Annual Report and
Financial Statements
Year ended 31 March 2017

Celebrating our great people at this year's DCHFest. We have over 920 skilled and committed employees, living our values and making our strategy happen

Annual report and financial statements for DCH

Year ended 31 March 2017

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Annual Report and Financial Statements 2016/17 for Devon and Cornwall Housing Limited

Registered under the Co-operative and Community Benefit Societies Act no: 7096, and registered with the Homes and Communities Agency no: 4818.

Introduction by the Group Chairman and Group Chief Executive

Our community investment makes a real difference to everyone no matter their age

We have had the best year yet on our journey as an organisation. We have grown further by delivering over 750 new homes during the year and we now have over 23,500 homes across our region.

There has been a continued improvement in our services, our financial and operational performance, and our reputation as an employer of choice.

New homes, high customer satisfaction, great performance

Delivery of 608 new affordable homes for rent and sale, together with 147 for open market rent and sale, means we have been able to provide our biggest ever annual total of 755 new homes. Our strategic ambition is for this growth to increase further in future years. At the end of the year we had a further 1,027 new homes in development, as part of our ongoing pipeline. As well as this we have also bought 165 existing rented and shared ownership homes from Magna Housing Association, bringing service delivery closer to those customers.

Customer service has always been at the heart of what we do, and we are proud that we have continued to deliver high levels of customer satisfaction, in the top 25% of all English housing associations. Decent, safe, affordable homes change lives and communities, and are fundamental to why we exist.

We have also continued to increase efficiency and reduce management and maintenance costs, enabling us to achieve more homes and better services. We delivered excellent business performance, saving money through our best ever performance at letting homes and collecting rents, again with our performance in the top 25% of English housing associations. As part of this we have carried out a number of business process reviews across the organisation, bringing together colleagues at all levels to design efficient and effective business processes that get great results for our customers.

We are very aware and sympathetic to the fact that many of our customers, affected by austerity measures and welfare reform, are struggling on limited incomes. We continue to support our customers by offering advice on sustaining tenancies, signposting them to further assistance, and enabling people into employment through our community investment activities.

All of this has enabled us to achieve our core purpose of delivering affordable homes in places where people want to live, and services that our customers value and we are proud to deliver. Our targets for this year are even more challenging than ever, and we plan improvements in repairs and complaints satisfaction to ensure that we reach the same degree of excellence across the whole of our services, in pursuit of our vision of customers who love what we do.

Financial strength and investment

Our financial performance is a key driver of the successes we have outlined, enabling us to invest in homes, services, people and communities. Our turnover increased by £10m, and our surplus by £9m, with our operating margin increasing from 31% last year to 34% for the year just ended.

Sales activity for open market homes continued to deliver profits for investment in our affordable activities, generating Gift Aid this year of £3.2m, up from £2.5m last year.

Our gearing at 32% remains among the lowest in the sector for comparable organisations, and interest cover remains extremely strong at 369% (2016: 344%).

Our strong cash flows together with new borrowing enabled us to invest £91m in building new homes, and £32m in maintaining and improving existing homes. During the year we also developed ambitious plans to improve the energy efficiency of existing homes, ensuring they remain affordable to heat for our many customers facing financial challenges. By 2022 we aim to invest a further £18m to ensure that all of our homes have a SAP energy rating above 55 (our current overall average being 68).

The external environment

This takes place against the backdrop of general election results bringing continued political change, together with ongoing uncertainty over the process for Brexit. In these uncertain times there is now a clear recognition of the housing crisis from across the political spectrum. We welcome the commitment from all main parties to increase housing supply across all tenures, and their recognition of the role housing associations have to play in providing new homes.

We wait to see how housing policy will develop following the previous government's white paper earlier this year, and will continue to play our part, working our business hard to maximise new supply. During the year we were pleased to have been part of the national Efficiency Working Group leading the development of the Sector Scorecard. This new approach to common performance metrics has been welcomed by associations, the regulator and government, and will enable the sector to articulate more clearly and effectively its role in delivering efficiency and new supply.

We also await clarity on rent policy, particularly in respect of supported and sheltered housing, where current proposals to limit rents to Local Housing Allowances with a ringfenced top up provide insufficient certainty on which to base new investment decisions. Despite this we are proud to have continued investing in new supported housing, which includes the Nelson Project in Plymouth, providing homes, training and skills for former service personnel.

Planned merger with Knightstone

In pursuit of our core purpose, in June this year we agreed Heads of Terms for a merger with Knightstone Housing Association, who are based primarily in Somerset and Bristol with 11,500 homes and 400 staff. Our plan, subject to a full business case, due diligence and the necessary consents, is to amalgamate before summer 2018.

For both organisations this is a unique and exciting opportunity to add value in pursuit of our shared purpose, bringing together two of the leading south west regional housing associations to create new capacity for delivering affordable homes, to innovate and transform service delivery for our customers.

Our merger will create by some way the region's largest and most influential housing association, and given the desperate shortage of affordable homes in the region, our new organisation will have the financial capacity to build 15,000 new homes over the next 10 years.

Our ambitious proposals build on what both organisations have already delivered in terms of real and tangible benefits for current customers and communities in service delivery, customer satisfaction and operational performance, whilst providing a solid foundation for further investment in our communities over the coming years.

As well as successfully delivering the merger, our focus is very much on continuing to deliver business as usual, maintaining high performance across all areas, while developing the vision for our new organisation to be the best it can be.

Our staff and board

We are delighted that staff engagement has increased significantly, reaching in May 2017 its highest level since we started measuring this in 2009. As ever, we cannot achieve success without our committed staff who deliver our great performance. Our vision of staff who are excited to work here has never been more evident than at our 'DCHFest' this year, a staff conference that brought together all our teams for a very uncorporate day of fun, games and talent shows that emphasised our common purpose.

We also continued to invest in skills and succession planning, with particular successes this year in further increasing the numbers of apprentices directly employed, and continuing with our management and leadership development programmes that saw 21% of our staff taking part.

We thank our ServiceWatch residents' scrutiny group and our non executive board members for their pivotal role in supporting our business success and in creating the vision and purpose that drives us forward.

The contribution made by Andy Joss, who retired in September, alongside Mike Jane and Paul Love (soon to retire after 9 and 10 years respectively) is hugely appreciated.

Our new offices

As we highlighted last year, our project to build new offices near Exeter in Devon and Pool in Cornwall is a key part of delivering high quality services through a great working environment, as well as underlining our role as a major employer investing in the local economy. Our two offices are due for completion in spring and autumn 2018, and most staff will relocate here from their previous offices. Skilled and well resourced mobile workers are also an integral part of our service offer, supported by technology that enables them to bring services direct to people's homes.

Looking forward

Our clear strategy, strong finances and committed people all mean that we are well placed to continue our journey this year as DCH. Building on our strong foundations, our history and a great performance in 2016/17, the proposed merger with Knightstone will create an organisation with significant influence and financial capacity to deliver our shared ambitions.

Angela Dupont, Group Chairman

Paul Crawford, Group Chief Executive

There has been a continued improvement in our services, our financial and operational performance, and our reputation as an employer of choice.

Paul Crawford our Group Chief Executive and our Group Chairman Angela Dupont

Highlights for the year ended 31 March 2017

INCOME AND EXPENDITURE

Turnover increased by

£10m

2017	2016	2015
141m	131m	122m

An increase in profits generated from properties built for sale

£2m

2017	2016	2015
£7m	£5m	£5m

MANAGED HOMES

23,579

755

New homes for rent, shared ownership and sale

Operating margin increased by

3%

2017	2016	2015
34%	31%	31%

LEADING TO A SURPLUS FOR THE YEAR OF

£36m

2017

INVESTMENT AND CASH FLOW

£32m

Spent on maintaining and improving existing homes

£38m

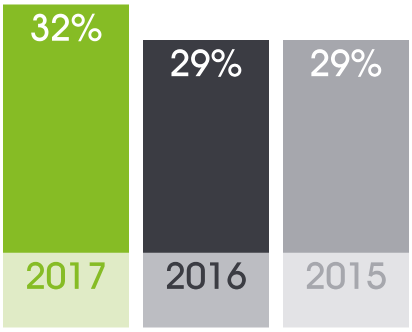
Net operating cash flow after interest

£91m

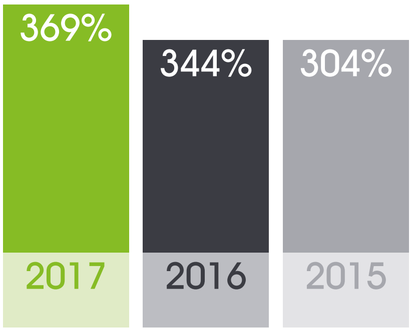
Spent on building new homes

TREASURY

Gearing



Interest cover

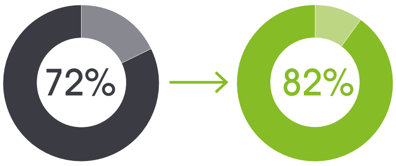


Moody's credit rating A1 among the highest in the sector

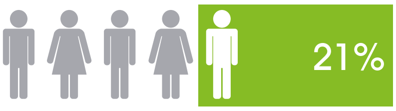
A1

OUR STAFF THIS YEAR

Increase in staff satisfaction by 10%



People who have engaged in leadership development this year



People who have enrolled in our apprenticeships programme

WHAT OUR CUSTOMERS THINK

Overall customer satisfaction

92%

Satisfaction with neighbourhoods

93%

Satisfaction with last repair

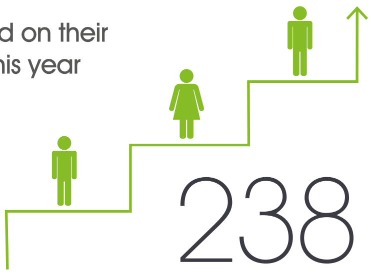
94%

Satisfaction with new homes

97%

SUPPORTING PEOPLE

Customers helped on their journey to work this year



238

Young people supported in our foyer accommodation this year

OVER 300

Strategic report

At a time of uncertainty we have continued to invest in new supported housing, which includes our flagship scheme the Nelson Project

1 Our strategy

Our vision

Our vision for the future is deliberately bold and challenging:

> customers who love what we do

> people who are excited about working here

> the best organisation in the south west.

Our vision emphasises that customers are our priority and people are integral to our success. It is also clear that our vision is a moving target that becomes harder to attain as customer and staff expectations develop and other organisations improve and innovate.

We are clear that we have some way to go in order to achieve these challenging ambitions, but we also know that they will become possible through an exciting journey with motivated staff and a clear and aspirational programme of work. We plan to devote significant energy and resource to successfully delivering this change.

Our purpose

This is clearly linked to our vision, and it sets the context for all our work:

We are a growing and developing south west housing association that builds, rents and sells homes in places where people want to live. We aim for services that are valued by our customers, through teams who are proud to deliver our success.

Our purpose connects us with the fundamental reason for DCH's existence, and it provides the themes (in conjunction with the vision) that we build implementation of our strategy around. Pursuing our purpose has been the key factor in our planned merger with Knightstone Housing Association.

Our values

Our values remain constant, together with supporting themes that clearly signpost, along with our demanding vision, the detail of our approach:

1 putting customers first

> friendly and flexible

> solving people's problems, and making things easy

> proud of what we do.

2 learning and improving

> challenging ourselves to be the best we can be

> innovating, experimenting, and listening to feedback

> excellence, efficiency and effectiveness.

3 making things happen

> pace, agility and momentum

> focusing on outcomes

> confidence and ambition, standing out from the crowd.

4 honesty, respect and leadership

> teamwork, leading by example

> optimism, celebrating success

> creating opportunities for people to excel.

Making our strategy happen: programmes and projects

Our vision and purpose drive our strategy forward and are key to us, connecting all parts of the business with shared outcomes, ensuring that every person in our teams can see their contribution to what we achieve together.

At the heart of this is that, as highlighted in both the vision and purpose, our people are integral to our ambitious plans. In addition to broader cultural change as part of our strategy, we are continuing to develop the talents of our existing staff, and recruiting and retaining the right people for the future.

We have developed a programme of major projects to deliver our ambitious strategy, focused on people and culture, as well as innovation, efficiency and service design. These projects are based on measurable metrics and milestones along the way, with clear results being achieved.

We are using our detailed work on customer insight to ensure that our services reflect our customer demographic, and are responsive to customer views. One project that has been part of this during the year has been completion of our MyAccount customer portal, enabling customers to manage their tenancy online, with further enhancements planned as part of our housing and maintenance systems replacement over the next 18 months. Other current major projects include our two new office developments, leadership development and talent management, and of course our merger with Knightstone Housing Association.

Designing our services based on intelligence, evidence and insight is allowing us to focus resources on those areas that add real value, as well as enabling us to respond to shifts in our marketplace around customer behaviour, expectations, demographics and mobility. We are already working closely with Knightstone to ensure that our post-merger organisation starts from a good position on this.

The strategy has a firm foundation in our strong financial position, and maintaining this while also maximising delivery of new homes is fundamental to our long term aspiration to be the best organisation in the south west.

We will continue to keep our stakeholders informed of progress on our strategy and our merger plans during the year.

Our significant investment in the south west will deliver over 5,000 new homes and 2 new offices

2 Business review

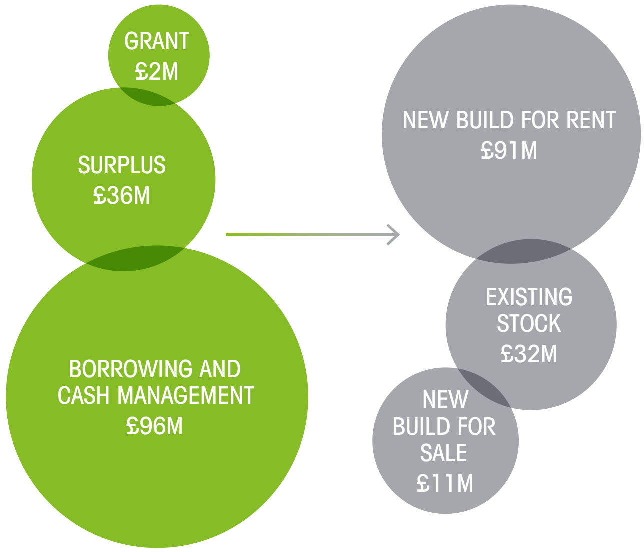
This year's sustained improvements across key business measures have delivered strong financial and customer satisfaction outcomes for us.

Operating margin has increased to 34%, reflecting DCH's continued focus on cost control and value for money (vfm) in order to minimise the impact of the July 2015 Budget rent reduction on services and investment.

Operating cash flow after net interest payments has reduced to £38m due to a £16m increase in expenditure on properties being developed for outright and shared ownership sale; however underlying cash generation remains strong supporting the significant investment in our new homes.

The following table summarises the key financial indicators for the past five years.

Financing our homes



	2017	2016	2015	2014	2013
Operating surplus as % of turnover	34%	31%	31%	26%	26%
Operating cash flow after net interest payments	£38m	£50m	£34m	£24m	£33m
Investment in new homes	£91m	£58m	£52m	£51m	£33m
Interest cover	369%	344%	304%	356%	310%
Gearing	32%	29%	29%	31%	32%
Debt as a multiple of turnover	3.3	3.2	3.1	3.2	3.3
Net debt per dwelling owned	**£19,312**	**£16,860**	**£16,688**	**£17,063**	**£16,147**

Note – 2015-2017 are calculated under FRS102. Prior years calculated under old UK GAAP.

Interest cover and gearing remain very strong with significant headroom to lenders' covenants and internal targets which underpin our strong credit rating and financial strength.

These key metrics position us well to continue to increase development, service offerings and maximise the opportunities that could result from our proposed merger.

3 Financial and operational performance

Surplus

The following table summarises our results for the last five years with the first three years being accounted for under FRS102 and the last two under old UK GAAP.

