal charge on 3 of these properties. The Association does not intend to sell these properties, however should they do so, an agreed percentage of any sale proceeds would be repayable to South Hams District Council. This percentage varies per property dependent upon the amount received from the Council and the total cost of the property purchase.

OTHER GRANTS

Grants received from non-government sources are recognised using the performance model. Grants are recognised as income when the associated performance conditions are met.

OTHER TANGIBLE FIXED ASSETS

Tangible fixed assets are initially measured at cost, net of depreciation and any impairment losses. Depreciation is provided on all tangible fixed assets, at rates calculated to write off the costs or valuation of each asset at its estimated residual value on a straight line basis over its expected useful life as follows:-

The minimum spend for capitalisation is £250. Assets have varying lives:-

- Computers 5 years
- Vehicles 5 years
- Office Equipment 5 years
- Forder Lane House Equipment 5 year
- South Devon House Social Housing offices 50 years

Residual value is calculated on prices prevailing at the reporting date, after estimated costs of disposal, for the asset as if it were at the age and condition expected at the end of its useful life.

SOUTH DEVON RURAL HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

BORROWING COSTS

General and specific borrowing costs directly attributable to the acquisition and construction of qualifying properties are added to the cost of those properties until such a time as the properties are ready for their intended use or sale. All other borrowing costs are expensed as incurred.

PENSIONS

The Association operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Association in an independently administered fund. Contributions payable for the year are charged in the income and expenditure account. No provision is required for any future costs.

RESTRICTED FUNDS

Restricted funds are funds which are to be used in accordance with specific restrictions imposed by the donor.

VAT

The Association is not registered for VAT. VAT is not applicable to any of the Association's turnover. VAT on purchases has been included as a cost related to the item purchased. Rural Homes Limited is registered for VAT and this is accounted for and paid over accordingly.

TAXATION

The Association has charitable status and is exempt from paying Corporation Tax on charitable activities. Rural Homes Ltd (subsidiary) and would be liable for Corporation Tax on any surplus made, however it can gift aid surplus to the Association.

LEASES

Finance Leases – An asset and corresponding liability are recognised for leasing agreements that transfer to the RP substantially all of the risk and reward incidental to ownership. The amount capitalised is the fair value of the leased asset or, if lower, the present value of the minimum lease payments payable during the lease term, both determined at inception of the lease. Lease payments are treated as consisting of capital and interest elements. The interest is charged to the Statement of Comprehensive Income to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating Leases – all other leases are operating leases and the annual rentals are charged to income and expenditure on a straight line bases over the lease term. Rent free periods or other incentives given or received for entering into an operating lease are accounted for as a reduction in income or expense and are recognised, on a straight-line bases over the lease term.

EMPLOYEE BENEFITS

The costs of short-term employee benefits are recognised as a liability and an expense.

Employees are entitled to carry forward up to 5 days of any unused holiday entitlement at the reporting date. The cost of any unused holiday entitlement, is recognised in the period in which the employees services are received.

SERVICE CHARGES

All service charges are variable service charges. Where there is any difference between the estimated cost recovered from tenants and leaseholders and the actual cost incurred, any such shortfall or surplus arising is carried forward and either collected or refunded against the future year's charge. Any shortfall or surplus arising is shown in the balance sheet within debtors or creditors as appropriate.

SOUTH DEVON RURAL HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

CRITICAL ACCOUNTING ESTIMATES AND AREAS OF JUDGEMENT

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The group makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:-

Property Values - All Association loans are secured against property. There are regular valuations completed and should these valuations reduce significantly due to the property market falling, then the Association would be required to provide further security. The Association currently holds unsecured property to the estimated value of £8 million, so has the capacity to provide further security.

Impairment - From 1 April 2017 the Association was required to reduce social housing rents by 1% each year until 2019/20 in accordance with the Housing and Planning Act 2017. This is considered a trigger for impairment. The Association carried out an assessment of all properties comparing their value in use to their carrying value. No impairment has been recognised for assets held for social housing purposes in these financial statements.

FINANCIAL INSTRUMENTS

The company has elected to apply the provisions of Section 11 "Basic Financial Instruments" and Section 12 "Other Financial Instruments Issues" of FRS102, in full, to all of its financial instruments.

Debtors – which are receivable within one year and which do not constitute a financing transaction are initially measured at the transaction price.

Creditors – payable within one year that do not constitute a financing transaction are initially measured at the transaction price.

Borrowings – are initially recognised at the transaction price, including transaction costs, and are subsequently measured at amortised cost using the effective interest method. Interest expense is recognised on the basis of the effective interest method and is included in interest payable and other similar charges.

SOUTH DEVON RURAL HOUSING ASSOCIATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017**