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Social housing lettings	106	103	91	82	78
Other turnover	35	28	31	29	23
Total turnover	141	131	122	111	101
Operating costs	(96)	(94)	(87)	(83)	(75)
Profit on asset disposals	3	4	2	1	1
Operating surplus	48	41	37	29	27
Net interest payable	(13)	(13)	(12)	(11)	(12)
Other	–	(1)	6	–	–
Surplus before exceptional item	36	27	31	18	15
Exceptional item	–	–	37	–	–
Surplus before tax	36	27	68	18	15

The £37m exceptional item in 2015 reflects the fair value adjustment of the West Devon Homes net assets merged into the new DCH group on 25 March 2015. This was accounted for as though the transaction was an acquisition. Without the exceptional item the net surplus was £31m.

Turnover

Underlying turnover increased by 7.3% to £141m (2016: £131m).

Social housing lettings income increased by 2.3% to £106m (2016: £103m) and continues to be our most significant income stream accounting for 75% of our turnover (2016: 79%). The overall increase reflects a 3.2% increase in new homes and a general rent reduction of 1.0% in April 2016.

Turnover on other social housing activities increased by 21% to £18m (2016: £15m) due to the increase in first tranche shared ownership sales which accounted for 78% of the total with contract income from Supporting People accounting for the vast majority of the remainder.

Turnover on non–social housing activities increased by 32% to £17m (2016: £13m) due to the increase in open market property sales.

Operating costs

Total operating costs increased by 2.5% to £96m (2016: £94m) significantly less than the increase in turnover.

Operating costs on social housing lettings decreased by 4.2% to £67m (2016: £70m).

Maintenance spend on responsive, cyclical and major repairs increased by 4%, reflecting the impact of inflation and repair costs associated with additional new build properties. However, the maintenance cost per unit comparison of £1,633 (2016: £1,744) shows a 6.3% reduction in actual expenditure per unit to the previous year reflecting the value for money (vfm) measures undertaken during the year.

Management costs decreased by 22% reflecting the cost reductions made in the current year and the significant triennial valuation pension accounting impact (£4.4m) through the adoption of FRS102 in the previous year. The management cost per unit comparison of £834 (2016: £904 excluding triennial valuation impact) shows an 8% reduction in expenditure per unit to the previous year.

Operating costs on other social housing activities increased by 16% reflecting the increase from shared ownership sales activity.

The ongoing engagement and shaping of the services we provide has contributed to our 92% customer satisfaction rating

Operating surplus

Operating surplus increased by 18% to £48m (2016: £41m) with an improving operating margin of 34% from 31% in 2016 as a result of reduced management costs and vfm activities across DCH.

The operating margin on social housing lettings activities, which accounts for 79% of the overall operating surplus also increased to 36% from 32% in 2016.

The operating margin on other social housing activities increased to 9% (2016: 5%) reflecting improved margin on continuing activities particularly shared ownership.

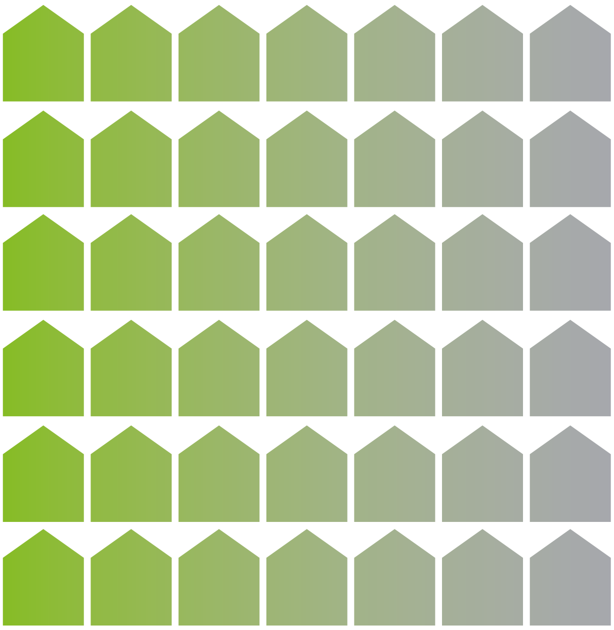
The operating surplus on non–social housing activities improved to £5m. (2016: £4m) from increased open market property sales.

Interest

Interest payable, net of interest receivable, increased by 2% to £13m (2016: £13m). Cash balances decreased to £41m (2016: £62m) reflecting internal liquidity requirements. The average cost of borrowing in the year was 2.98% compared to 3.05% in 2016 with the Group benefiting from the low interest environment.

Surplus for the year

The surplus before tax for the year increased by 35% to £36m (2016: £27m) increasing the surplus to 26% of turnover (2016: 21%).



23,579

homes managed

Summary financial position

The following table summarises the group statement of financial position for the last five years:

	FRS102			Old UK GAAP	
	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Housing properties	1,166	1,084	1,038	990	943
Other fixed assets	13	10	10	10	10
Cash	41	62	14	15	22
Loans	(465)	(421)	(378)	(351)	(335)
Grant	(384)	(387)	(386)	(438)	(432)
Derivative liabilities	(70)	(66)	(60)	–	–
Pension liabilities	(21)	(24)	(21)	(7)	(6)
Other net (liabilities)/assets	(2)	(9)	8	4	1
Net assets	**278**	**249**	**225**	**223**	**203**
Revenue reserves	277	248	221	151	143
Cash flow hedge reserve	(70)	(64)	(59)	–	–
Designated reserve	71	65	63	72	60
Total funds	**278**	**249**	**225**	**223**	**203**

Housing properties and social housing grant (SHG)

We continue to have a substantial development programme, incurring £91m in housing property cost during the year.

Funding for the year's development programme came from the following sources: £2m increase in SHG, a £44m increase in loan finance (see below), and £45m from operational cash flows and working capital.

Loans

Our group loans are all long term facilities of which 86% are repayable in more than five years' time. Of the loan portfolio of £465m, 90% are hedged against market movements. Further details are shown in the funding and treasury management section of this report and note 20 to the financial statements.

Cash flow

We continued to enjoy strong cash flow during the year delivering an operating inflow of £53m (2016: £64m) before interest payments of £15m resulting in net operating cash flow of £38m. Borrowings increased by £44m during the year resulting in a year end total debt of £465m (2016: £421m).

Reserves

Total reserves increased by £30m in the year largely as a result of the surplus for the year of £36m. A further £6m was added to the major repairs designated reserve. The cash flow hedge reserve was introduced by FRS102 and shows the year end derivative position. During the year, this reserve required £6m of additional funding as the loan swaps moved further out of the money due to lower long term rates.

4 Value for money and benchmarking

Value for money (vfm) continues to be a key driver in DCH and is based on the successful approach adopted in previous years. It is incorporated into our operational and strategic activities, and the culture and decision making of our business and each year aims to be further integrated within DCH. The way that DCH structures and reports its vfm activities for differing stakeholder groups can be found on our website at www.dchgroup.com/business/how-were-doing/vfm/

The DCH board maintains a robust and transparent assessment of the performance of all assets and resources. In doing this, we compare ourselves against a selection of Moody's rated housing associations and against a broader group of English housing associations by using HouseMark data. The Moody's benchmark group comprises AA3 and A1 rated associations of a similar size and/or operating in our geographical area. This benchmark group comprises 10 associations:

- Affinity Sutton Group Limited (now part of Clarion Housing Group)
- Bromford Housing Group Limited
- Family Mosaic Housing
- The Guinness Partnership Limited
- Moat Homes Limited
- Orbit Group Limited
- Radian Group Limited
- The Riverside Group Limited
- Sanctuary Housing Association
- Sovereign Housing Association Limited.

Benchmarking against the strongest of the Moody's ranked associations enables us to measure those areas where we are performing well and to focus on those areas where we need to improve.

We also compare ourselves with others by using HouseMark data, where available, and:

- compare our current performance to the past two years' results
- set targets as part of our stated aim of continuous improvement.

The principal focus of vfm activities within DCH is:

- generating additional financial capacity to maximise the provision of new affordable housing
- ensuring that the upward trend in improving customer satisfaction is maintained and accelerated where specifically targeted.

Fundamental to this is understanding the return on our assets.

2015/16/17 performance and targets for 2017/18:

The recent publication by the HCA "2016 global accounts and unit cost data" based on the analysis of 2016 accounts highlights that our reported headline cost figure of £3.25k per unit is on the border of top quartile of housing associations. Whilst accepting that this highlights the effectiveness of past vfm actions it does not negate the requirement to drive additional vfm efficiencies in future years (to ensure the maximisation of future strategic objectives).

Our surplus before tax for 2016/17 was better than budgeted at £36.3m (2016 £26.9m) an increase in annual surplus of £9.4m from the previous year at the same time as delivering improved overall customer satisfaction and operational performance levels.

> Benchmarking against the strongest of the Moody's ranked associations enables us to measure those areas where we are performing well and to focus on those areas where we need to improve.

Operating margin

Net margin

Our financial performance and operational cost base have been under review during the year to ensure that we are strongly positioned to deliver the 2016-19 DCH strategy in what is expected to be a more challenging and uncertain future environment.

The 2017/18 target combined management and maintenance cost per unit of £2,610, an increase of £143 (6%) from the 2016/17 actual performance, primarily reflects the increase in maintenance investment for those properties with low SAP ratings.

Operating margin as a percentage of sales is a measure that enables us to focus on the level of operating costs that we incur to deliver our turnover. Although it does not take account of relative rent levels within the benchmark group, which vary as rent is calculated on a county by county basis, it is an area that we have focussed on with great success in the last year.

The 2016/17 operating margin of 34.4% represents more than a 3% improvement on both the 2015/16 actual performance and in year target.

Our target in future years, where social housing rent is subject to an absolute 1% reduction, is at least to maintain a level of 32% for landlord operating margin and focus on measures to improve this year on year and close the gap to the higher percentage performers in this peer group. The future focus on landlord operating margin is important as the planned increases of lower margin outright and shared ownership sales reduces the total overall operating and net margin performance.

Net margin as a percentage of sales – the main movements compared to operating margin are primarily due to asset disposals and interest payable. A significant increase in our net margin in the year to 25.8% (2016: 20.5%) resulted from the improvement in operating margin, along with our active asset management approach to our stock. In 2016 and 2017 net interest payable was c10% of turnover, the second lowest of this peer group with a significant proportion of our loan portfolio covered by fixed interest rate hedges.

Our strong financial performance represented by our underlying surplus, ensures that we generate a significant level of cash that is used to build much needed new homes in our region.

In the 2016/17 year we spent £91m (2016: £58m) on the purchase of new homes.

This actual and continual investment in the south west not only adds to the supply of homes but also helps to stimulate economic growth in the region.

Activities generated in year from the procurement strategy have delivered significantly increased annual vfm gains of £2,301k (2016: £1,591k) including the direct cashable procurement savings from being a member of the Advantage South West (ASW) consortium procurement club.

Vfm improvements are supported by a strong framework of performance management and scrutiny. During the year, our strategic customer panel ServiceWatch has carried out several service reviews, with a particular focus on vfm from a customer perspective.

In order to assess overall vfm performance in the year, we have used the following criteria to measure whether additional value has been delivered:

A Service outcomes that reflect customer perceptions

B Service outcomes that deliver cash benefits

C Providing new homes to meet need.

A Service outcomes that reflect customer perceptions

Overall customer satisfaction

Management cost per unit

Customer satisfaction at 92% in the year (2016: 93%) represents a consolidation of top quartile performance from the previous year and is a strong performance compared to the benchmark group with the target for 2017/18 aimed at maintaining this high performance level. This indicates how our customers value the service DCH provides and this score reflects the organisational focus of achieving our strategic aim of ensuring that "customers love what we do".

The management cost per unit of £834 for the year has maintained the trend of reduced costs with a £70 (8%) reduction placing DCH cost at the median of the peer group.

This demonstrates a clear efficiency gain in 2016/17 with the focus for 2017/18 being to consolidate this significant improvement whilst delivering the stretching programme of strategic plan projects. This has resulted in a target of £837 being set with the requirement for an additional recurring £1m cost saving to be delivered in 2018/19 all of which is set against a requirement to maintain the current high level of customer service.

Satisfaction with repairs

The overall repairs satisfaction performance at 80% shows a consolidation from the previous year, however, we have not met the target set in last year's report. The target for 2017/18 of 84% reflects the expectation that the specifically focused customer service improvement plan for this indicator, currently being implemented, combined with the expected increasing satisfaction from improvement in customer service centre call handling will deliver the targeted performance levels.

Maintenance cost per unit

Maintenance cost per unit has reduced in the year by £111 per unit to £1,633 (2016: £1,744) and now compares favourably against the peer group by being below the average. It is also better than the target set in last year's report by £69 as a result of significant vfm efficiency gains from the insourcing voids and cyclical programmes. The 2017/18 target of £1,773 per unit, an increase of £140, reflects our decision in the year to invest significantly in energy efficiency work to our existing homes over the next five years to deliver strategic aim of ensuring that "customers love what we do".

B Service outcomes that deliver cash benefits

GN and Sheltered rent void loss

We continue to perform well in the areas of rent void loss and bad debt loss both generally and when compared to the Moody's peer group. We have focused resource in these areas to minimise the cash impact of voids and bad debts.

Our void loss shows a continued year on year performance improvement resulting in a top decile performance of 0.4% which equates to a £0.1m saving on the target. The continued focus for incremental improvement actions have been based around internal process reviews.

Bad debt loss (social housing)

The 2017/18 targets of 0.4% for both void and bad debt loss will consolidate the continued improvement trend and will either provide additional vfm gains or depending on implementation time scales mitigation against the adverse impacts of Universal Credit.

C Providing new homes to meet need

We continued to have a substantial social housing development programme funded principally by a mixture of private debt, internal subsidy and government grant.

In 2016/17 we developed 608 new rented and shared ownership homes and in addition 26 new homes for market rent were developed representing the initial tranche of this portfolio. This is an increase of 164 properties from the previous year's level and represents a significant contribution to increasing affordable housing units in the south west supported by an overall customer satisfaction rating with their new home at 97%.

The current development programme (2017-22) included within the DCH business plan is for the provision of 3,699 new affordable and market rented houses funded primarily by loan finance and internal subsidy. The additional tenure types contained within the future programme reflect the requirement of creating a rental income stream which is not reliant upon central government grant whilst enabling additional rented housing to be built.

We continued to generate significant funds from the development of properties for open market sale.

In 2016/17, Westco, our open market development subsidiary, sold 121 homes achieving a profit of £3.2m that was paid as Gift Aid to DCH. In response, and partially to compensate for the reduction in future social housing income, the Westco business plan (2017-2024) has increased the targeted Gift Aid by £11.3m to £41.8m through increasing the units for open market sale to 659.

Five years to 2021/22: actions to increase vfm returns

In addition to the continuing review of cost structures undertaken during the year and factored into budgets for 2017/18, the actions listed below will contribute to the delivery of group strategy objectives, with the focus being to increase financial capacity to provide additional units of rented housing. They are split into operational financial actions and return on assets, as set out below:

- operational financial actions
- return and future return on assets.

Operational financial actions

A) Cost control

Our five year rolling operational and financial plan is based on setting a series of annual vfm targets focused on driving financial capacity from the business.

Building upon the detailed cost reviews undertaken in the past a further £1m of management and £1m of maintenance recurring cost savings have been included in the plans for delivery in 2018/19. This will represent a significant financial efficiency gain and in conjunction with targeted improvement/consolidation in a range of qualitative KPIs represents a significant overall vfm gain. This overall saving will guarantee additional cash to build in excess of 13 additional properties per annum by 2018/19 with no increase in borrowing, or a substantially larger number if we were to treat this in the same way as grant, leveraging the support of private finance.

B) Return from open market sales

In response to the challenging social housing financial environment we have looked to mitigate this risk by approving a revised more ambitious Westco business plan. The plan targets an increase in Gift Aid return to us over the previous plan by £3.9m to £35.4m. This will generate more than 275 new rented homes on a cash-funded basis, or substantially more if supported by loans as set out above.

In total the DCH board has approved a five year development programme providing 3,699 new rented homes starting in 2017/18.

Economic, social and environmental returns on assets

A) Economic return on assets

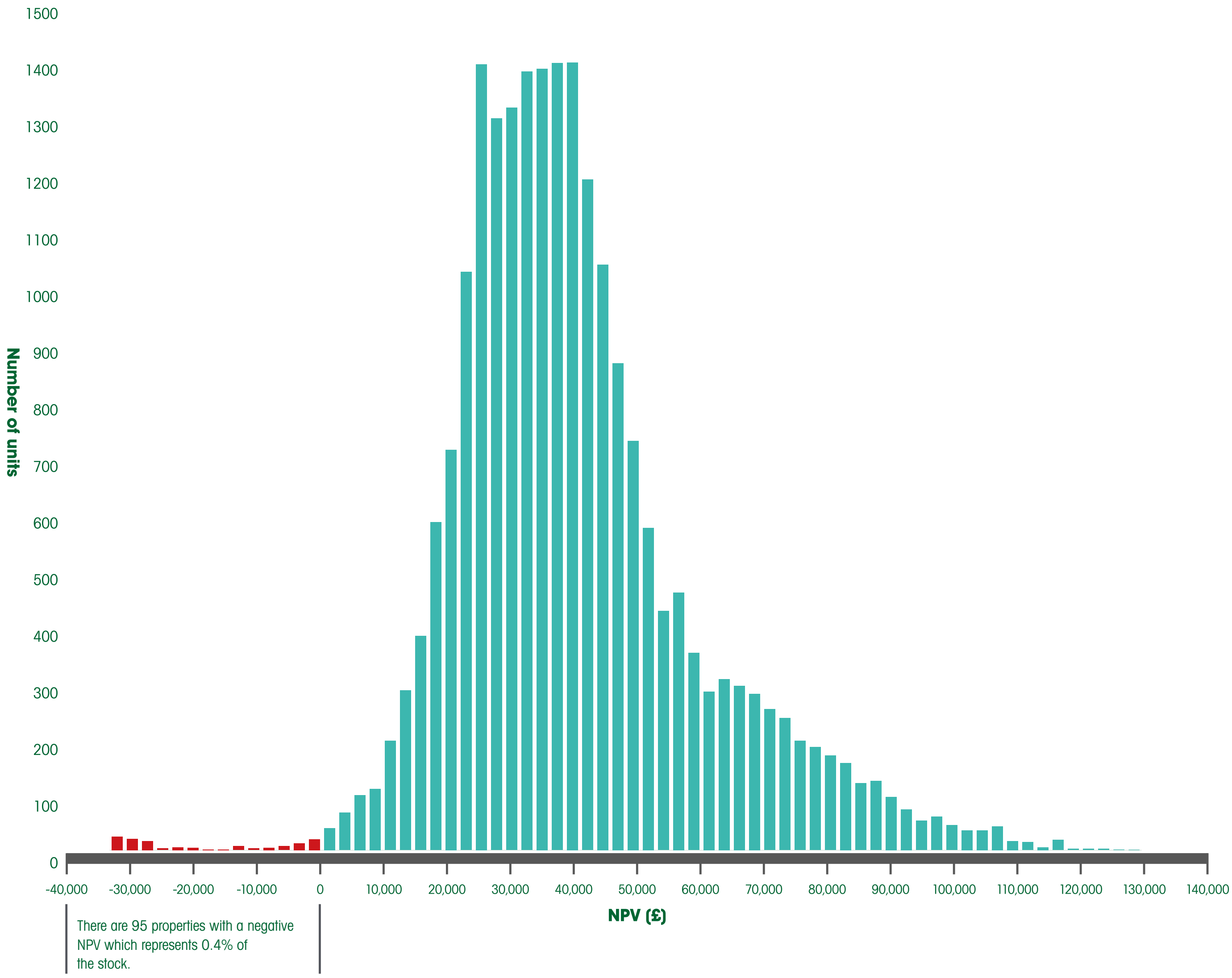
The operational return on asset framework, which calculates the NPV and yield for every DCH property, enables a management view of the performance and operational fit of each DCH asset to support decisions to maximise the delivery of our strategic objectives.

The following key criteria are used to review each property and assess whether to retain or dispose:

- NPV of less than £30,000 using a 5% discount factor
- proximity to other properties and stock density
- void performance in terms of turnover, rent loss and void repair cost
- major repair costs over 30 years in excess of £25k
- NPV as a multiplier of open market value
- SAP rating less than 45.

The table below illustrates the NPV distribution of the stock that forms the basis of the return on asset review:

DCH stock NPV portfolio



Using the data we have identified a portfolio of properties where disposal would generate greater benefit to DCH than retention. This portfolio has been prioritised to create an outline two year disposal programme.

The outcome of using the evaluation framework in 2016/17 is that 41 properties have been disposed of (in addition to garages, car parking spaces and surplus land) resulting in a cash receipt of £3.2m. The sale proceeds are hypothecated for financial planning purposes to the delivery of new affordable rented properties providing the capacity to build more than 20 units.

B) Social return on assets

The majority of the cash generated from the surplus in any year is used to fund borrowing to build more affordable homes, while part of the cash generated is used as a social dividend to be reinvested into communities where we operate.

Our Community investment (CI) strategy maximises vfm output by creating communities where people want to live and contribute through a combination of:

- support for individuals to enable them to sustain their tenancies successfully and develop skills to widen the opportunities and choices available to them
- development of a range of services to address identified gaps and accessibility issues, build capacity, resilience, skills and create opportunities within communities
- support for economic and social regeneration.

Building on the platform put in place last year, our CI strategy is focused on delivering outcomes in four key areas:

- **employment skills and enterprise,** creating 21 direct apprenticeship opportunities under the DCH scheme (bringing the total to 34 in the past 18 months), supporting 238 residents through DCH's employment support programme (DCH Workhub), providing 74 bursaries to individuals or grants to overcome barriers to employment or support training, 61 people have gained employment and 15 people have been provided with support and grants to start their own business
- **financial inclusion,** through dedicated Financial Inclusion Advisers we have supported 339 households and unlocked over £900,000 of benefits, including working with 178 households directly affected by the reduced benefit cap. DCH has also facilitated eight financial inclusion workshops with an additional 120 residents engaging with this support
- **community sustainability,** engaging 2,454 DCH residents in activities, supporting nine community facilities and recruiting 89 volunteers
- **health and wellbeing,** supporting 36 health and wellbeing projects, 16 gardening projects, six cookery projects and three sports projects

A full copy of the DCH approach to community investment can be found on our website at www.dchgroup.com/business/what-we-do/invest-in-communities

C) Environmental return on assets/resources

We are accredited with ISO14001 for our environmental strategy, achieving the international standard for environmental management. The standard requires that the environmental impacts of our business are identified, monitored and subject to continual improvement.

As set out in last year's report our homes with the lowest-performing energy efficiency, defined as having a SAP rating below 45, are planned to have energy efficiency improvement works in 2017/18. This work, in conjunction with the targeting of low SAP rating properties as part of the asset disposals programme, has contributed to our average SAP energy efficiency rating for our homes increasing marginally in the year to 68. This compares to the UK average home SAP of 57, and the HouseMark average of 71.

During the year the DCH board also made a significant decision to improve the existing energy efficiency performance of our stock by providing an additional £18m to fund improvement over the next five years. The detail of the types of properties and the form of improvements to be carried out will be completed in the first part of the year with the programme of works starting afterwards.

As part of implementing the strategy we have also introduced comprehensive monthly monitoring of energy use, waste and recycling in our offices.

A full copy of the DCH environmental strategy and key data can be found on our website at www.dchgroup.com/business/who-we-are/commitment-to-the-environment


In the past year DCH staff and customers have donated over 2,500 hours of volunteer time

5 Property development and sales

Having delivered our largest ever development programme in 2016/17, we are in a great position to deliver our growth ambition plans of 3,700 affordable homes over the next five years.

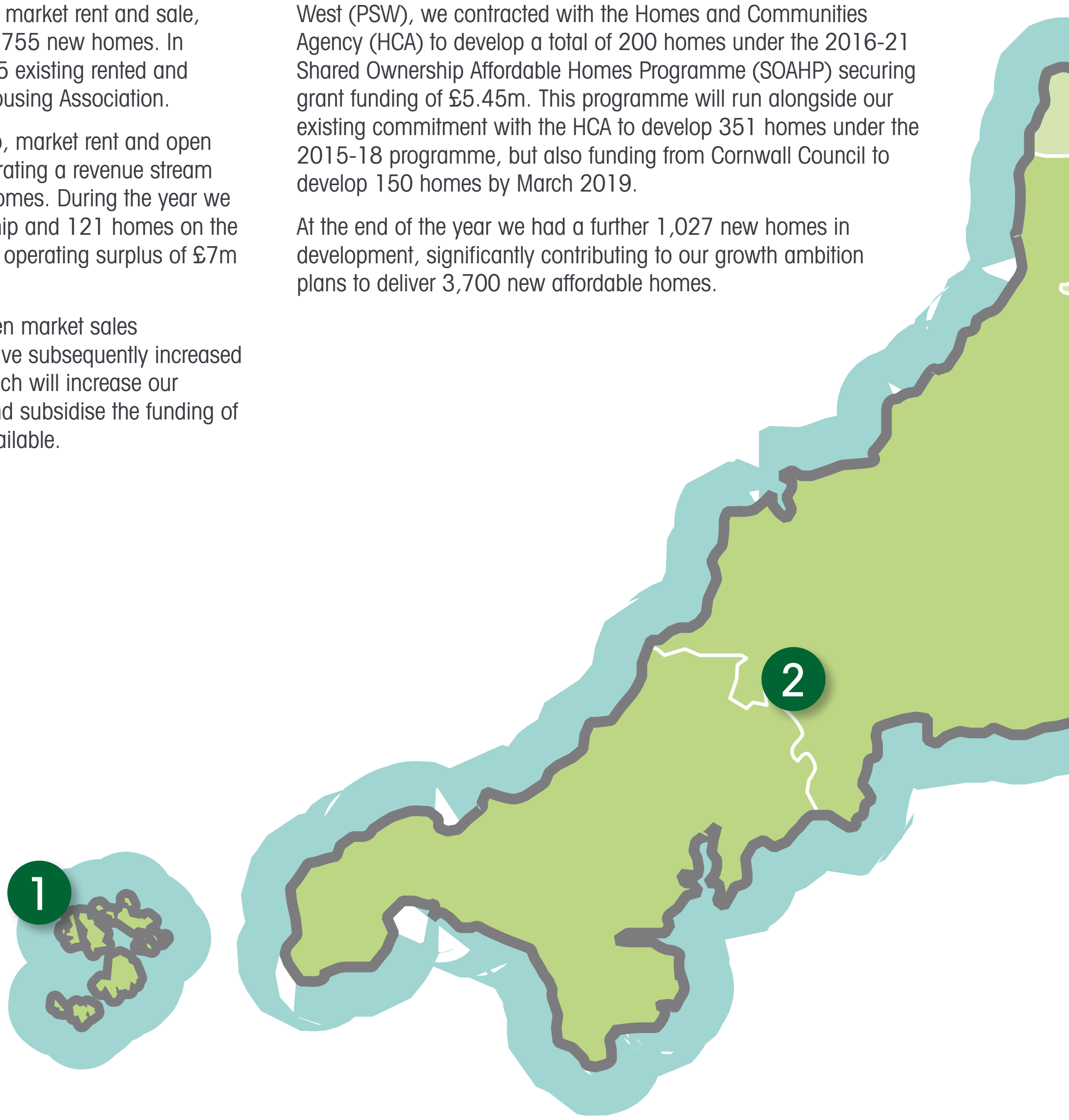
During the year we completed 608 new affordable homes for rent and sale, together with 147 for open market rent and sale, delivering our largest ever annual total of 755 new homes. In addition, we also purchased a further 165 existing rented and shared ownership homes from Magna Housing Association.

Our focus on delivering shared ownership, market rent and open market sale homes remains strong, generating a revenue stream to support our investment in affordable homes. During the year we sold 168 new homes for shared ownership and 121 homes on the open market. This generated a combined operating surplus of £7m (up from £5.3m in 2015/16).

During the year we also reviewed our open market sales programme for the next five years and have subsequently increased our growth ambitions to 641 homes, which will increase our targeted Gift Aid by £3.9m to £35.4m and subsidise the funding of new homes where capital grant is not available.

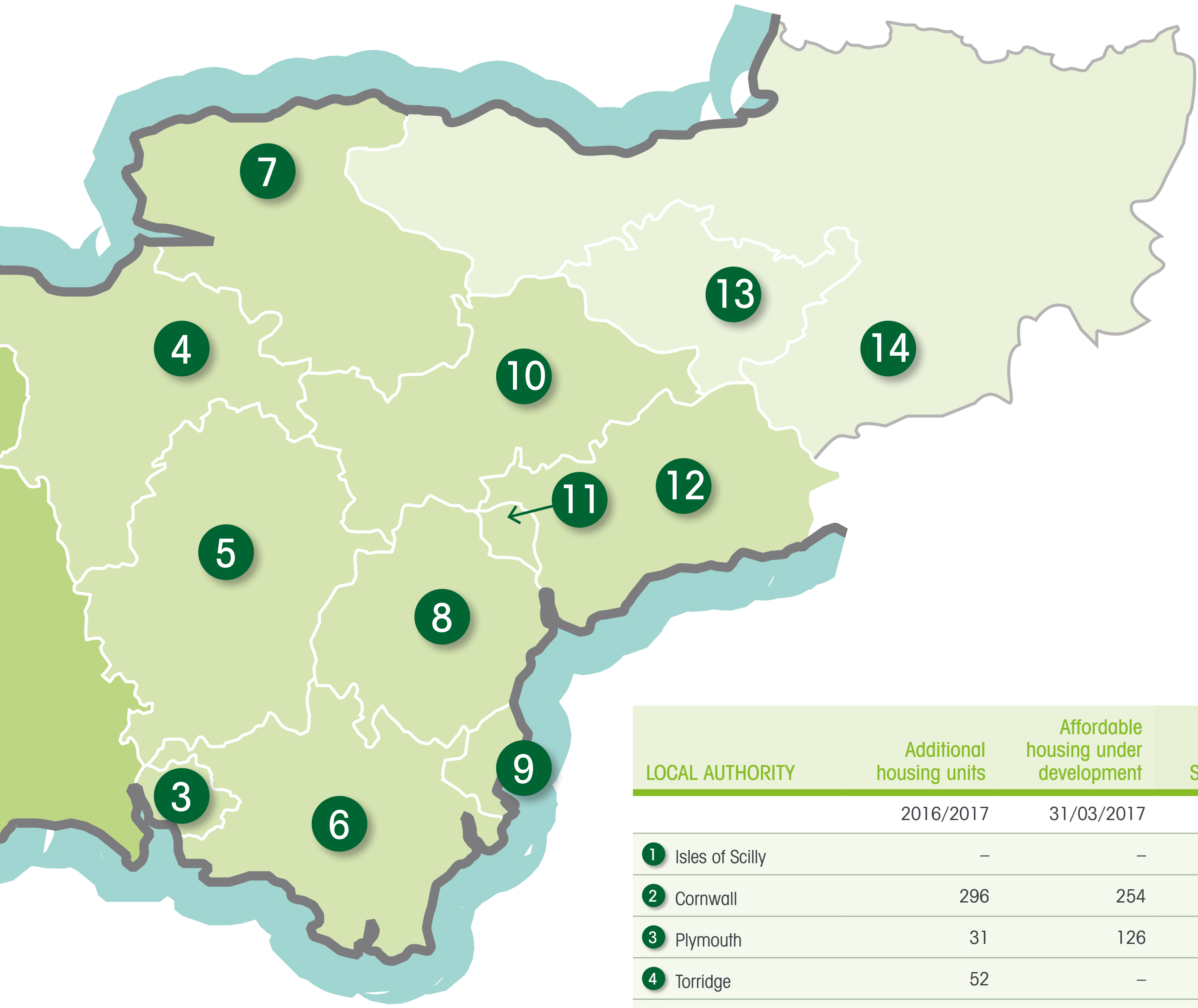
As part of leading the development consortium, Partnership South West (PSW), we contracted with the Homes and Communities Agency (HCA) to develop a total of 200 homes under the 2016-21 Shared Ownership Affordable Homes Programme (SOAHP) securing grant funding of £5.45m. This programme will run alongside our existing commitment with the HCA to develop 351 homes under the 2015-18 programme, but also funding from Cornwall Council to develop 150 homes by March 2019.