**3. NOTE A - PARTICULARS OF TURNOVER, COST OF SALES, OPERATING COSTS
AND OPERATING SURPLUS**

GROUP	Turnover	Operating Costs	Operating Surplus
	2017	2017	2017
	£'000	£'000	£'000
Income and Expenditure from Lettings			
Social Housing Lettings	1,114	834	280
SHIRE scheme	241	102	139
Residential Care Home	703	599	104
Offices	78	57	21
	<u>2,136</u>	<u>1,592</u>	<u>544</u>
Non Social Housing Activities	4	17	(13)
	<u>2,140</u>	<u>1,609</u>	<u>531</u>
	<u><u>2,140</u></u>	<u><u>1,609</u></u>	<u><u>531</u></u>
	Turnover	Operating Costs	Operating Surplus
	2016	2016	2016
	£'000	£'000	£'000
Income and Expenditure from Lettings			
Social Housing Lettings	987	756	231
SHIRE scheme	221	96	125
Residential Care Home	716	618	98
Offices	72	64	8
	<u>1,996</u>	<u>1,534</u>	<u>462</u>
Non Social Housing Activities	2	4	(2)
	<u>1,998</u>	<u>1,538</u>	<u>460</u>
Income and expenditure from lettings (Note B)	<u>1,998</u>	<u>1,538</u>	<u>460</u>
	<u><u>1,998</u></u>	<u><u>1,538</u></u>	<u><u>460</u></u>
	Turnover	Operating Costs	Operating Surplus
	2017	2017	2017
	£'000	£'000	£'000
ASSOCIATION			
Income and Expenditure from Lettings			
Social Housing Lettings	1,118	845	273
SHIRE scheme	241	102	139
Residential Care Home	703	599	104
Offices	78	57	21
	<u>2,140</u>	<u>1,603</u>	<u>537</u>
Income and expenditure from letting (Note B)	<u>2,140</u>	<u>1,603</u>	<u>537</u>
	<u><u>2,140</u></u>	<u><u>1,603</u></u>	<u><u>537</u></u>
	Turnover	Operating Costs	Operating Surplus
	2016	2016	2016
	£'000	£'000	£'000
Income and Expenditure from Lettings			
Social Housing Lettings	994	756	238
SHIRE scheme	221	96	125
Residential Care Home	716	618	98
Offices	72	64	8
	<u>2,003</u>	<u>1,534</u>	<u>469</u>
Income and expenditure from lettings (Note B)	<u>2,003</u>	<u>1,534</u>	<u>469</u>
	<u><u>2,003</u></u>	<u><u>1,534</u></u>	<u><u>469</u></u>

SOUTH DEVON RURAL HOUSING ASSOCIATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017**

3. NOTE B – GROUP PARTICULARS OF INCOME AND EXPENDITURE FROM SOCIAL HOUSING ACTIVITIES

	Residential Home £'000	General Needs £'000	Offices £'000	2017 Total £'000	2016 Total £'000
Income from lettings					
Rent receivable net of service charges	737	1,201	61	1,999	1,858
Service Charges	-	40	15	55	59
Other income from lettings	2	5	1	8	3
<hr/>					
Gross rents receivable	739	1,246	77	2,062	1,920
Less: net rent losses from voids	(36)	(5)	-	(41)	(35)
<hr/>					
Net rental income	703	1,241	77	2,021	1,885
Management Fees	-	37	-	37	33
Feed in tariff	-	16	-	16	15
Supporting People	-	-	-	-	1
Amortised Grant	-	61	1	62	62
<hr/>					
Turnover from Social Housing Lettings	703	1,355	78	2,136	1,996
<hr/>					
Expenditure on letting activities					
Management	-	449	27	476	400
Care and support	551	64	-	615	641
Routine maintenance	7	154	22	183	178
Major repairs expenditure	5	27	-	32	28
Bad debts	2	-	-	2	3
Property depreciation	34	242	8	284	284
<hr/>					
Operating costs on social housing lettings	599	936	57	1,592	1,534
<hr/>					
Operating surplus on letting activities	104	419	21	544	462
<hr/> <hr/>					

SOUTH DEVON RURAL HOUSING ASSOCIATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017**

3. NOTE B – ASSOCIATION PARTICULARS OF INCOME AND EXPENDITURE FROM SOCIAL HOUSING ACTIVITIES

	Residential Home £'000	General Needs £'000	Offices £'000	2017 Total £'000	2016 Total £'000
Income from lettings					
Rent receivable net of service charges	737	1,201	61	1,999	1,858
Service Charges	-	40	15	55	59
Other income from lettings	2	5	1	8	3
<hr/>					
Gross rents receivable	739	1,246	77	2,062	1,920
Less: net rent losses from voids	(36)	(5)	-	(41)	(35)
<hr/>					
Net rental income	703	1,241	77	2,021	1,885
Management Fees	-	41	-	41	40
Feed in tariff	-	16	-	16	15
Supporting People	-	-	-	-	1
Amortised Grant	-	61	1	62	62
<hr/>					
Turnover from Social Housing Lettings	703	1,359	78	2,140	2,003
<hr/>					
Expenditure on letting activities					
Management	-	460	27	487	400
Care and support	551	64	-	615	641
Routine maintenance	7	154	22	183	178
Major repairs expenditure	5	27	-	32	28
Bad debts	2	-	-	2	3
Property depreciation	34	242	8	284	284
<hr/>					
Operating costs on social housing lettings	599	947	57	1,603	1,534
<hr/>					
Operating surplus on letting activities	104	412	21	537	469
<hr/>					

SOUTH DEVON RURAL HOUSING ASSOCIATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017**

4. STAFF COSTS

	Group 2017 £'000	Association 2017 £'000	Group 2016 £'000	Association 2016 £'000
Wages & salaries	589	576	550	546
Social Security costs	44	44	43	43
Other pension costs	24	24	15	15
	657	644	608	604

The average monthly number of full time equivalent employees during the year was:

	Group 2017	Association 2017	Group 2016	Association 2016
Administration - Chief Executive	1	1	1	1
Administration - Other	8	7	8	7
Residential accommodation	23	23	22	22
	32	31	31	30

The full time equivalent number of staff who received remuneration (excluding directors):

	2017	2016
£60,001 to £70,000	-	1
£70,001 to £80,000	1	-

The aggregated emoluments of the Senior Management Team were £160,337 (2016: £133,767).

The aggregated remuneration of the Key Management Personnel (Senior Management Team) was £177,497 (2016: £147,900).

The Chief Executive's remuneration (including pension contributions) in 2017 was £74,274 (2016: £63,389).

There is a company executive pension scheme, funded by employer and employee contributions for an individual pension scheme. There are no enhanced or special terms. The Association's contribution to the pension fund in relation to the Chief Executive was £5,274 (2016: £4,696).

5. OPERATING SURPLUS

The operating surplus is stated after charging:

	Group & Association 2017 £'000	Group & Association 2016 £'000
Depreciation: Housing	277	267
Accelerated Depreciation for component write outs	-	7
Offices	8	10
Equipment	28	25
Vehicles	4	2
Operating lease rentals in respect of plant and machinery	4	4
Auditor's remuneration	17	16

All auditor's remuneration was payable to RSM UK Audit LLP.