At the end of the year we had a further 1,027 new homes in development, significantly contributing to our growth ambition plans to deliver 3,700 new affordable homes.



KEY: DCH HOUSING STOCK 2016/17 ACROSS DEVON AND CORNWALL	
Stock	23,579
Affordable housing and market rent completions	634
Affordable housing under development	1,027

ADDITIONAL HOUSING UNITS	
Social rented – general needs	96
Affordable rent – general needs	338
Shared ownership	174
Market rent	26
Sub total	**634**
Magna Homes	165
Total	**799**



LOCAL AUTHORITY	Additional housing units	Affordable housing under development	STOCK
	2016/2017	31/03/2017	
1 Isles of Scilly	–	–	27
2 Cornwall	296	254	9,537
3 Plymouth	31	126	2,917
4 Torridge	52	–	759
5 West Devon	–	10	1,908
6 South Hams	50	110	3,709
7 North Devon	134	133	801
8 Teignbridge	28	99	707
9 Torbay	21	18	590
10 Mid Devon	38	63	277
11 Exeter	26	23	936
12 East Devon	90	177	1,346
13 Taunton Deane	33	10	65
14 South Somerset	–	4	–
Grand Total	**799**	**1,027**	**23,579**

TOTAL NUMBER OF HOMES SOLD ON THE OPEN MARKET	121

DCH HOUSING STOCK	
2015	22,550
2016	22,882
2017	23,579
This included 505 supported houses	

6 Funding and treasury management

As at 31 March 2017, we had committed debt facilities of £635m (2016: £532m), of which £170m was undrawn. During the year, we borrowed £42.5m at fixed rates, and arranged a £60m seven year revolving credit facility.

The treasury function operates within a framework of clearly defined policies and strategies that are monitored by the board and reviewed annually.

The group was compliant with its covenants to lenders in the year to 31 March 2017.

Liquidity

We have liquidity of £211m; £170m undrawn loans and £41m cash deposits.

In addition to the undrawn facilities of £170m, at the year end we had £41m in cash. This provides us with sufficient liquidity to cover 24 months planned expenditure as required by our treasury policy.

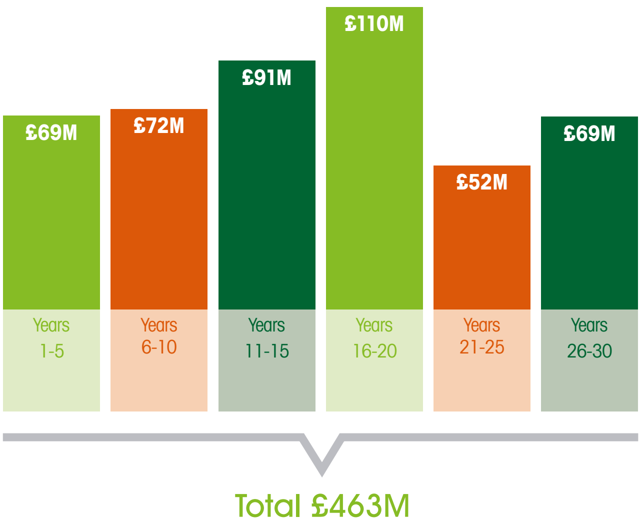
Security

All but £60m of our facilities are fully secured and available for drawing. As at 31 March 2017, 7,183 properties (2016: 6,929) with a security value in excess of £492m were uncharged and available to secure future borrowings.

Refinancing

We have limited short to medium term refinancing risk with less than 15% of drawn loans repayable within the next five years.

Debt repayment profile



Interest rate risk

The board sets targets of fixed, variable and index linked debt in order to manage our risk to changes in interest rates which are monitored against market conditions throughout the year by the Treasury committee, Executive Management team and our advisors.

As at 31 March 2017, £350m of our borrowings were variable rate loans of which £274m has been hedged with freestanding and £30m with embedded fixed interest rate swaps. Overall, 90% of our debt is at fixed rates.

We also have an indirect exposure to bond rates through our pension scheme commitments.

INTEREST RATE BASIS

Fixed <5 years	17%
Fixed >5 years	73%
Index linked	<1%
Variable	10%

Credit risk

Our treasury management policy sets the minimum credit rating requirements for all approved forms of deposit and the limits on credit exposure to any one counterparty. All counterparties are approved by our Treasury committee. The policy also covers counterparty credit risk on free standing derivatives.

Market prices

We have no direct exposure to equity securities price risk but do have an indirect exposure in respect of obligations under the Social Housing Pensions Scheme and Devon County Council Superannuation Fund.

Margin call

We have free standing derivatives which can give rise to margin calls. This risk is managed by charging additional properties as security. Our approach in this area is cautious and sufficient properties are secured to cover margin calls in the event of a fall in long term interest rates of 0.5%.

We supported 36 health and wellbeing projects, 16 gardening projects, six cookery projects and three sports projects

7 Managing our risks

Risk management strategy and process

Our approach to risk management is built on the framework and processes put in place in previous years. It is based around a risk management strategy which aims to provide a high level of transparency to risk consideration and to ensure the accountability and ownership of risk management is successfully embedded throughout DCH's governance framework.

One of the key aspects of the framework is that the board has delegated to the Audit and Risk committee (ARC) the responsibility for measuring and monitoring risk, whilst receiving a group risk summary at each meeting.

Individual committees within the DCH governance framework are designated specific risks which they are responsible for reviewing, assessing and risk horizon scanning at each meeting and subsequently reporting to ARC on any changes to the risk scoring or narrative. Each risk is allocated to a member of the Executive Management team for monitoring and evaluation of the current business impact.

During the year the board has undertaken a risk appetite exercise in conjunction with evaluating and considering the revised business plan. The results of assessing the board's risk appetite are being used in future planning and strategy discussions.

The risks affected by the proposed merger with Knightstone Housing Association have been identified and will be incorporated into future risk map reviews.

The ARC reports to the board on the complete risk register.

DCH risks and responses as at 31 March 2017

The DCH risk map documents the group risk exposure with the following being identified as key risk factors which whilst we operate in a challenging and changing environment are consistent with the previous year. The movement illustrates our assessment compared with last year:

KEY: RISK LEVEL MOVEMENT

INCREASE	^
UNCHANGED	>
DECREASE	V

MOVEMENT	V	HOUSING MARKET AND DEVELOPMENT
Risk		We have ambitious five year plans for both increasing the number of rented units and the surpluses generated from open market and shared ownership sales.
Mitigation/Actions		The Development Review group enables a complete risk overview of DCH housing market activity (sales and affordable units) to be undertaken on a monthly basis. Key controls in place include: » value at risk limit of £15m » liquidity monitoring (minimum 2 year cover) » detailed reporting of financial indicators against business plan assumptions » contractor exposure limits. Potential housing market scenarios have been stress tested in the business plan with the output tested against proposed mitigating actions to assess the residual level of risk exposure. Early warning trigger levels have been established which, if breached, would lead to implementation of the relevant mitigating actions. Key risk actions in the next twelve months are to continue working to ensure that a forward programme of planning consents, an appropriate land bank is delivered and that our business plan targets are achieved.
Commentary		During the year much greater certainty over the delivery of the increased affordable and open market sales programme has been achieved by securing planning consents and increased joint venture partner engagement which has resulted in a reduction in risk exposure. There still remains significant risk exposure to a housing market slowdown, resulting in lower than anticipated demand and/or sales proceeds which would impact both shared ownership and outright sales profits.

MOVEMENT	∨	WELFARE REFORM AND INCOME REDUCTION
Risk		Our principal form of income is through rents with the current and proposed future reforms to the welfare and benefits system having a detrimental impact.
Mitigation/Actions		We are working closely with our customers to understand their circumstances and the impact of the changes to ensure their tenancies are sustainable. Key controls in place include: » weekly monitoring of arrears and void performance » mitigation plans in place for known welfare reform changes. The current top quartile arrears and void performance provides a strong operational framework to deal with future changes.
Commentary		The continuing delay in providing clarity over the details and scope of the implementation of the Local Housing Allowance and Single Room Allowance is requiring us to have a high level of engagement with those residents potentially affected. The key impacts of the revised legislation will be felt from April 2019 onwards.

MOVEMENT	>	HEALTH AND SAFETY
Risk		We have a risk exposure to ensure we comply with our health and safety obligations to the wide range of stakeholders we deal with in our business.
Mitigation/Actions		We have a dedicated in house Health and Safety team reporting into the quarterly Health and Safety committee to ensure that the required monitoring, reporting and actions are being undertaken. Key controls in place include: » monthly reconciliation of heating units to servicing records » monthly confirmation of fire risk assessments and monthly actions being undertaken » externally accredited health and safety policy and strategy » training matrix for staff and managers » externally audited quarterly service compliance checks » OHSAS 18001 accreditation.
Commentary		Active management of health and safety issues is carried out by the Health and Safety team which deals with day to day issues. A quarterly strategic group receives escalation of operational issues and address policy and high level performance. The tragic events of the Grenfell Tower disaster have led DCH to review the current fire safety arrangements and previous maintenance work for relevant properties and conclude these mitigate known risks.

MOVEMENT	>	FINANCIAL
Risk		Our continuing financial strength underpins the delivery of all strategic aims and in particular building new homes and investing in services for customers.
Mitigation/Actions		The impact of the rent reductions in the Welfare Reform and Work Act 2016 has been incorporated into the 30-year business plan. A range of detailed scenarios covering key assumptions have been tested on the business plan including differing post 2020 rent structures which demonstrate our continued financial strength. Key controls in place include: » monthly financial reporting » short and midterm financial planning framework setting key » operating financial targets (incorporating efficiency targets) » quarterly treasury report covering loan, security and cash flow.
Commentary		The previous reviews to identify and remove cost whilst maintaining or improving service delivery levels have been successful resulting in improvements in 2016/17 key operational financial indicators in the first year of the 1% rent reduction.

MOVEMENT	>	PENSION SCHEMES
Risk		We provide defined benefit and defined contribution pension schemes that create ongoing and variable financial obligations on DCH.
Mitigation/Actions		In addition to previous changes that we have made to the Social Housing Pension Schemes (SHPS), during the year all outstanding liabilities associated with the Cornwall Local Government Pension were paid in full. The Devon scheme is closed to future accrual with annual payments made against the funding deficit with security in place to cover the liability.
Commentary		We continue to keep under review the appropriateness of remaining in the multi-employer SHPS plan compared to an "own name" scheme administered by the Pensions Trust.

In addition to the highlighted areas the DCH risk map and risk process ensures that the following remaining areas of risk exposure are considered and evaluated:

- provision of front line services
- business continuity
- strategy and governance
- provision of corporate services
- reputational.

Angela Dupont, Group Chairman, 10 August 2017

Group structure and corporate governance

Strong and clear leadership of all our subsidiaries within the group ensure they remain financially viable and well governed

Devon and Cornwall Housing Limited (DCH) is the parent company of our group, providing strong, clear leadership and directing our resources across the 23,579 properties we own or manage. It is registered under the Co-operative and Community Benefit Societies Act 2014 and is registered with the Homes and Communities Agency as a provider of social housing.

Our single DCH identity is fundamental to supporting our strategy, giving clarity to stakeholders, and delivering substantial vfm benefits. During the year we have implemented further governance changes, in relation to landlord services, building on the enhanced committee structure introduced last year to support the DCH board at a time when the housing association sector is going through significant legislative and regulatory change.

We have retained specialist companies within our group structure and these are listed on page 84.

The section below sets out details of our corporate governance, including:

1. **the DCH board**
2. **board skills, recruitment and training**
3. **our committees**
4. **ServiceWatch**
5. **our Executive Management team, and internal oversight of operational management**
6. **regulation.**

We have adopted the National Housing Federation's code of governance and comply with the 2015 version except in respect of board tenure. Paul Love will be retiring on 8 October 2017 after serving ten years in total; his tenure having been extended by one year to provide continuity during the early years of the amalgamation of DCH and WDH in March 2015.

1 Our board

Devon and Cornwall Housing Limited (DCH) is governed by its board, which is ultimately responsible for the control of the group, including the determination of its overall objectives and strategy.

Our board has the power to direct the use of our financial resources in order to deliver our strategy. Our board monitors the performance of all subsidiaries within the group to ensure that they remain financially viable and conduct their affairs properly.

The board consists of non-executive members from a wide variety of disciplines and backgrounds along with the Group Chief Executive and the Group Director of Finance. All non-executive board members are required to be shareholders of DCH.

The current board members are shown in the company information section of this report.

Members of the board are required to direct the affairs of the company in accordance with its rules. In addition board members are required to exhibit the highest standards of probity and in particular to:

- have no financial interest either personally or through a related party in any contract or transaction with the group except as permitted under the DCH rules
- act only in the interests of the group whilst undertaking its business.

The DCH board has met seven times during the year.

2 Board skills, recruitment and training

Direction of the group requires a wide set of skills, qualities and experience. No one board member is expected to exhibit all skills that are needed but, collectively the board has amongst its membership a range of skills, experience and understanding of corporate governance, general business strategy and management, finance, property investment and property development and management.

Board members are paid for their services, with pay levels set following an independent assessment of comparable organisations. Board pay is accompanied by clear expectations of individual and collective board member performance, with appropriate frameworks in place to manage this.

During the year, the board reviewed its succession plan and strengthened its representation of customer services skills by the appointment of John Newbury in October 2016.

3 Our committees

The board is supported by five functional committees covering audit and risk, treasury, customer services, remuneration, and a development review group for the oversight of development activities.

Audit and Risk committee

The Audit and Risk committee is responsible for monitoring and reporting to the board on the group's systems of internal control and risk assurance, regulatory compliance and for overseeing internal and external audit.

It consists of up to five non-executive board members appointed from the DCH board, based on skills and experience, including at least one member with recent and relevant financial experience suited to reviewing the work of audit. The committee met six times during the year.

Treasury committee

The Treasury committee is responsible for the governance of treasury activities within the group and for proactively monitoring treasury risks and related matters.

It consists of up to five non-executive board members appointed from the DCH board, including at least one member with recent and relevant treasury experience and also the Group Director of Finance. The committee met five times during the year.

Customer Services committee

The Customer Services committee is responsible for oversight of customer services, including landlord services performance and risks, complaints and other matters.

It consists of five non-executive members, including two from the DCH board and two residents, the Group Director of Asset Management and the Group Director of Strategy & Performance. The Customer Services committee met three times during the year following its establishment in late September 2016.

Remuneration committee

The Remuneration committee is responsible for setting the level of board pay, the remuneration of the Group Chief Executive and the Executive Management team, the reward and recognition strategies for DCH staff.

It consists of up to five non-executive board members. The Remuneration committee met three times during the year.

Development Review group

The Development Review group is responsible for reviewing the group's overall development activity and monitoring development risks and related matters.

It consists of three non-executives from the DCH board, the Group Director of Development, the Group Director of Finance and the Group Chief Executive. The Development Review group met 18 times during the year.

4 ServiceWatch

ServiceWatch is our strategic customer panel that scrutinises our work at local levels to ensure we are taking full account of resident views and priorities.