SOUTH DEVON RURAL HOUSING ASSOCIATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017**

6. SURPLUS ON SALE OF FIXED ASSETS – HOUSING PROPERTIES

	Group & Association 2017 £'000	Group & Association 2016 £'000
Disposal Proceeds	448	245
Less Book Value of Assets	(245)	(24)
Surplus on Sale of Asset	203	221

7. INTEREST RECEIVABLE

	Group 2017 £'000	Association 2017 £'000	Group 2016 £'000	Association 2016 £'000
Bank Interest Receivable	1	2	4	4
	1	2	4	4

8. INTEREST AND FINANCING COSTS

	2017 £'000	2016 £'000
Bank interest/charges	4	3
Bank loan interest	490	443
Less Capitalised Interest	(19)	(17)
	475	429

9. TAXATION

Due to the Association's charitable status, there is no liability to corporation tax in the current financial year.

10. MEMBERS

No emoluments were paid to members of the Board of Management during the year.
Travel and other expenses reimbursed during the year totalling £350.73 (2016: £395.39).

SOUTH DEVON RURAL HOUSING ASSOCIATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017**

11. FIXED ASSETS – HOUSING PROPERTIES - GROUP

	Assets Under Construction £'000	Forder Lane House £'000	SHIRE £'000	Housing £'000	Total Housing Properties £'000
COST					
At 1 April 2016	851	1,803	4,436	11,057	18,147
Additions	32	-	147	2,147	2,326
Capitalised Interest	9	-	10	-	19
Works to existing properties	-	-	-	119	119
Disposals	-	-	-	(255)	(255)
Transfers	(382)		375	7	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 Mar 2017	510	1,803	4,968	13,075	20,356
DEPRECIATION					
At 1 April 2016	-	159	302	2,102	2,563
Charge for year	-	34	72	137	243
Disposals	-	-	-	(10)	(10)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 Mar 2017	-	193	374	2,229	2,796
Net Book Value					
At 31 Mar 2017	510	1,610	4,594	10,846	17,560
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 Mar 2016	851	1,644	4,134	8,955	15,584
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

SOUTH DEVON RURAL HOUSING ASSOCIATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017**

11. FIXED ASSETS – HOUSING PROPERTIES – ASSOCIATION

	Assets Under Construction £'000	Forder Lane House £'000	SHIRE £'000	Housing £'000	Total Housing Properties £'000
COST					
At 1 April 2016	861	1,803	4,436	11,057	18,157
Additions	34	-	150	2,147	2,331
Capitalised Interest	9	-	10	-	19
Works to existing properties	-	-	-	119	119
Disposals	-	-	-	(255)	(255)
Transfers	(382)	-	375	7	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 Mar 2017	522	1,803	4,971	13,075	20,371
DEPRECIATION					
At 1 April 2016	-	159	302	2,102	2,563
Charge for year	-	34	72	137	243
Disposals	-	-	-	(10)	(10)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 Mar 2017	-	193	374	2,229	2,796
Net Book Value					
At 31 Mar 2017	522	1,610	4,597	10,846	17,575
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 Mar 2016	861	1,644	4,134	8,955	15,594
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Total spend on existing housing properties in the year:-

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Capitalised Expenditure	119	160	119	160
Expenditure included in Operating expenses	215	206	215	206
	<hr/>	<hr/>	<hr/>	<hr/>
	334	366	334	366
	<hr/>	<hr/>	<hr/>	<hr/>

SOUTH DEVON RURAL HOUSING ASSOCIATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017**

	2017	2016
	£'000	£'000
Capitalised Interest b/f	72	55
Capitalised in the year	19	17
	<hr/>	<hr/>
Capitalised Interest c/f	91	72
	<hr/> <hr/>	<hr/> <hr/>

This is based on an average interest rate of 4.4%.

Housing properties book value, net of depreciation comprises:

	Group	Group	Association	Association
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Freehold land and buildings	16,386	14,448	16,401	14,823
Long leasehold land and buildings	1,161	1,122	1,161	1,122
Short leasehold land and buildings	13	14	13	14
	<hr/>	<hr/>	<hr/>	<hr/>
	17,560	15,584	17,575	15,594
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

12. OTHER FIXED ASSETS

	Offices	Other	Total
	£'000	£'000	£'000
COST			
At 1 April 2016	489	258	747
Additions	17	30	47
Adjust investment/PPE split	(131)	-	(131)
Disposals	-	(11)	(11)
	<hr/>	<hr/>	<hr/>
At 31 Mar 2017	375	277	652
	<hr/>	<hr/>	<hr/>
DEPRECIATION			
At 1 April 2016	64	198	262
Charge for year	8	31	39
Disposals	-	(9)	(9)
	<hr/>	<hr/>	<hr/>
At 31 Mar 2017	72	220	292
	<hr/>	<hr/>	<hr/>
Net Book Value			
At 31 Mar 2017	303	57	360
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 Mar 2016	425	60	485
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The Offices are split between PPE and investment properties. The main offices of South Devon Rural HA relocated to an area previously rented out and the ground floor area is now all rented out, so the proportion of the building included as PPE reduced significantly.

SOUTH DEVON RURAL HOUSING ASSOCIATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017**

13. INVESTMENT PROPERTIES

	Offices £'000
VALUATION	
At 1 April 2016	250
Adjust investment/PPE split	131
Revaluation	(21)
Net Book Value	_____
At 31 Mar 2017	360
	=====
At 31 Mar 2016	250
	=====

The Offices were valued in June 2015 by Stratton Creber Commercial property consultants. The valuation was based on market value and market rents. It was assumed that vacant possession applied, subject to existing tenancies and the office was maintained in its present condition. The office is split between investment properties and other fixed assets on the basis of floor area occupied. Areas which are used to support social housing functions are included under other fixed assets at cost. The area occupied by long term tenants is included under investment properties at valuation. The historic cost of this area is £435,307 (2016: £290,284).

14. INVESTMENTS UNLISTED

	Group & Association 2017 £'000	Group & Association 2016 £'000
Cost Brought forward	10	10
	_____	_____
Totnes Renewable Energy Society Shares	10	10
	=====	=====

The Association has been working with TRESOC (Totnes Renewable Energy Society) to provide PV panels on many of the Association's properties to enable tenants to receive a reduction in the energy bills.

15. INVESTMENTS IN SUBSIDIARY

The Association has a development subsidiary, Rural Homes Limited, which is a company incorporated in the UK. There is 1 share owned by the Association, which constitutes 100% of the company's Ordinary Share Capital. Rural Homes Limited provides development services to South Devon Rural Housing Association Ltd. The Association has an unsecured loan agreement with Rural Homes Ltd and lent £10,000 in 2014/15 and a further £5,000 in 2016/17 making a total loan of £15,000. Interest is payable at 6% pa. The loan is repayable by December 2018.

SOUTH DEVON RURAL HOUSING ASSOCIATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017**

16. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 2017 £'000	Association 2017 £'000	Group 2016 £'000	Association 2016 £'000
Housing rent arrears	18	18	40	40
Residential care home arrears	8	8	12	12
Other debtors & prepayments	37	37	38	38
Other taxes and social security	-	-	2	-
Rural Homes Ltd	-	1	-	2
	<hr/>	<hr/>	<hr/>	<hr/>
	63	64	92	92
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The provision for bad and doubtful debts is £nil (2016: £8,126).

17. ASSETS HELD FOR SALE

The Association purchased some land in Buckfastleigh in 2013. The Association plans to sell either the land with permission to build or to build a property and sell on the open market.

	Group 2017 £'000	Association 2017 £'000	Group 2016 £'000	Association 2016 £'000
Assets held for sale	118	112	75	68
	<hr/>	<hr/>	<hr/>	<hr/>

18. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 2017 £'000	Association 2017 £'000	Group 2016 £'000	Association 2016 £'000
Trade creditors	35	35	26	26
Rents received in advance	97	97	62	62
Other creditors	75	80	74	74
Other taxes and social security	17	17	15	14
Accruals	155	147	169	169
Bank Loans	187	187	113	113
Loan with local organisation	13	13	13	13
Deferred Capital Grant (See Note 20)	61	61	59	59
Grant Received not yet applied	-	-	40	40
Rural Homes Ltd	-	8	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	640	645	571	570
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

19. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2017 £'000	2016 £'000
Bank loans	12,691	10,804
Loan with local organisation	38	52
Bank loans/arrangement fees	(87)	(64)
Recycled Capital Grant Fund (See Note 21)	-	12
	<hr/>	<hr/>
	12,642	10,804
	<hr/> <hr/>	<hr/> <hr/>

SOUTH DEVON RURAL HOUSING ASSOCIATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017**

20. DEFERRED CAPITAL GRANTS

	GENERAL HOUSING £'000	SHIRE £'000	OFFICE £'000	TOTAL £'000
Total Received as at 1 April 2016	5,226	483	38	5,747
Grant Received	-	40	-	40
Total Received as at 31 March 2017	5,226	523	38	5,787

	GENERAL HOUSING £'000	SHIRE £'000	OFFICE £'000	TOTAL £'000
Total Amortised as at 1 April 2016	759	33	4	796
Amortised in year	53	7	1	61
Total Received as at 31 March 2017	812	40	5	857

	GENERAL HOUSING £'000	SHIRE £'000	OFFICE £'000	TOTAL £'000
As at 1 April 2016	4,467	450	34	4,951
Correction to Bal b/f	(12)	-	-	(12)
Grant Received	-	40	-	40
Released in less than 1 year	(53)	(7)	(1)	(61)
Recycled Capital grant	12	-	-	12
As at 31 March 2017	4,414	483	33	4,930

21. RECYCLED CAPITAL GRANT FUND

	Group & Association 2017 £'000	Group & Association 2016 £'000
As at 1 April 2016	12	-
Recycling of Grant	(12)	12
As at 31 March 2017	-	12

The grant was recycled for the Lapford purchase.

22. ANALYSIS OF DEBT

	2017 £'000	2016 £'000
Amounts falling due in less than 1 year:	200	126
Amounts falling due in 1-2 years:	232	127
Amounts falling due in 2-5 years:	700	365
Amounts falling due in more than 5 years:	11,797	10,364
	12,929	10,982

SOUTH DEVON RURAL HOUSING ASSOCIATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017**

Lender	Loan Amount £'000	Interest Rate %	Term Years	Repayment Date
Lloyds (fixed 2007)	4,000	5.495	30	2037
Lloyds (fixed 2014)	3,000	3.565	30	2037
Triodos	3,000	Base rate + 2.25	25	2037
Charities Aid Foundation	2,100	Base rate + 2.25	25	2041
Charities Aid Foundation	735	2.75	25	2040
Charities Aid Foundation	277	2.75	10	2024
Totnes Transition Towns	50	5	10	2021
Totnes Transition Towns	25	4	3	2018

All bank borrowings are secured against housing properties shown in note 11. The Totnes Transition Towns loans are unsecured. The Association has a total agreed facility of £5million with the Charities Aid Foundation. £1,888,200 has yet to be drawn down.

23. SHARE CAPITAL

Authorised, allotted, issued and fully paid:

Number:	Class:	Nominal Value	2017 £	2016 £
	Non equity	£1	27	26

The shares provide members with the right to vote at general meetings, but do not provide any rights to dividends or distributions on winding up. There were 4 new shareholders and 3 withdrawn in the year.