The success of ServiceWatch is of key importance to DCH as effective scrutiny is intrinsic to supporting both strong governance and effective service delivery. It puts residents in the lead, takes a fresh eye to scrutinising our work and delivering results and in particular emphasises vfm from a customer perspective.

ServiceWatch prioritises its areas of review based on performance levels and customer satisfaction, as well as requests from the board.

ServiceWatch met eight times during the year.

5 Our Executive Management team and management working groups

Our Executive Management team has delegated authority from the DCH board and the boards of the subsidiary organisations for:

- the day to day operations of the group
- monitoring our operational performance and reporting appropriately to our board and the boards of our subsidiary organisations
- implementing policies and strategies agreed by our board and the boards of the subsidiary organisations, reviewing those policies and strategies and proposing changes as appropriate.

The members of the Executive Management team are shown in the company information section of this report.

As the size and complexity of our operations have grown, we have recognised the need to ensure that the Executive Management team is able to focus on the continuing development and delivery of our strategy, while a strong second tier of management focuses on operational performance.

Reporting to the Executive Management team are a number of specific working groups comprising of lead senior managers across the business, providing oversight and decision making across performance, risk, internal audit, vfm, and other matters.

6 Regulation

The regulator's assessment on compliance with its Governance and Financial Viability Standard is expressed in grades from G1 to G4 for governance and V1 to V4 for viability. For both governance and viability the first two grades indicate compliance with the standard.

The current Regulatory Judgement published on 30 November 2016 on the Homes and Communities Agency (HCA) website in respect of DCH's governance is:

- G1 – The provider meets the requirements on governance set out in the Governance and Financial viability standard.
- V1 – The provider meets our viability requirements and has the financial capacity to deal with a wide range of adverse scenarios.

Strong leadership from our board is fundamental in delivering our strategy, giving clarity to our stakeholders and remaining financially viable.

Board report

Last year we invested £91m into new housing to provide three homes for families every working day

The DCH board presents its report and audited consolidated financial statements of the company and its subsidiaries (the group) for the year ended 31 March 2017.

Internal controls and directors' responsibilities

Internal controls assurance

The board has overall responsibility for establishing and maintaining the whole system of internal control and for reviewing its effectiveness. This responsibility applies for all organisations within the group, including those not registered with the Homes and Communities Agency.

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

In meeting its responsibilities, the board has adopted a risk based approach to establishing and maintaining internal controls which are embedded within day to day management and governance processes. This approach includes the regular evaluation of the nature and extent of risks to which the company is exposed.

The process for identifying, evaluating and managing the significant risks faced by the group is ongoing. It has been in place throughout the period commencing 1 April 2016 up to the date of approval of the annual report and financial statements.

The arrangements adopted by the board in reviewing the effectiveness of the system of internal control, together with some of the key elements of the control framework, include:

- leadership by the board and its subsidiary boards in analysing the strengths, weaknesses, opportunities and threats of the group
- requiring a risk assessment before any board decision is made, and by the Audit and Risk committee reviewing internal control and major risks of the group
- clear delegation of responsibility for risk management within the organisation as documented in the financial regulations and standing orders, board and committee terms of reference, individual job descriptions and group risk map
- active regular assessment of risks by boards, committees and management and a formal annual review of risks and controls in place to manage them
- accountability for risk management through formal reports by boards, committees and management to the Audit and Risk committee and to the boards
- embedding risk management into the culture of DCH by ensuring that risk is assessed as part of the decision making process by management and a proactive approach to identifying changes in risks and controls
- using external means of validation through regular risk-based audits and acting on resulting recommendations
- a DCH anti-fraud policy, covering prevention, detection and reporting of fraud, the recovery of assets and review of entries in the fraud register by the Audit and Risk committee.

In meeting its responsibilities, the board has adopted a risk based approach to establishing and maintaining internal controls which are embedded within day to day management and governance processes.

Statement of board's responsibilities in respect of the financial statements

The board is responsible for preparing the board's report and the Group and Company financial statements in accordance with applicable law and regulations.

Co-operative and Community Benefit Society law requires the board to prepare financial statements for each financial year. Under that law the board have elected to prepare the financial statements in accordance with UK Accounting Standards, including FRS102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

The financial statements are required by law to give a true and fair view of the state of affairs of the Group and the Company and of the income and expenditure of the Group and the Company for that period.

In preparing the Group and Company financial statements, the board is required to:

> select suitable accounting policies and then apply them consistently;

> make judgements and estimates that are reasonable and prudent;

> state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and

> prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The board is responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014, Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and the Company and to prevent and detect fraud and other irregularities.

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

Governance and Financial Viability Standard

The Group monitors its ongoing compliance with both the economic and consumer Regulatory standards and compliance is reported to the Board on an annual basis with any changes or implications arising within the year being reported on an ad hoc basis. As at the reporting date the Board can confirm that they comply in all material respects with the standard.

Going Concern

The board, after reviewing the group and company budgets for 2017/18 and the group's medium term financial position as detailed in the 30-year business plan, is of the opinion that the group and company have adequate resources to continue in business for the foreseeable future. The board therefore continues to adopt the going concern basis in preparing the annual financial statements.

Provision of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

A resolution to re-appoint KPMG LLP as auditors will be proposed at the forthcoming annual general meeting.

Report of the board

The report of the DCH board was approved on 10 August 2017 and signed on its behalf by:

Angela Dupont, Group Chairman

Lauren and Sophie are just two of the 34 apprentices we have employed in the last 18 months

Independent auditor's report

We manage over 23,500 homes across Devon, Cornwall and Somerset, including rent, leasehold and shared ownership

Independent auditor's report to the members of Devon and Cornwall Housing Limited

We have audited the financial statements of Devon and Cornwall Housing for the year ended 31 March 2017 set out on pages 42 to 83. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the Company in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014 and section 128 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to the association those matters we are required to state to it 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 as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the board and auditor

As more fully explained in the Statement of Board's Responsibilities set out on page 38 the Company's board are responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

> give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Group's and the Company's affairs as at 31 March 2017 and of the surplus of the Group and the Company for the year then ended;

> comply with the requirements of the Co-operative and Community Benefit Societies Act 2014; and

> have been properly prepared in accordance with the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

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:

> the Company has not kept proper books of account; or

> the Company has not maintained a satisfactory system of control over its transactions; or

> the financial statements are not in agreement with the Company's books of account; or

> we have not received all the information and explanations we need for our audit.

Harry Mears
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Plym House
Plymouth PL6 8LT
17 August 2017

Our investment in supported living provides opportunities for our residents to enjoy life and live independently

Financial Statements

Year ended 31 March 2017

Contents

Statement of comprehensive income

Due to its importance to the south west's rural economy, a third of our new homes for rent and shared ownership were built in rural areas

Statement of comprehensive income

FOR THE YEAR ENDED 31 MARCH 2017

		GROUP		COMPANY	
	Note	**2017 £000**	2016 £000	**2017 £000**	2016 £000
TURNOVER	3	**140,626**	130,989	**122,294**	116,744
Operating costs	3	(95,903)	(93,563)	(81,432)	(81,971)
Surplus on property sales	4	3,664	3,687	3,657	3,683
Operating surplus	3	**48,387**	41,113	**44,519**	38,456
Share of profit/(loss) in associate		9	(7)	–	–
Profit on sale of other fixed assets		44	98	44	76
Interest receivable and other income	8	287	320	632	436
Interest payable and similar charges	9	(13,633)	(13,081)	(13,662)	(13,080)
Other finance costs - pensions	28	(214)	(580)	(214)	(580)
Measurement in fair value of financial instruments		450	(957)	450	(859)
Change in value of investment property		984	–	984	–
Other income		–	–	3,177	2,508
Surplus on ordinary activities before tax	4-6	**36,314**	26,906	**35,930**	26,957
Tax on surplus on ordinary activities	10	–	(1)	–	–
Dividends		–	–	–	343
Surplus for the year		**36,314**	26,905	**35,930**	27,300
OTHER COMPREHENSIVE INCOME					
Surplus for the year		36,314	26,905	35,930	27,300
Effective portion of changes in fair value of cashflow hedges		(5,607)	(5,607)	(5,607)	(5,607)
Actuarial (loss)/gain	28	(1,192)	1,744	(1,186)	1,622
Total recognised surplus relating to the year		**29,515**	23,042	**29,137**	23,315

Statement of financial position

As part of our Career Transition Partnership we are providing invaluable work experience opportunities for those leaving the armed forces

Statement of financial position

AS AT 31 MARCH 2017

		GROUP		COMPANY	
	Note	**2017 £000**	2016 £000	**2017 £000**	2016 £000
FIXED ASSETS					
Housing Properties - Cost net of depreciation	11	**1,151,655**	1,075,109	**1,122,492**	1,046,944
Investment properties	12	**14,499**	9,060	**10,077**	9,041
		1,166,154	1,084,169	**1,132,569**	1,055,985
Other tangible fixed assets	13	**12,676**	9,816	**12,676**	9,816
Financial assets		**–**	281	**–**	281
Investments	14	**172**	170	**26,840**	8,252
Homebuy loans		**5,473**	5,800	**4,974**	5,203
		1,184,475	1,100,236	**1,177,059**	1,079,537
CURRENT ASSETS					
Properties for sale	15	**31,301**	15,636	**9,012**	6,974
Stock		**190**	166	**190**	166
Debtors	16	**9,409**	9,264	**11,448**	10,478
Cash at bank and in hand	17	**40,548**	62,312	**39,965**	61,951
		81,448	87,378	**60,615**	79,569
CREDITORS					
amounts falling due within one year	18	**(46,765)**	(36,549)	**(42,361)**	(31,546)
Net current assets		**34,683**	50,829	**18,254**	48,023
CREDITORS					
amounts falling due after more than one year	19	**(934,206)**	(893,377)	**(933,849)**	(892,982)
PROVISIONS FOR LIABILITIES AND CHARGES					
Pension liability	28	**(6,930)**	(9,181)	**(6,930)**	(9,181)
Net assets		**278,022**	248,507	**254,534**	225,397
CAPITAL AND RESERVES					
Called up share capital	21	**–**	–	**–**	–
Cash flow hedge reserve		**(69,781)**	(64,174)	**(69,781)**	(64,174)
Designated reserves	22	**70,994**	64,612	**70,994**	64,612
Revenue reserves		**276,809**	248,069	**253,321**	224,959
Total funds		**278,022**	248,507	**254,534**	225,397

These financial statements were approved by the board on 10 August 2017 and were signed on its behalf by:

Paul Crawford
(Group Chief Executive)

Melvyn Garrett
(Group Director of Finance)

Jill Farrar
(Group Company Secretary)

Statement of changes in equity

During the year we sold 168 new homes for shared ownership and 121 homes on the open market. This generated a combined operating surplus of £7m

Statement of changes in equity

	GROUP					
	Called up share capital £000	Revaluation reserve £000	Cash flow hedge reserve £000	Designated reserve £000	Revenue reserve £000	Total equity £000
Balance at 1 April 2015	–	–	(58,567)	62,879	221,153	225,465
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD						
Surplus for the year	–	–	–	–	26,905	26,905
Measurement in fair value of financial instruments	–	–	(5,607)	–	–	(5,607)
Reserves transfer	–	–	–	1,733	(1,733)	–
Remeasurements of the net defined liability	–	–	–	–	1,744	1,744
	–	–	(5,607)	1,733	26,916	23,042
Balance at 31 March 2016	**–**	**–**	**(64,174)**	**64,612**	**248,069**	**248,507**

	GROUP					
	Called up share capital £000	Revaluation reserve £000	Cash flow hedge reserve £000	Designated reserve £000	Revenue reserve £000	Total equity £000
Balance at 1 April 2016	–	–	(64,174)	64,612	248,069	248,507
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD						
Surplus for the year	–	–	–	–	36,314	36,314
Measurement in fair value of financial instruments	–	–	(5,607)	–	–	(5,607)
Reserves transfer	–	–	–	6,382	(6,382)	–
Remeasurements of the net defined liability	–	–	–	–	(1,192)	(1,192)
	–	–	(5,607)	6,382	28,740	29,515
Balance at 31 March 2017	**–**	**–**	**(69,781)**	**70,994**	**276,809**	**278,022**

	COMPANY					
	Called up share capital £000	Revaluation reserve £000	Cash flow hedge reserve £000	Designated reserve £000	Revenue reserve £000	Total equity £000
Balance at 1 April 2015	–	–	(58,567)	62,879	197,770	202,082
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD						
Surplus for the year	–	–	–	–	27,300	27,300
Measurement in fair value of financial instruments	–	–	(5,607)	–	–	(5,607)
Reserves transfer	–	–	–	1,733	(1,733)	–
Remeasurements of the net defined liability	–	–	–	–	1,622	1,622
	–	–	(5,607)	1,733	27,189	23,315
Balance at 31 March 2016	**–**	**–**	**(64,174)**	**64,612**	**224,959**	**225,397**

	COMPANY					
	Called up share capital £000	Revaluation reserve £000	Cash flow hedge reserve £000	Designated reserve £000	Revenue reserve £000	Total equity £000
Balance at 1 April 2016	–	–	(64,174)	64,612	224,959	225,397
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD						
Surplus for the year	–	–	–	–	35,930	35,930
Measurement in fair value of financial instruments	–	–	(5,607)	–	–	(5,607)
Reserves transfer	–	–	–	6,382	(6,382)	–
Remeasurements of the net defined liability	–	–	–	–	(1,186)	(1,186)
	–	–	(5,607)	6,382	28,362	29,137
Balance at 31 March 2017	**–**	**–**	**(69,781)**	**70,994**	**253,321**	**254,534**

97% of our customers are satisfied with their new homes

Statement of cash flows

Working in partnership with out stakeholders, such as the Foyer Federation, is a key part of our role in supported housing. Last year we supported over 300 people in foyer accommodation

Statement of cash flows

FOR THE YEAR ENDED 31 MARCH 2017

	Note	2017 £000	2016 £000
NET CASH INFLOW FROM OPERATING ACTIVITIES	(a)	53,142	64,389
CASH INFLOW FROM INVESTING ACTIVITIES			
Purchase of tangible fixed assets		(106,415)	(68,149)
Proceeds from the sale of tangible fixed assets		67	13
Grants received		2,261	7,596
Interest received		287	320
		(103,800)	(60,220)
CASH INFLOW FROM FINANCING ACTIVITIES			
Interest paid		(15,065)	(13,928)
Sale of investment		–	13,969
New secured loans		43,956	43,603
Disposal/Acquisition		–	262
		28,891	43,906
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(21,767)**	48,075
Cash and cash equivalents at the start of the year		62,312	14,237
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**40,545**	62,312

NOTES TO THE CASH FLOW STATEMENT

	2017 £000	2016 £000
(a) RECONCILIATION OF OPERATING SURPLUS TO NET CASH INFLOW FROM OPERATING ACTIVITIES		
Operating surplus	48,387	41,113
Depreciation charges - other fixed assets	1,748	1,466
Depreciation charges - housing properties	16,679	15,717
Revaluation of investment properties	984	–
Pension cost less contributions payable	(2,789)	(1,026)
Government grant utilised in year	(4,578)	(4,583)
(Increase)/decrease in debtors	(749)	351
Increase in creditors	5,937	2,023
Decrease/(increase) in properties for sale	(15,665)	(1,192)
(Decrease)/increase in pension liability	(2,251)	4,591
Loss on the sale of investments	–	188
Sale of housing properties	5,439	5,741
Net cash inflow from operating activities	**53,142**	64,389

Notes to the financial statements

Building affordable homes change lives and communities and provide great places to live

1 PRINCIPAL ACCOUNTING POLICIES

BASIS OF PREPARATION

These financial statements are prepared in accordance with Financial Reporting Standard 102 – The applicable financial reporting standard in the UK and Republic of Ireland (FRS102) and the Statement of Recommended Practice: Accounting by Registered Social Housing Providers 2014 and comply with the Accounting Direction for Private Registered Providers of Social Housing 2015.

The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2.