24. CAPITAL RESERVE

	2017 £	2016 £
As at 1 April 2016	47	47
Transfer from Shareholdings withdrawn	3	-
As at 31 March 2017	50	47

25. PENSION COMMITMENTS

The Association operates a defined contribution pension scheme for the benefit of certain members of staff. Contributions due and charged to the income and expenditure account totalled £23,773 (2016: £15,257). The Association implemented Auto Enrolment in October 2015.

26. CAPITAL COMMITMENTS

The Group and the Association have the following capital commitments:-

	2017 £'000	2016 £'000
Purchase of S106 Coach House Lapford	-	59
Completion of the Morleigh Contract	-	165
Kitchen Replacements	36	-
	36	224

SOUTH DEVON RURAL HOUSING ASSOCIATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017**

27. COMMITMENTS UNDER OPERATING LEASES

The total future minimum lease payments under non-cancellable operating leases are as follows:-

	Assets Other Than Land and Buildings	
	2017	2016
	£'000	£'000
Operating leases which expire:		
Within 1 year	4	6
Within 2 to 5 years	9	9
	<hr/>	<hr/>
	13	15
	<hr/> <hr/>	<hr/> <hr/>

28. HOUSING ACCOMMODATION

	Total 2017	General Housing 2017	SHIRE 2017	Residential and Other 2017
Units owned and available for rent (freehold)	291	222	26	43
Units owned and available for rent (leasehold)	15	6	9	-
Units not managed by the Association	10	10	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	316	238	35	43
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The units not managed by the Association are leased to Camphill Association Devon which manages the units. They provide accommodation and support to people with learning difficulties. This is on a full repairing lease of £734 per annum.

South Devon Rural has a management contract for 10 properties owned by South Hams District Council on a 10 year lease to March 2020. A property was reassigned back to South Hams District Council during the year.

29. RELATED PARTIES

There were no tenant board members during the financial year.

The Association has transacted with a family owned company called Fresh Wharf Developments. The Association's Chairman is a Director and shareholder of this company, however he has declared his interest at all Board meetings and not been involved in the transactions between the Association and Fresh Wharf Developments. During the year the Association purchased a plot of land from Fresh Wharf Developments at a cost of £40,156.

The Chief Executive and Operations Director are named directors for Hartley Court Ltd. This company manages the freehold for the 17 properties at Hartley Court. The Association own 9 of the 18 properties. The Association charge Hartley Court Ltd an administration fee of £3,417 (2016:3,400).

During the year, the Association entered into the following transactions with its subsidiary undertaking:-

The Association recharged Rural Homes Limited, which is not a registered provider for social housing, for support staff, insurance and telephone costs totalling £4,966 (2016:£7,308). Rural Homes recharged the Association for development and project management totalling £20,061 (2016:£12,749).

The Association loaned Rural Homes Limited £10,000 in 2014/15. A further £5,000 was lent during 16/17. The loan total is now £15,000. Interest is payable at 6%pa, repayable by December 2018. A debtor is shown for £1,215 (2016: £1,930) including £178 (2016: £150) for interest payable.

SOUTH DEVON RURAL HOUSING ASSOCIATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017**

30. FINANCIAL INSTRUMENTS

The carrying amount of the Group and Association's financial instruments at 31 March were:-

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Financial assets:				
Debt instruments measured at amortised cost	26	52	26	52
Cash and Cash Equivalents	780	630	776	625
	<u>806</u>	<u>682</u>	<u>802</u>	<u>677</u>
Financial liabilities:				
Measured at amortised cost	13,121	11,177	13,129	11,177
	<u>13,121</u>	<u>11,177</u>	<u>13,129</u>	<u>11,177</u>

31. CONTINGENT LIABILITIES

One of the Housing Association's properties was identified in 2003 as a possible site of contaminated land. South Hams District Council do not consider this to be a high risk site. A further study to determine the status of the level of contamination will take place in the future. However, no date has been set. The Association will cooperate with the Environmental Health Department should the department decide such a study should take place.

The degree of the Association's responsibility has not yet been determined but it is expected that the Association will not be fully responsible as they are not the principal pollutant.

The extent of costs of remediation and damages and the effect on the value of the property cannot be determined at this point. However, it should be noted that work has started to construct a new school on land close by and no issues have been identified to the Association.

Due to all the above uncertainties, it is not practicable to provide a reasonable estimate for a provision of any potential loss to the Association in the accounts.



SOUTH DEVON RURAL HOUSING ASSOCIATION

Draft Audit Findings Report

Year ended 31 March 2017

Presented to the Board
By RSM UK Audit LLP

on 19 July 2017

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This report has been prepared for the sole use of South Devon Rural Housing Association and must not be disclosed to any third party, or quoted or referred to, without our written consent. No responsibility is assumed to any other person in respect of this report.

1 INTRODUCTION AND COVERAGE

This report summarises our key findings in connection with the audit of the financial statements of South Devon Rural Housing Association ('SDRHA' or 'the Association') in respect of the year ended 31 March 2017.

The scope of our work has already been communicated to you via our Audit Plan document dated 31 May 2017.

A summary of adjusted and unadjusted misstatements identified during the audit has been prepared and is included in Section 4.

Subject to the clearance of the items noted below, we consider that the audit approach adopted will provide the Board with the required confidence that a thorough and robust audit has been carried out and can confirm that, at the date of this report, we anticipate no modifications from our pro-forma audit report provided in the Audit Plan previously communicated to you.

Outstanding: SDRHA

- Updated Brimhay cash flow to be provided for audit review.

Outstanding: RSM UK Audit LLP

- Complete review of back up provided by SDRHA in respect of certain financial statement disclosures
- Completion of review of item noted above
- Complete post balance sheet events review.

2 AUDIT AND ACCOUNTING ISSUES IDENTIFIED AT PLANNING STAGE

Management override of internal controls

Key area of audit focus	As management is separate from those charged with governance, we are required to consider the possibility of material misstatements in the financial statements resulting from management override of internal controls.
Our approach	<ul style="list-style-type: none">• Significant journal entries will be reviewed to confirm they represent genuine adjustments.• Where accounting policies are subject to estimation or judgement, the estimate will be reviewed to ensure it has been prepared on a reasonable basis. Where there are key accounting policy choices available to SDRHA, we will consider whether these have been agreed by the Board.• The business and control environment will be reviewed with management to identify areas of control weakness. Where weaknesses are identified in the control environment, reliance will not be placed upon tests of those controls. We will review the Association's own risk assessments in this area. Management has informed us that there has been no internal audit work conducted in respect of the year.
Response	<ul style="list-style-type: none">• Testing performed as planned with no issues noted.

Fixed asset accounting and development activities

Key area of audit focus	The Association has continued its development activities, which have been funded by grants and further borrowings.
Our approach	<ul style="list-style-type: none">• Test check additions and grants to ensure they are appropriately recorded.• Review depreciation charges for the year to ensure they are accurately calculated.• Review the basis upon which development costs (and interest, if applicable) are capitalised and ensure both are consistent and appropriate.• Further cost has been incurred and delay experienced in respect of the proposed Brimhay development. We will review the carrying value of the costs carried forward in respect of this project to ensure that the treatment is in line with RSL SORP 14.

Fixed asset accounting and development activities

Response

- There were no significant matters to report in relation to fixed assets, with the exception of a number of reclassifications between property categories for presentational purposes within the financial statements. These have now been adjusted in the updated financial statements (see Section 4).
- During the course of preparation of the 2016/17 financial statements, management experienced difficulties in tying in the FRS102 fixed asset and grant workings into the nominal ledger. Management has reflected the overall impact of this (£9k) within the current year figures and we concur with this approach and do not consider that there is a material impact on the 2016/17 financial statements. Our recommendations in this area are set out in Section 5 of this report.

Impairment

Key area of audit focus

RSL SORP 14 and FRS 102 require management to assess at each reporting date whether there is an indicator of impairment. The announcement by the Chancellor that the previous rent formula would change to -1% from 1 April 2016 for 4 years is a change in Government policy and is an impairment trigger according to RSL SORP 2014 p14.6(b) and this was addressed by SDRHA in 2015/16. For 2016/17 management is required to undertake an impairment review across its supported housing and retirement homes portfolio, where relevant.

Our approach

- We will review management's impairment paper, considering the reasonableness of assumptions, calculations and assessment of carrying value, ensuring that any impairment provision has been calculated and accounted for appropriately.

Response

- We have reviewed management's impairment paper and agree that no impairment provision appears to be required in the 2016/17 financial statements.

Going concern

Key area of audit focus

This remains an area of focus in the current economic climate.

Going concern

Our approach

- Review future cash flow forecasts to see what headroom there is in the finance facilities, and enquire whether there have been any breaches in loan/banking covenants. Thereby assess whether the disclosures in the financial statements in respect of viability / going concern are adequate and whether there is any impact upon our audit report.
- Assess whether disclosure of assets held as security for borrowings is complete and accurate and that any financial instruments are appropriately assessed as “basic” or “non-basic” and accounted for and disclosed in accordance with FRS 102.
- Consider whether financing costs incurred in connection with new borrowings are accounted for appropriately.

Response

- We have carried out the work as planned by reviewing future cash flow forecasts and the Association’s forecast ability to satisfy bank covenants. No issues have been noted as a consequence of the work performed. [Update of Brimhay forecasts and impact on cash flow to be provided and reviewed prior to sign off].
-

3 AUDIT AND ACCOUNTING ISSUES IDENTIFIED DURING THE AUDIT

No other matters to report.

4 UNADJUSTED/ADJUSTED MISSTATEMENTS

A summary of the unadjusted/adjusted errors identified during the course of our work is set out below, analysed between errors of fact and differences in judgement. We have not disclosed below those items that we consider to be "clearly trivial" in the context of our audit. For this purpose we consider "clearly trivial" to be any matter less than £2,500 individually and £10,000 in aggregate.

We advised management of these misstatements on 7 June 2017 and requested management to correct them.

Adjusted misstatements	Surplus (£)	Net assets (£)	
	Dr/(Cr)	Dr/(Cr)	
Housing property - additions		(61,975)	Being: correction in presentation of Lapford and Morleigh additions in the year (see Section 2).
Assets under construction - additions		224,975	
Assets under construction – transfer		(224,975)	
Housing property – transfer		61,975	
SHIRE - additions		(163,000)	
SHIRE – transfer		163,000	
Assets under construction – capitalised interest		10,000	Being: correction of the capitalised interest in relation to Morleigh.
SHIRE – capitalised interest		(10,000)	
Assets under construction – transfer		(10,000)	
SHIRE – transfer		10,000	
Office rent	15,950		Being: adjustment to reclassify internal rent recharge for South Devon House.
Management costs – rent recharges	(15,950)		
Total	-	-	

Unadjusted misstatements Factual	Dr/(Cr) £	Dr/(Cr) £	
Accelerated depreciation charge	2,276		Being: reversal of accelerated depreciation on the replacement of components in the year.
PPE – other assets (written out)		(2,276)	
Accruals		7,593	Being: reclassification of intra-group creditor with Rural Homes Limited.
Amounts owed to group undertaking (Rural Homes Limited)		(7,593)	
Underlying total	2,276	(2,276)	

5 DEFICIENCIES IN INTERNAL CONTROL

No significant deficiencies in internal control came to our attention during the course of our audit work. This does not constitute a comprehensive statement of all deficiencies that may exist in internal controls or of all improvements which may be made and has addressed only those matters which have come to our attention as a result of the audit procedures performed. An audit is not designed to identify all matters that may be relevant to you and accordingly the audit does not ordinarily identify all such matters.