MEASUREMENT CONVENTION

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments and investment property.

GOING CONCERN

The board, after reviewing the group and company budgets for 2017/18 and the group's medium term financial position as detailed in the 30-year business plan, is of the opinion that the group and company have adequate resources to continue in business for the foreseeable future. The board therefore continues to adopt the going concern basis in preparing the annual financial statements.

RELATED PARTY TRANSACTIONS

Transactions within the group that require disclosure under the Accounting Direction and have been eliminated on consolidation are disclosed in note 29.

The company has taken advantage of the exemption in FRS102 not to disclose intra-group transactions, as the company prepares consolidated financial statements.

BASIC FINANCIAL INSTRUMENTS

Tenant Arrears, Trade and other debtors

Tenant Arrears, Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Trade and other creditors

Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Investments in subsidiaries and associates

Investments in subsidiaries and associates are carried at cost less impairment in the financial statements of the parent company.

The consolidated financial statements incorporate the financial statements of the company and all its subsidiaries made up to 31 March 2017. Associates are incorporated using equity accounting.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Other financial instruments

Financial instruments not considered to be Basic financial instruments (Other financial instruments)

Other financial instruments not meeting the definition of Basic Financial Instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss except as follows:

- investments in equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably shall be measured at cost less impairment; and
- hedging instruments in a designated hedging relationship shall be recognised as set out below.

Derivative financial instruments and hedging

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Cash flow hedges

Where the hedged risk is the variable interest rate risk in a debt instrument measured at amortised cost the Company recognises the effective part of any gain or loss on the derivative financial instrument in other comprehensive income (OCI). Any ineffective portion of the hedge is recognised immediately in profit or loss.

The hedging gain or loss recognised in OCI is reclassified to profit or loss when the hedged item is recognised in profit or loss or when the hedging relationship ends.

TANGIBLE FIXED ASSETS

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Office buildings were revalued to fair value on or prior to the date of transition to FRS102, and are measured on the basis of deemed cost, being the revalued amount at the date of transition.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease. Lease payments are accounted for as described in note 26.

The company assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

HOUSING PROPERTIES

Housing properties include properties available for rent and retained interests in properties sold under shared ownership leases and are stated at cost less depreciation. Cost includes the cost of acquiring land and buildings, development costs, interest charges during the development period and directly attributable development administration costs. Shared ownership properties in work in progress are stated net of the estimated cost of the first tranche sale.

Donated land is added to the cost of housing properties at the market value of the land at the time of the donation.

DEPRECIATION AND IMPAIRMENT OF HOUSING PROPERTIES

Housing properties are split between land, structure costs and, where the group has a maintenance liability, major components that require periodic replacement.

No depreciation is provided on freehold land. Structure costs are depreciated by equal annual instalments over the estimated useful economic life from the date of acquisition. Where the group has a maintenance liability for components these costs are depreciated separately over their estimated useful lives.

Rented properties – structure	new build	not exceeding 100 years
	other	not exceeding 100 years
Rented properties – components	roofs	50 years
	windows/external doors	30 years
	bathrooms	30 years
	kitchens	20 years
	boilers/electric heating	15 years
	heating systems	30 years
Shared ownership properties		not exceeding 100 years
Leasehold properties		shorter of the remaining useful life and the remaining lease term

Housing properties are reviewed annually for evidence of impairment. Where there is evidence of impairment properties are written down to their recoverable amount.

ENHANCEMENTS TO EXISTING PROPERTIES

Enhancement expenditure consists of works to existing properties which result in an increase in the net rental stream and is capitalised only to the extent that the total costs, including enhancements, do not exceed the greater of net realisable value and value in use.

CAPITALISATION OF INTEREST

Interest on net borrowings, to the extent that it is financing developments, is capitalised up to the date of practical completion of the scheme. Interest capitalised is net of interest receivable on SHG received in advance of practical completion.

OTHER FIXED ASSETS AND DEPRECIATION

No depreciation is provided on freehold land. Depreciation is provided to write off the cost of other fixed assets by equal annual instalments over their estimated useful economic lives as follows:

Freehold buildings	30 to 50 years
Fixtures & fittings	4 to 10 years
Computer equipment	3 to 5 years
Motor vehicles	5 years

INVESTMENT PROPERTIES

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are recognised initially at cost.

Investment properties whose fair value can be measured reliably without undue cost or effort are held at fair value. Any gains or losses arising from changes in the fair value are recognised in profit or loss in the period that they arise.

No depreciation is provided in respect of investment properties applying the fair value model.

If a reliable measure is not available without undue cost or effort for an item of investment property, this item is thereafter accounted for as tangible fixed assets in accordance with section 17 until a reliable measure of fair value becomes available.

Investment property was not valued by an external, independent valuer during the year as this exercise was carried out in 2015. The directors consider the portfolio every year for any impairment or significant change to market values.

Any gain or loss arising from a change in fair value is recognised in profit or loss. Rental income from investment property is accounted for as described in the turnover accounting policy.

PROPERTIES HELD FOR SALE AND WORK IN PROGRESS

Completed properties and properties under construction for open market sales and the estimated first tranche disposal of shared ownership properties are recognised at the lower of cost and net realisable value. Cost comprises materials, direct labour and direct development overheads. Interest incurred is also capitalised during the course of obtaining planning and throughout the work in progress up to the point of practical completion of the development scheme. Assessing net realisable value requires use of estimation techniques. In making this assessment, management considers publicly available information and internal forecasts on future sales activity. Net realisable value is based on estimated sales price after allowing for all further costs of completion and disposal.

IMPAIRMENT EXCLUDING STOCKS, INVESTMENT PROPERTIES

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment, an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the DCH's non-financial assets, other than stocks, investment property, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit).

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss is reversed if and only if the reasons for the impairment have ceased to apply.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

SURPLUS ON PROPERTY SALES

The surplus or deficit on property sales includes the sale of rented properties and the sale of second and subsequent tranches of shared ownership properties. Provision is made for any expected loss, after the abatement of Social Housing Grant, on properties which have been or are expected to be repossessed.

Surpluses on Right to Acquire sales after allowable expenses, as defined in the Homes and Communities Agency Capital Funding Guide, are transferred to the disposal proceeds fund (DPF). To the extent that the DPF is repayable within one year unless utilised it is included within creditors falling due within one year. The balance of the DPF is included within creditors falling due after more than one year.

SOCIAL HOUSING GRANT AND OTHER CAPITAL GRANTS

Social Housing Grant (SHG) and other capital grants receivable, including donated land, in respect of the capital cost of housing properties, are initially recognised at fair value as a long term liability, specifically as deferred grant income and released through the income and expenditure as turnover income over the life of the structure of housing properties in accordance with the accrual method applicable to social landlords accounting for housing properties at cost in line with SORP2014.

SHG due from the Homes and Communities Agency is included as a current asset and SHG received in advance is included as a current liability.

On disposal of properties, all associated SHG are transferred to either the Recycled capital grant fund (RCGF) or the Disposal Proceeds Fund (DPF) until the grant is recycled or repaid to reflect the existing obligation under the social housing grant funding regime.

All SHG remains repayable unless abated or waived by the Homes and Communities Agency but, with the agency's agreement, is subordinated to other loans.

INVESTMENTS

Listed investments are stated at market value. Investments held for sale are included in current assets.

HOMEBUY, KEY WORKER AND STARTER HOME MORTGAGES

Under the Homebuy, Key Worker and Starter Home schemes, DCH receives grant representing a percentage of the open market purchase price of a property in order to advance interest free loans to a homebuyer. The loans advanced meet the definition of concessionary loans and are shown as fixed assets investments in the statement of financial position. The related grant provided by the government to fund all or part of a Homebuy, Key Worker or Starter Home loan has been reclassified as deferred income under FRS102 as a creditor due in more than one year.

In the event that the property is sold, the Company recovers the equivalent loaned percentage value of the property at the time of the sale. The grant is reclassified to recyclable capital grant fund when the loans are redeemed up to the amount of the original grant and to the extent the proceeds permit. DCH is able to retain any surplus proceeds less sale costs attributable to the equivalent loaned percentage share of the value of the property. If there is a fall in the value of the property the shortfall of proceeds is offset against the grant.

PROVISIONS

A provision is recognised in the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

Where DCH enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

DESIGNATED RESERVES

The group maintains designated reserves where reserves are earmarked for particular purposes.

Major repairs reserve – The group maintains a major repairs reserve to recognise the future cost of major repairs, re-improvement and rehabilitation works to housing properties. The amount transferred is based on an estimate of expected future liabilities using the group's life cycle costing model.

Remodelling reserve – The group maintains a re-investment reserve to recognise the future cost of enhancement expenditure that does not fall within the group's policy for capitalisation.

CYCLICAL REPAIRS AND MAINTENANCE

The group has a regular programme for cyclical repairs and maintenance. The actual costs are charged to the Statement of comprehensive income as incurred.

TURNOVER

Turnover represents rental and service charge income receivable (net of void losses), fees receivable, proceeds from first tranche sales of low-cost home ownership and from properties developed for open market sales, and amortisation of Social Housing Grant (SHG) under the accrual model. Rental income is recognised on the execution of tenancy agreements. Proceeds on sales are recognised on practical completions. Other income is recognised as receivable on the delivery of services provided.

Revenue grants

Revenue grants are credited to the statement of comprehensive income over the period in which the related expenditure is incurred.

EXPENSES

Cyclical repairs and maintenance

The group has a regular programme for cyclical repairs and maintenance. The actual costs are charged to the Statement of comprehensive income as incurred.

Cost of sales

Cost of sales represents the costs including capitalised interest and direct overheads incurred in the development of the properties, and marketing, and other incidental costs incurred in the sale of the properties.

Open market sale through joint ventures, all of which being jointly controlled entities, represent the group's share of the turnover and cost of sales of the joint ventures as accounted for using the gross equity method providing more information than the equity method required under FRS102.

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Interest receivable and Interest payable

Interest payable and similar charges include interest payable on bank loans. Borrowing costs that are directly attributable to the acquisition, construction or production of Housing Properties that take a substantial time to be prepared for use, are capitalised as part of the cost of that asset.

Interest income and interest payable are recognised in profit or loss as they accrues, using the effective interest method.

SUPPORTING PEOPLE INCOME AND EXPENDITURE

Block grant income and its associated expenditure are included in the financial statements as other social housing activities. Block subsidy income and its associated expenditure are included as social housing lettings activity.

SUPPORTED HOUSING MANAGED BY AGENCIES

Social housing capital grants are claimed by the group as developer and owner of the property and included in the statement of financial position of the group. The treatment of other income and expenditure in respect of supported housing projects depends on the nature of the partnership arrangements between the group and its managing agents and on whether the group carries the financial risk.

Where the group holds the support contract with the Supporting People Administering Authority and carries the financial risk, all the project's income and expenditure is included in the group's statement of comprehensive income.

Where the agency holds the support contract with the Supporting People Administering Authority and carries the financial risk, the statement of comprehensive income includes only that income and expenditure which relates solely to the group. Other income and expenditure of projects in this category is excluded from the group's statement of comprehensive income.

CARE & REPAIR

Care & Repair activities are included in turnover and operating costs. Operating costs include overheads on a fully apportioned basis.

TAXATION INCLUDING DEFERRED TAX

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax. Goodwill is adjusted by the amount of such deferred tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the statement of financial position date. For non-depreciable assets that are measured using the revaluation model, or investment property that is measured at fair value, deferred tax is provided at the rates and allowances applicable to the sale of the property.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

VAT

The group charges Value Added Tax (VAT) on some of its income and is able to recover part of the VAT it incurs on expenditure. The financial statements include VAT to the extent it is not recoverable. The balance of VAT payable or recoverable is included as a current liability or asset.

PENSIONS

The group participates in the following pension schemes:

The Social Housing Pension Scheme – is a multi-employer pension scheme administered by The Pensions Trust Limited. From 1 April 2014 the group closed the final salary scheme and closed the 1/60 CARE (career average re-valued earnings) scheme to new entrants. A 1/120 CARE scheme opened from 1 April 2014 which together with a defined contribution option are available to all staff. The assets of the scheme are invested and managed independently of the group. Pension costs are assessed in accordance with the recommendation of an actuary based on the costs applicable to the participating associations taken as a whole. The assets and liabilities of the scheme cannot be attributed to individual employers and accordingly the scheme is accounted for as a defined contribution scheme. Contributions to the scheme are charged to the Statement of comprehensive income over the service lives of the employees. In addition the group participates in the Pension Trust Growth Plan and currently makes a deficit contribution into this plan.

To the extent that payments plans relate to funding a deficit, the contributions are recognised as a liability payable arising from the agreement with the multi-employer plan and results in a charge to the statement of comprehensive income. Where these payments are not expected to be settled within 12 months the liability is measured at the present value of the contributions payable.

The Devon County Council Pension Fund is a defined benefit final salary pension scheme and closed to future accrual on 31 May 2016. The assets of the schemes are invested and managed independently of the group. Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The pension scheme deficit is recognised in full. The movement in the scheme deficit is split between operating costs, finance costs and, in the statement of recognised gains and losses, actuarial gains and losses. The Group makes payments against the funding deficit as if it were an active member of the scheme.

2 ACCOUNTING ESTIMATES AND JUDGEMENTS

Preparation of the financial statements requires management to make significant judgements and estimates which are shown below.

ESTIMATED USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

At the date of capitalising tangible fixed assets, the Group estimates the useful life of the asset based upon management's judgement and experience. Due to the significance of capital investment to the Group, variances between actual and estimated economic lives could affect the Group's result positively or negatively.

IMPAIRMENT OF TRADE AND OTHER ACCOUNT RECEIVABLES

The Group makes an estimate of the recoverable value of trade and other account receivables. When assessing the impairment, management consider factors including the current credit rating of the account, the ageing profile and historical experience. See note 16 for the net position of debtors and associated provision.

PENSION BENEFITS

The costs of defined benefit pension plans are determined using actuarial valuation which involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, the estimates are subject to significant uncertainty. See note 28 for details of the valuation and underlying assumptions.

REVALUATION OF INVESTMENT PROPERTIES

Investment properties are held at valuation. See note 12 for further explanation.

IMPAIRMENT OF NON-FINANCIAL ASSETS

In accordance with FRS102 and the 2014 SORP the Group carries out an impairment test on a cash generating unit basis when a trigger has been identified. The book value of individual properties is compared to the depreciated replacement cost, and then reviewed at a cash-generating unit level for indicators of impairment. The depreciated replacement cost is an estimate based on the size and type of property, taking into account average costs.

3 TURNOVER AND OPERATING SURPLUS

	GROUP					
	2017			2016		
	Turnover £000	Operating costs £000	Operating surplus/ (deficit) £000	Turnover £000	Operating costs £000	Operating surplus/ (deficit) £000
SOCIAL HOUSING LETTINGS						
Social housing lettings	105,704	(67,372)	38,332	103,338	(70,351)	32,987
OTHER SOCIAL HOUSING ACTIVITIES						
Supporting People contract income	3,402	(3,391)	11	2,873	(3,282)	(409)
Care & Repair	–	–	–	(117)	5	(112)
Maintenance & alarm call service income	–	–	–	177	(177)	–
Shared ownership fee income	105	(157)	(52)	82	(155)	(73)
Shared ownership initial sales	13,751	(10,815)	2,936	10,884	(8,623)	2,261
Affordable house sales	–	–	–	–	24	24
Development costs	81	(1,361)	(1,280)	74	(930)	(856)
Other	233	(218)	15	539	(591)	(52)
	17,572	**(15,942)**	**1,630**	14,512	(13,729)	783
NON-SOCIAL HOUSING						
Non-social housing lettings	1,575	(557)	1,018	1,376	(425)	951
Property sales	15,431	(11,375)	4,056	11,430	(8,416)	3,014
Other	344	(657)	(313)	333	(642)	(309)
	17,350	**(12,589)**	**4,761**	13,139	(9,483)	3,656
Total	**140,626**	**(95,903)**	**44,723**	130,989	(93,563)	37,426
Surplus on property sales			3,664			3,687
Operating surplus	**140,626**	**(95,903)**	**48,387**	130,989	(93,563)	41,113

INCOME AND EXPENDITURE FROM SOCIAL HOUSING LETTINGS	GROUP				
	2017				2016
	General needs	**Shared ownership**	**Supported housing**	**Total**	Total
	£000	**£000**	**£000**	**£000**	£000
INCOME FROM SOCIAL HOUSING LETTINGS					
Rent receivable net of identifiable service charges	77,184	5,873	11,717	94,774	92,850
Service charges receivable	2,342	432	3,578	6,352	5,927
Net rents receivable	**79,526**	**6,305**	**15,295**	**101,126**	98,777
Revenue grants from local authorities and other agencies	3,490	522	566	4,578	4,561
Total income from social housing lettings	**83,016**	**6,827**	**15,861**	**105,704**	103,338
EXPENDITURE ON SOCIAL HOUSING LETTINGS					
Rent losses from bad debts	290	(8)	87	369	438
Services	2,456	419	3,432	6,307	5,583
Management	15,356	1,614	2,706	19,676	25,120
Responsive maintenance	12,083	–	1,988	14,071	12,420
Cyclical maintenance	5,391	–	404	5,795	7,272
Major repairs expenditure	2,636	–	1,908	4,544	3,870
Depreciation of housing properties	13,683	1,127	1,800	16,610	15,277
Impairment charges	–	–	–	–	371
Total expenditure on social housing lettings	**51,895**	**3,152**	**12,325**	**67,372**	70,351
Operating surplus on social housing letting activities	**31,121**	**3,675**	**3,536**	**38,332**	32,987
Rent losses from voids	(276)	–	(192)	(468)	(676)

Maintenance and alarm call service income includes £nil of turnover (2016: £0.2m) and £nil (2016: £0.2m) of operating costs relating to discontinued activities.

	COMPANY					
	2017			2016		
	Turnover	**Operating costs**	**Operating surplus/ (deficit)**	Turnover	Operating costs	Operating surplus/ (deficit)
	£000	**£000**	**£000**	£000	£000	£000
SOCIAL HOUSING LETTINGS						
Social housing lettings	106,383	(68,142)	38,241	103,928	(71,339)	32,589
Supporting People contracts	302	(203)	99	174	(178)	(4)
Care & Repair	–	–	–	–	(114)	(114)
Shared ownership fee income	105	(157)	(52)	82	(155)	(73)
Shared ownership initial sales	13,751	(10,815)	2,936	10,884	(8,623)	2,261
Development costs	80	(1,362)	(1,282)	74	(930)	(856)
Other	232	(190)	42	226	(173)	53
	14,470	**(12,727)**	**1,743**	11,440	(10,173)	1,267
NON-SOCIAL HOUSING						
Non-social housing lettings	1,441	(563)	878	1,376	(459)	917
	1,441	**(563)**	**878**	1,376	(459)	917
Total	**122,294**	**(81,432)**	**40,862**	116,744	(81,971)	34,773
Surplus on property sales			3,657			3,683
Operating surplus	**122,294**	**(81,432)**	**44,519**	116,744	(81,971)	38,456

INCOME AND EXPENDITURE FROM SOCIAL HOUSING LETTINGS	COMPANY				
	2017				2016
	General needs £000	Shared ownership £000	Supported housing £000	Total £000	Total £000
INCOME FROM SOCIAL HOUSING LETTINGS					
Rent receivable net of identifiable service charges	77,184	5,873	11,717	94,774	92,850
Service charges receivable	2,342	432	4,257	7,031	6,517
Net rents receivable	**79,526**	**6,305**	**15,974**	**101,805**	99,367
Revenue grants from local authorities and other agencies	3,490	522	566	4,578	4,561
Total income from social housing lettings	**83,016**	**6,827**	**16,540**	**106,383**	103,928
EXPENDITURE ON SOCIAL HOUSING LETTINGS					
Rent losses from bad debts	290	(8)	87	369	438
Services	2,456	419	4,111	6,986	6,173
Management	15,442	1,894	2,705	20,041	25,792
Responsive maintenance	12,083	–	1,988	14,071	12,420
Cyclical maintenance	5,391	–	404	5,795	7,272
Major repairs expenditure	2,636	–	1,908	4,544	3,870
Depreciation of housing properties	13,394	1,142	1,800	16,336	15,003
Impairment charges	–	–	–	–	371
Total expenditure on social housing lettings	**51,692**	**3,447**	**13,003**	**68,142**	71,339
Operating surplus on social housing letting activities	**31,324**	**3,380**	**3,537**	**38,241**	32,589
Rent losses from voids	(276)	–	(192)	(468)	(676)

4 SURPLUS ON PROPERTY SALES

	GROUP		COMPANY	
	2017 £000	2016 £000	**2017 £000**	2016 £000
Disposal proceeds	9,502	9,116	9,417	9,037
Cost of fixed assets	(5,838)	(5,429)	(5,760)	(5,354)
Surplus on property sales	**3,664**	3,687	**3,657**	3,683

5 SURPLUS ON ORDINARY ACTIVITIES BEFORE TAXATION

		GROUP		COMPANY	
		2017 £000	2016 £000	**2017 £000**	2016 £000
SURPLUS ON ORDINARY ACTIVITIES BEFORE TAXATION IS STATED AFTER CHARGING					
Auditor's remuneration	Audit of these financial statements	29	35	29	35
	Audit of financial statements of subsidiary entities	11	10	–	–
	Other services relating to taxation	10	16	3	11
Depreciation and other amounts written off housing properties		16,679	15,717	16,405	15,443
Depreciation and other amounts written off other tangible fixed assets		1,749	1,466	1,749	1,464
Change in fair value of derivatives through income and expenditure		450	90	450	(8)
Change in fair value of investments		–	867	–	867
Operating lease rentals		94	113	94	113

6 REMUNERATION OF DIRECTORS AND EXECUTIVE MANAGEMENT TEAM

The directors of the group and company who are members of the board are the Group Chief Executive and Group Director of Finance.

During the year the group Executive Management team also included the Group Directors of Asset Management, Development, Independent Living, Neighbourhoods & Customer Services, People and Communications, Strategy and Performance. The Group Director of Development was appointed during the year. The Directors of Independent Living and Neighbourhoods & Customer Services joined the Executive Management team during the year.

The remuneration of the Group Chief Executive and group Executive Management team are determined by the Remuneration Committee. All members of the group Executive Management team are entitled to a similar range of benefits. The amounts disclosed are based on the taxable value of providing those benefits.

The remuneration of the Group Chairman and other directors is shown below. Expenses reimbursed to members of the board were as follows:

	GROUP AND COMPANY	
	2017 £000	2016 £000
Expenses reimbursed to board members	22	21

The emoluments of the board members and group Executive Management team were as follows:

	GROUP AND COMPANY	
	2017 £000	2016 £000
NON-EXECUTIVE DIRECTORS		
Angela Dupont	21	20
Laurence Clarke	10	9
Jenefer Greenwood	10	10
Nick Hardie	10	10
Philip Hutt	–	8
Michael Jane	10	10
Andy Joss	5	10
Tim Larner	10	9
Paul Love	10	11
John Newbury	6	–
Mark Rowan	10	10
Andrew Wiles	10	10
	112	117
EXECUTIVE DIRECTORS		
Aggregate emoluments payable to directors (including benefits in kind)	1,034	895
Pension contributions in respect of services as directors	58	55
	1,092	950
Remuneration paid to the Group Chief Executive who was also the highest paid director	204	198

The Group Chief Executive is a member of the Social Housing Pension Scheme under the same terms as other employee members.

Salary banding for all employees earning over £60,000 (including salaries, performance related pay, benefits in kinds, pension contributions paid by the employer and any termination payments) are:

BANDS	GROUP		COMPANY	
	2017	2016	**2017**	2016
£200,001 to £210,000	1	–	1	–
£190,001 to £200,000	–	1	–	1
£180,001 to £190,000	–	1	–	1
£160,001 to £170,000	1	–	1	–
£150,001 to £160,000	–	1	–	1
£140,001 to £150,000	2	1	2	1
£130,001 to £140,000	–	1	–	1
£120,001 to £130,000	1	1	1	1
£110,001 to £120,000	–	1	–	1
£100,001 to £110,000	1	1	1	1
£90,001 to £100,000	6	8	5	8
£80,001 to £90,000	7	7	7	6
£70,001 to £80,000	5	6	5	6
£60,001 to £70,000	17	10	15	9

7 STAFF NUMBERS AND COSTS

STAFF NUMBERS AND COSTS	GROUP		COMPANY	
	2017	2016	**2017**	2016
AVERAGE MONTHLY NUMBER OF EMPLOYEES				
Housing & Support	372	387	267	285
Development	53	52	53	52
Asset Management	341	308	341	308
Central services	124	128	124	128
	890	875	**785**	773
AVERAGE MONTHLY NUMBER OF FULL TIME EQUIVALENT EMPLOYEES				
Housing & Support	322	332	230	242
Development	49	47	49	47
Asset Management	334	300	334	300
Central services	116	120	116	120
	821	799	**729**	709

The aggregate payroll cost of these employees was as follows:

	2017 £000	2016 £000	**2017 £000**	2016 £000
Wages and salaries	26,333	25,476	24,171	23,188
Social security costs	2,367	2,070	2,192	1,892
Other pension costs	1,158	6,124	1,071	5,921
	29,858	33,670	**27,434**	31,001

8 INTEREST RECEIVABLE AND OTHER INCOME

	GROUP		COMPANY	
	2017 £000	2016 £000	**2017 £000**	2016 £000
Listed investments	–	57	–	57
Bank and deposits	243	251	241	249
Intra-group loans	38	–	385	118
Loan to housing association	5	5	5	5
Other	1	7	1	7
	287	320	**632**	436

9 INTEREST PAYABLE AND SIMILAR CHARGES

	GROUP		COMPANY	
	2017 £000	2016 £000	**2017 £000**	2016 £000
Intra-group loans	–	–	8,763	9,283
Bank loans & overdrafts	14,634	13,933	5,871	4,650
Other	28	220	28	220
Less: capitalised interest at 3.11% (2016: 3.1%)	(1,314)	(1,277)	(1,281)	(1,277)
Unwind of discount on provisions	285	205	281	204
	13,633	13,081	**13,662**	13,080

10 TAXATION

	GROUP		COMPANY	
	2017 £000	2016 £000	**2017 £000**	2016 £000
UK CORPORATION TAX				
On surplus for the year at 20% (2016:20%)	–	–	–	–
Adjustments in respect of prior periods	–	(1)	–	–
Total current tax	–	(1)	–	–
DEFERRED TAX				
Fixed asset timing differences	–	–	–	–
Short term timing differences	–	–	–	–
Losses carried forward	–	2	–	–
Total deferred tax	–	–	–	–
Total tax	–	1	–	–
RECONCILIATION OF TAX CHARGE				
Surplus for the year	36,314	26,905	35,930	27,300
Total tax expense	–	1	–	–
Surplus excluding tax	36,314	26,906	35,930	27,300
Tax at 20%	7,263	5,381	7,192	5,460
Effects of:				
Charity relief	(7,263)	(5,380)	(7,192)	(5,460)
Total tax expense	–	1	–	–

	2017 Current tax £000	2017 Deferred tax £000	2017 Total tax £000	2016 Current tax £000	2016 Deferred tax £000	2016 Total tax £000
Group						
Recognised in the Statement of comprehensive income	–	–	–	(1)	2	1
	–	–	–	(1)	2	1

The company has charitable status and its surpluses are exempt from corporation tax to the extent that they are applied for charitable purposes.

11 TANGIBLE FIXED ASSETS – HOUSING PROPERTIES

SOCIAL HOUSING	GROUP				
	COMPLETED SCHEMES		UNDER CONSTRUCTION		
	Rented £000	Shared Ownership £000	Rented £000	Shared Ownership £000	Total £000
COST					
At beginning of year	1,066,347	111,957	50,338	7,964	1,236,606
Additions in year	652	481	64,251	25,261	90,645
Transfers	134	(273)	–	–	(139)
Components capitalised	7,593	–	–	–	7,593
Disposals	(3,208)	(3,159)	–	–	(6,367)
Transferred on completion	63,840	20,371	(63,840)	(20,371)	–
At end of year	**1,135,358**	**129,377**	**50,749**	**12,854**	**1,328,338**
DEPRECIATION					
At beginning of year	151,445	10,012	40	–	161,497
Charge for year	15,554	1,125	–	–	16,679
Disposals	(1,270)	(223)	–	–	(1,493)
Transfers	8	(8)	–	–	–
At end of year	**165,737**	**10,906**	**40**	**–**	**176,683**
NET BOOK VALUE					
At 31 March 2017	**969,621**	**118,471**	**50,709**	**12,854**	**1,151,655**
At 31 March 2016	914,902	101,945	50,298	7,964	1,075,109

SOCIAL HOUSING	COMPANY				
	COMPLETED SCHEMES		UNDER CONSTRUCTION		
	Rented £000	Shared Ownership £000	Rented £000	Shared Ownership £000	Total £000
COST					
At beginning of year	1,042,952	113,340	41,603	8,078	1,205,973
Additions in year	652	481	62,979	25,261	89,373
Transfers	134	(273)	–	–	(139)
Components capitalised	7,593	–	–	–	7,593
Disposals	(3,208)	(3,159)	–	–	(6,367)
Transferred on completion	63,840	20,371	(63,840)	(20,371)	–
At end of year	**1,111,963**	**130,760**	**40,742**	**12,968**	**1,296,433**
DEPRECIATION					
At beginning of year	148,845	10,144	40	–	159,029
Charge for year	15,265	1,140	–	–	16,405
Disposals	(1,270)	(223)	–	–	(1,493)
Transfers	8	(8)	–	–	–
At end of year	**162,848**	**11,053**	**40**	**–**	**173,941**
NET BOOK VALUE					
At 31 March 2017	**949,115**	**119,707**	**40,702**	**12,968**	**1,122,492**
At 31 March 2016	894,107	103,196	41,563	8,078	1,046,944

ADDITIONS TO HOUSING PROPERTIES IN THE COURSE OF CONSTRUCTION DURING THE YEAR	GROUP		COMPANY	
	2017 £000	2016 £000	**2017 £000**	2016 £000
Capitalised interest at 3.1% (2016: 3.1%)	1,314	1,277	1,281	1,277
Direct development costs	1,627	1,572	1,627	1,572
THE NET BOOK VALUE OF PROPERTIES				
Freehold	1,095,771	1,018,455	1,066,608	990,290
Long leasehold - under 50 years remaining	1,573	1,552	1,573	1,552
Long leasehold - over 50 years remaining	54,311	55,102	54,311	55,102
	1,151,655	1,075,109	**1,122,492**	1,046,944
WORKS TO EXISTING PROPERTIES				
Revenue	24,409	23,562	24,409	23,562
Capitalised	7,850	9,712	7,850	9,712
	32,259	33,274	**32,259**	33,274
CAPITALISED COMPONENTS INCLUDED IN THE NET BOOK VALUE OF PROPERTIES:				
COST				
At beginning of year	109,009		109,009	
Additions	7,850		7,850	
Disposals	(620)		(620)	
At end of year	**116,239**		**116,239**	
DEPRECIATION				
At beginning of year	35,521		35,521	
Additions	4,666		4,666	
Disposals	(400)		(400)	
At end of year	**39,787**		**39,787**	
Cost excluding component accounting adjustments	**1,212,099**		**1,180,194**	
Cost net of depreciation excluding component accounting adjustments	**1,175,203**		**1,046,040**	

12 TANGIBLE FIXED ASSETS – INVESTMENT PROPERTIES

	GROUP		COMPANY	
	2017 £000	2016 £000	**2017 £000**	2016 £000
COST				
At beginning of year	9,060	9,060	9,041	9,041
Additions in year	4,403	–	–	–
Revaluation	984	–	984	–
Transfers	139	–	139	–
Disposals	(87)	–	(87)	–
At end of year	**14,499**	9,060	**10,077**	9,041

13 OTHER TANGIBLE FIXED ASSETS

COST	GROUP AND COMPANY				
	Freehold land and buildings £000	Fixtures and fittings £000	Computer Equipment £000	Motor vehicles £000	Total £000
At beginning of year	5,116	2,892	4,585	3,479	16,072
Additions	3,120	198	592	722	4,632
Disposals	–	(8)	(532)	(203)	(743)
At end of year	**8,236**	**3,082**	**4,645**	**3,998**	**19,961**
DEPRECIATION					
At beginning of year	171	1,984	2,905	1,196	6,256
Charge for year	171	249	592	737	1,749
On disposals	–	(8)	(532)	(180)	(720)
At end of year	**342**	**2,225**	**2,965**	**1,753**	**7,285**
NET BOOK VALUE					
At 31 March 2017	**7,894**	**857**	**1,680**	**2,245**	**12,676**
At 31 March 2016	4,945	908	1,680	2,283	9,816

NET BOOK VALUE OF PROPERTIES	GROUP AND COMPANY	
	2017 £000	2016 £000
Freehold	5,842	2,831
Long leasehold	2,052	2,114
	7,894	4,945

14 INVESTMENTS

INVESTMENTS IN SUBSIDIARIES	GROUP		COMPANY	
	2017 £000	2016 £000	**2017 £000**	2016 £000
Shares	**–**	–	**2,288**	2,288
Intragroup Loan	**–**	–	**24,487**	5,892
Loan to other housing association	**65**	72	**65**	72
Interest in associate	**107**	98	**–**	–
	172	170	**26,840**	8,252

Intragroup loans consist of loans to 100% subsidiaries of Devon and Cornwall Housing Limited. Interest is payable on a variable rate basis and repayments are due in 2-5 years. There is no penalty for early repayment.