The following “house-keeping” matters were noted:

Control over changes to supplier details

Fact and potential consequence	There is currently a lack of transparency for monitoring changes to supplier bank details. Although CAF sends an automated message to the user who has made the change, it does not notify a second individual, which ultimately means that any errors or inappropriate changes made by one individual would not be picked up by means of review.
Possible action	We recommend that management follows up on whether it is possible to have a second individual or a general administration point notified by default by CAF in respect of any such changes so that these can be independently reviewed.
Management response	CAF have been asked if they can produce a report showing which bank account details have been altered. They are currently working on that for the Association. A sheet is now in use to show any bank changes made, however it is noted that would not stop fraudulent activity. Bank details are scanned and checked where noted on invoices to verify them.
Timing of implementation and responsibility	Responsible officer – Claire Barnett – timescales subject to CAF Bank.

Fixed asset accounting

Fact and potential consequence	The Association's fixed asset records are maintained by spreadsheets. This is unusual for the nature and number of properties and components maintained by the Association. This year management has had difficulty in identifying differences between the nominal ledger and the spreadsheets which comprise the fixed asset register. There is an over-dependence on Claire Barnett in this area of the Finance Team's operations.
Possible action	The use of spreadsheets is prone to error. They are also difficult to review or to delegate / migrate to alternative users. We recommend that management investigates the use of a fixed asset register.
Management response	The Senior Management team has this as a priority for the year to ensure all information is held on Omni where possible and not rely on spreadsheets.
Timing of implementation and responsibility	Responsible officers – Senior Management Team – timescales March 2018.

Access to finance systems

Fact and potential consequence	As previously reported due to the lack of an independent IT administrator on site, the Chief Executive Officer, Steve Prime, currently still has widespread access to all areas of the IT network, including the finance system. This causes issues with regards to segregation of duties / controls.
Possible action	We understand from discussion and follow up in respect of our previous observations and recommendations in this area that management is working on a solution with the IT provider. However it is paramount that changes are implemented within the finance system to limit the administrative access or implement a level of dual control to negate the Association's exposure to this risk.
Management response	Omni-ledger have made a number of control changes following the implementation of the new server, to restrict access to areas of the IT network. The Senior Management team have restrictions in use for the Omni-ledger pyramid software on their priority list to implement and restrict access much tighter than currently in place.
Timing of implementation and responsibility	Responsible officers – Senior Management Team – timescales March 2018.

6 SIGNIFICANT ACCOUNTING POLICIES, DISCLOSURES AND ESTIMATES

Accounting policies and estimates

No matters that we wish to draw to your attention that are not referred to elsewhere in this report.

Accounting disclosures

During the course of our audit, we reviewed the adequacy of the disclosures contained within the financial statements and their compliance with both relevant accounting standards and the requirements of the Statement of Recommended Practice ('RSL SORP 2014') for registered social housing providers and the Accounting Direction for Private Registered Providers of Social Housing 2015. No significant disclosure matters were identified during the course of our work but we draw your attention to the fact that this is the second year that the Association has prepared consolidated financial statements. Last year, we informed management that it would be more appropriate for the commentary on the results in the Report of the Board of Management to refer to the consolidated results and position (rather than that of the Association only) and this has not been implemented for 2016/17.

Significant difficulties identified during the audit

No significant difficulties were encountered during the course of our audit work and we would like to take this opportunity to thank Claire for her assistance during the audit.

7 UNCERTAINTIES, RISKS, EXPOSURES, JUDGEMENTAL ISSUES AND GOING CONCERN

There are no matters that we have identified in respect of the above, during the course of our work, that we consider should be brought to the attention of the Board, except that we note that the Association balance sheet is £16k in excess of that of the group and that Note 3 of the financial statements is also showing a deficit of £13k on non-social housing activities. This is a potential indicator that, at present, Rural Homes Limited could not repay the amounts owed to the Association. We are aware that Rural Homes Limited is in its early stages of development but we consider that the carrying value of the loan as an investment in the Association is kept under review going forwards.

8 FEES

We confirm that the fees charged during the year in respect of services performed for South Devon Rural Housing Association are consistent with those contained within our Audit Plan submitted to you and dated 31 May 2017. We accelerated the timing of the audit, as noted in the Audit Plan and additional versions of the draft financial statements were presented for audit and this has led to some inefficiency in the conduct of our work.

9 INDEPENDENCE

In accordance with International Standard on Auditing (UK and Ireland) 260 “Communication with those charged with governance”, there are no changes to the details of relationships between RSM UK Audit LLP and its related entities and South Devon Rural Housing Association and its related entities and directors that may reasonably be thought to bear on RSM UK Audit LLP’s independence and the objectivity of the audit principal, Stephanie Warboys, and the audit staff and the related safeguards from those disclosed in the Audit Plan dated 31 May 2017.

10 INTERNAL CONTROLS STATEMENT

The HCA requires that:

1. registered providers shall ensure that:
 - effective controls and procedures are in place to ensure security of assets and the proper use of public funds
 - effective systems are in place to monitor and accurately report delivery of their plans
 - the risks to delivery of financial plans are identified and effectively managed.
2. Registered providers shall ensure that they have a robust and prudent business planning and control framework. Through this framework they will ensure:
 - there is access to sufficient liquidity at all times
 - financial forecasts are based on appropriate and reasonable assumptions
 - planning sufficiently considers the financial implications of risks to the delivery of plans
 - they monitor, report on and comply with their funders' financial covenants.
3. Registered providers shall provide to the HCA accurate and timely statutory and regulatory financial returns and an annual report on any losses from fraudulent activity.

More specifically the HCA has indicated that registered providers shall adopt and comply with an appropriate code of governance. They shall give the reasons for their choice and explain areas of non-compliance with their chosen code.

Therefore an explanation should be included in the Board Report of what code of governance should be used and why.

We as external auditors will consider the Board's statement on internal control and address any apparent misstatements in it, or material inconsistencies with the audited financial statements in accordance with The Auditing Practices Board Bulletin 2006/5.

In considering the Board's Statement on the effectiveness of internal control we have not identified any apparent misstatements in it or any apparent inconsistencies with the audited financial statements.

APPENDIX A - DRAFT LETTER OF REPRESENTATION

RSM UK Audit LLP
St Philips Point
Temple Row
Birmingham
B2 5AF

Dear Sirs

AUDIT OF FINANCIAL STATEMENTS – Year ended 31 March 2017

This representation letter is provided in connection with your audit of the financial statements of South Devon Rural Housing Association (“the organisation”) for the year ended 31 March 2017 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the applicable financial reporting framework. The financial reporting framework that has been applied in the preparation of the financial statements of the organisation is applicable law and United Kingdom Generally Accepted Accounting Practice.

We confirm, to the best of our knowledge and belief, and having made appropriate enquiries of other board members and officials of the organisation (and entities included in the group financial statements):

Financial Statements

1. We acknowledge and have fulfilled our responsibilities as the Board members of the organisation (“the board”) as set out in the terms of engagement dated November 2016 for the preparation of the financial statements in accordance with the applicable financial reporting framework, in particular the financial statements give a true and fair view in accordance therewith.
2. Significant assumptions used by us in making accounting estimates, including those relating to items measured at fair value, are reasonable.
3. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework. In particular, full disclosure is made in the financial statements of:
 - a any arrangement, transaction or agreement to provide credit facilities (including loans, quasi-loans, or credit transactions) for members of the board;
 - b any guarantee or provision of security for members of the board;
 - c the identity of the party which controls the organisation, if any;
 - d transactions and balances with related parties including:
 - the names of the transacting parties;
 - a description of the relationship between the parties;
 - a description of the transactions;

- the amounts involved (even if nil);
 - any other elements of the transactions necessary for an understanding of the financial statements;
 - the amounts due to or from related parties at the balance sheet date and provisions for doubtful debts due from such parties at that date; and
 - amounts written off in the period in respect of debts due to or from related parties.
4. Full disclosure is made in the financial statements of:
- a outstanding capital commitments contracted for at the balance sheet date;
 - b all contingent liabilities including details of pending litigation and material claims against the organisation;
 - c all guarantees or warranties or other financial commitments (including those given to or on behalf of other group entities).
5. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
6. There have been no events (e.g. loss or reduction of source of income, loss of supplier or member of staff, change in credit terms offered by suppliers, breaches of bank or other covenants, changes in banking or insurance arrangements or facilities) since the balance sheet date that would impact on the ability of the organisation to continue as a going concern. Should such events occur prior to your signature of the audit report we will advise you immediately. Except as already incorporated into our cash flow and profit forecasts we have no plans or intentions that would impact on the ability of the organisation to continue as a going concern.
7. All events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed. Should such further material events occur prior to your signature of the audit report we will advise you accordingly.
8. The effects of uncorrected misstatements (whether arising from differences in amount, classification, presentation or disclosure of a reported financial statement item and the amount, classification, presentation or disclosure that is required for the item to be in accordance with the applicable financial reporting framework) are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements including those in relation to disclosures is attached to this representation letter.

Information Provided

1. As agreed in the terms of engagement, we have provided you with:
- a Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b Additional information that you have requested from us for the purpose of the audit; and
 - c Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. We confirm that all transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have disclosed to you our knowledge of fraud and suspected fraud affecting the organisation involving:
 - Management;
 - Employees who have significant roles in internal control; and
 - Others where the fraud could have a material effect on the financial statements.
5. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
6. We have disclosed all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements. We have also notified you of the actual or contingent consequences which may arise from such non-compliance, including any potential effect on the organisation's ability to conduct its activities
7. We have disclosed to you the identity of the organisation's related parties and all the related party relationships and transactions of which we are aware.
8. We have disclosed to you the details of all known actual or possible litigation and claims whose effect should be considered when preparing the financial statements.
9. We have not conducted, or permitted to be conducted any activities which may call into question the charitable nature of the organisation.
10. There have been no communications with Homes and Communities Agency or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any administrative duty.
11. There have been no events since the balance sheet date which necessitate revision of the figures in the financial statements or inclusion of a note thereto. Should such material events occur prior to your signature of the audit report we will advise you accordingly.
12. All grants, donations and other incoming resources, the receipt of which is subject to specific terms and conditions, have been notified to you. There have been no breaches of terms and conditions in the application of such incoming resources.
13. All Associations, companies and other entities controlled by the organisation have been consolidated with the group.
14. With regards to bank covenants and similar, we provide confirmation that no breaches have occurred and that liabilities are correctly presented as current or long term.
15. All designated and restricted fund balances are correctly shown in the financial statements.

16. We confirm that we have disclosed to you details of all banking and financing arrangements including related contracts and hedging products.

17. We confirm that we have informed you of all tax avoidance schemes used by the group.

We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

We confirm that we have taken all the steps that we ought to have taken as members of the board in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to the auditors. We confirm that, as far as we are aware, there is no relevant audit information of which the auditors are unaware.

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

The contents of this letter were considered and approved by the board at its meeting on 19 July 2017.

Signed on behalf of the board of South Devon Rural Housing Association

.....
Board Member

Date

Attachment: List of uncorrected misstatements including those in relation to disclosures

Unadjusted misstatements Factual	Surplus (£)	Net	
	Dr/(Cr)	assets (£)	
Accelerated depreciation	2,276		Being: inclusion of accelerated depreciation on the components replaced in the year.
PPE – other assets (written out)		(2,276)	
Accruals		7,593	Being: reclassification of intra-group creditor with Rural Homes Limited.
Amounts owed to group undertakings		(7,593)	
Underlying total	2,276	(2,276)	

APPENDIX B - UPDATED FINANCIAL REPORTING DEVELOPMENTS

There are no matters that we wish to bring to your attention, subsequent to those noted in the Audit Plan dated 31 May 2017.