At 31 March 2017 one loan was outstanding from another housing association. The loan is repayable in equal instalments with final repayment in 2023. Interest is payable at a fixed rate.

Details of the subsidiaries are as follows:

	COUNTRY OF REGISTRATION OR INCORPORATION	PRINCIPAL ACTIVITY
The company has a controlling interest in the following subsidiaries:		
Devon and Cornwall Leasehold Solutions Limited	England	Property management services
Devon and Cornwall Treasury Limited	England	Group borrowing vehicle
Independent Futures CIC	England	Housing support services
Penwith Housing Association 2012 CIC	England	Dormant
Westco Properties Limited	England	Property development and services
Penwith Housing Ancillary Services External Limited	England	Cost sharing group
In addition:		
Advantage Southwest LLP is 25% owned by Westco Properties Limited	England	Procurement consortium

15 PROPERTIES FOR SALE

	GROUP		COMPANY	
	2017 £000	2016 £000	**2017 £000**	2016 £000
PROPERTIES DEVELOPED FOR OUTRIGHT SALE				
Completed units	**2,293**	–	**–**	–
Units in progress	**19,996**	8,662	**–**	–
	22,289	8,662	**–**	–
SHARED OWNERSHIP PROPERTIES - FIRST TRANCHE SALES				
Completed units	**1,749**	953	**1,749**	953
Units in progress	**7,263**	6,021	**7,263**	6,021
	31,301	15,636	**9,012**	6,974

16 DEBTORS: DUE WITHIN ONE YEAR

	GROUP		COMPANY	
	2017 £000	2016 £000	**2017 £000**	2016 £000
Rent and service charges receivable	5,366	6,247	5,358	6,247
Less : Provisions for bad and doubtful debts	(1,151)	(1,159)	(1,151)	(1,159)
	4,215	5,088	**4,207**	5,088
Service charges recoverable	757	382	757	382
Amounts owed by group companies	–	–	298	47
Other debtors	1,803	1,207	486	235
Social Housing Grant receivable	978	1,558	978	1,558
Prepayments and accrued income	1,656	1,029	4,722	3,168
	9,409	9,264	**11,448**	10,478

17 CASH AND CASH EQUIVALENTS

	GROUP		COMPANY	
	2017 £000	2016 £000	**2017 £000**	2016 £000
Cash at bank and in hand	40,548	62,312	39,965	61,951
Bank loans and overdrafts	(3)	–	–	–
Cash and cash equivalents per cashflow statement	**40,545**	62,312	**39,965**	61,951

18 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	GROUP		COMPANY	
	2017 £000	2016 £000	**2017 £000**	2016 £000
Housing loans (see note 20)	5,959	1,252	5,959	1,252
Issue costs	(138)	(53)	(138)	(53)
Bank loans and overdrafts	3	–	–	–
Recycled Capital Grant Fund & Disposal Proceeds Fund (note 25)	685	888	685	888
Trade creditors	1,804	1,509	1,787	1,458
Rent and service charges received in advance	8,657	8,598	8,656	8,598
Contracts for capital works	4,929	4,402	4,106	3,330
Interest charges	2,071	2,077	712	724
Pension deficit (note 28)	1,841	1,761	1,823	1,755
Amounts owed to group companies	–	–	1,421	1,483
Other taxation and social security	643	589	592	528
Other creditors	1,382	1,601	1,245	1,163
Accruals and deferred income	18,929	13,925	15,513	10,420
	46,765	36,549	**42,361**	31,546

19 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	GROUP		COMPANY	
	2017 £000	2016 £000	**2017 £000**	2016 £000
Recycled Capital Grant Fund & Disposal Proceeds Fund (note 25)	**4,715**	3,894	**4,715**	3,894
Pension deficit (note 28)	**11,807**	12,988	**11,645**	12,807
Other Grant	**381**	–	**381**	–
Housing loans (note 20)	**458,997**	419,827	**458,997**	419,827
Social Housing grant	**384,018**	386,631	**384,018**	386,631
Issue costs	**(1,236)**	(860)	**(1,236)**	(860)
Other financial liabilities (note 23)	**70,355**	65,480	**70,355**	65,480
Grant on HomeBuy equity loans	**5,169**	5,417	**4,974**	5,203
	934,206	893,377	**933,849**	892,982

The premium arising on loan issues is amortised over the term of the loan to which it relates.

The gross social housing grant recieved is £457m (2016: £455m) with a total of £73m (2016: £69m) being amortised into reserves.

20 HOUSING LOANS

	GROUP		COMPANY	
	2017 £000	2016 £000	**2017 £000**	2016 £000
SOURCES OF LOAN FINANCE				
Banks & building societies	**334,012**	333,148	**39,012**	38,148
Capital market issues	**126,417**	84,697	**126,417**	84,697
Intra group	**–**	–	**295,000**	295,000
Other	**4,527**	3,234	**4,527**	3,234
	464,956	421,079	**464,956**	421,079

	GROUP AND COMPANY	
	2017 £000	2016 £000
HOUSING LOAN FINANCE IS REPAYABLE AS FOLLOWS:		
In one year or less	**5,959**	1,252
Between one and two years	**11,146**	5,933
Between two and five years	**49,066**	49,824
In five years or more	**398,785**	364,070
	464,956	421,079
All loans are repayable by instalments. The final instalments fall to be paid in the period 2020 to 2043.		
HOUSING LOANS ARE SECURED AS FOLLOWS:		
Fixed charges on properties	464,956	421,079
INTEREST RATE BASIS		
Fixed less than 5 years	**66,916**	30,596
Fixed more than 5 years	**339,141**	331,905
Index linked	**2,561**	3,124
Variable	**56,338**	55,454
	464,956	421,079

In order to manage its interest rate profile the group holds fixed rate swaps. The interest basis including fixed rate and inflation differential swaps is shown above. The fixed rates of interest range from 0.68% to 12%. The group's average cost of borrowing at 31 March 2017 was 2.98% (2016: 3.05%).

21 CALLED UP SHARE CAPITAL

	GROUP AND COMPANY	
	2017	2016
	£	£
ALLOTTED, ISSUED AND FULLY PAID SHARES OF £1		
Balance at 1 April	10	9
Issued during year	1	2
Cancelled during year	(1)	(1)
Balance at 31 March	**10**	10

The share capital of the company consists of non-equity interest shares with a nominal value of £1 each which carry no rights to dividends or other income. Shares in issue are not capable of being repaid or transferred. Where a shareholder ceases to be a member that share is cancelled and the amount paid up becomes the property of the company.

22 DESIGNATED RESERVES

	GROUP AND COMPANY	
	2017	2016
	£000	£000
Major repairs reserve	68,427	62,044
Remodelling reserve	2,567	2,568
	70,994	64,612

The major repairs reserve recognises the future cost of major repairs and improvement works to housing properties and is based on the expected future expenditure using the group's life-cycle costing model. The remodelling reserve recognises the future cost of enhancement expenditure that does not fall within the group's policy for capitalisation.

23 FINANCIAL INSTRUMENTS

CARRYING AMOUNT OF FINANCIAL INSTRUMENTS	**2017 £000**	2016 £000
Assets measured at fair value	–	281
Assets measured at amortised cost	40,717	62,482
Liabilities measured at fair value	70,355	65,480
Liabilities measured at amortised cost	464,956	421,080

Hedge Accounting

The following table indicates the periods in which the cash flows associated with cash flow hedging instruments are expected to occur as required by FRS 102 for the cash flow hedge accounting models, and the periods in which they are expected to affect profit or loss.

	GROUP AND COMPANY 2017					
	Carrying amount £000	Expected cash flows £000	1 year or less £000	1 to < 2 years £000	2 to <5 years £000	5 years and over £000
INTEREST RATE SWAPS						
Assets	–	–	–	–	–	–
Liabilities	(70,355)	(80,587)	(7,467)	(6,977)	(17,786)	(48,357)
	(70,355)	**(80,587)**	**(7,467)**	**(6,977)**	**(17,786)**	**(48,357)**

	GROUP AND COMPANY 2016					
	Carrying amount £000	Expected cash flows £000	1 year or less £000	1 to < 2 years £000	2 to <5 years £000	5 years and over £000
INTEREST RATE SWAPS						
Assets	281	1,148	169	128	382	469
Liabilities	(65,480)	(106,531)	(6,579)	(6,646)	(19,682)	(73,624)
	(65,199)	**(105,383)**	**(6,410)**	**(6,518)**	**(19,300)**	**(73,155)**

24 HOUSING STOCK

		GROUP			
		UNITS IN MANAGEMENT		UNITS UNDER DEVELOPMENT	
		2017	2016	**2017**	2016
SOCIAL HOUSING					
Owned and managed by the group:	Rented	16,642	16,134	660	535
	Shared ownership	2,340	2,189	367	221
	Sheltered	2,393	2,379	–	–
	Supported housing (bed spaces)	332	332	–	–
Managed by the group:	Rented	58	58	–	–
Owned by the group:	Supported housing (bed spaces)	173	176	–	–
		21,938	21,268	**1,027**	756
NON-SOCIAL HOUSING					
Owned and managed by the company:	Rented	96	69	–	–
Managed by the company:	Owner occupied	1,507	1,506	–	–
COMMERCIAL PROPERTIES					
Owned and managed by the group:		38	39	–	–

		COMPANY			
		UNITS IN MANAGEMENT		UNITS UNDER DEVELOPMENT	
		2017	2016	**2017**	2016
SOCIAL HOUSING					
Owned and managed by the company:	Rented	16,642	16,134	660	535
	Shared ownership	363	371	–	–
	Sheltered	2,393	2,379	–	–
	Supported housing (bed spaces)	332	332	–	–
Managed by the company	Rented	58	58	–	–
Owned by the company:	Shared ownership	1,977	1,818	367	221
	Supported housing (bed spaces)	173	176	–	–
		21,938	21,268	**1,027**	756
NON-SOCIAL HOUSING					
Owned and managed by the company:	Rented	26	27	–	12
Managed by the company:	Owner occupied	375	372	–	–
Owned by the company		44	42	–	–
COMMERCIAL PROPERTIES					
Owned by the company:		38	39	–	–

25 RECYCLED CAPITAL GRANT FUND (RCGF) AND DISPOSAL PROCEEDS FUND (DPF)

	GROUP AND COMPANY			
	RCGF	DPF	RCGF	DPF
	2017		2016	
	£000	**£000**	£000	£000
Balance at 1 April	4,380	402	3,640	400
Fair value on acquisition				
INPUTS TO RESERVE				
Grants recycled	2,222	105	1,798	87
Homebuy grants	246	–	216	–
Interest accrued	17	–	23	–
WITHDRAWALS FROM RESERVE				
New build	(1,906)	(66)	(1,297)	(85)
Major repairs and works to existing stock	–	–	–	–
Flexible Tenure	–	–	–	–
Balance at 31 March	**4,959**	**441**	**4,380**	**402**

26 FINANCIAL COMMITMENTS

		GROUP AND COMPANY	
		2017	2016
		£000	£000
CAPITAL COMMITMENTS FOR WHICH NO PROVISION HAS BEEN MADE			
Housing properties	Contracted	130,322	89,257
Housing properties	Approved not contracted	36,731	71,877
Housing properties - components	Approved not contracted	12,439	8,348
ANNUAL COMMITMENT UNDER OPERATING LEASE			
Land and buildings - lease expiring 1-2 years		7	95
Land and buildings - lease expiring 2-5 years		192	–
Land and buildings - lease expiring beyond 5 years		1,594	1,504
		1,793	1,599

Capital commitments of £183m will be funded through undrawn facilities of £170m and operating cash flows of £13m. Operating lease commitments will be funded by operational cash flows.

27 SIGNIFICANCE OF FINANCIAL INSTRUMENTS

Devon and Cornwall Treasury Limited, a wholly owned subsidiary, is classed as a Financial Institution. The following disclosures relate to Devon and Cornwall Treasury Limited only and no other entities.

	2017 £000	2016 £000
Financial instruments are classed as follows:		
FINANCIAL ASSETS		
Cashflow hedges at fair value (intragroup swaps)	70,355	65,761
Intragroup loans measured at amortised cost	295,000	295,000
FINANCIAL LIABILITIES		
Cashflow hedges at fair value (interest rate swaps)	70,355	65,761
Bank loans measured at amortised cost	295,000	295,000

Fair Value

All financial instruments are valued using the Mark-To-Market (MTM) valuation method. There is no quoted (bid) price for an identical asset in an active market nor are there recent transactions for identical assets.

Nature and extent of risks arising from financial instruments

Risks are formally reviewed by the board and appropriate processes put in place to monitor and mitigate them. Devon and Cornwall Treasury Ltd offsets these risks through exactly matching financial assets or liabilities with the parent (Devon and Cornwall Housing Ltd).

Credit risk

The group defines credit risk as *"the risk of failure by a third party to meet its contractual obligations to DCH under an investment, borrowing, or hedging arrangement which has a detrimental effect on DCH's resources and/or gives rise to credit losses"*.

The group's maximum exposure to credit risk was £211m consisting of £41m cash and £170m undrawn loan facilities. There is no security held which mitigates the risk on these assets. There has been no impairment on these assets.

Our treasury management policy manages credit risk by setting minimum credit rating requirements and maximum exposure limits for all deposit counterparties.

Liquidity risk

We maintain adequate cash and debt funding facilities to cover our operations and planned developments.

We actively monitor the cash flow requirements of our operating and development activities and we have a treasury management policy in place which requires us to hold short and medium term liquidity levels. Overdraft facilities of £1.5m provide us with further flexibility.

Market risk

The group has market exposure to changes in interest rates. Our approach to interest rate management is to maintain a balanced portfolio of fixed, variable and index linked debt. This is managed through the use of fixed rate debt and standalone derivatives. As Devon and Cornwall Treasury Ltd has corresponding financial assets or liabilities with DCH the risk will have no impact on profit/loss and equity of the company. The group has exposure to interest rate rises through our variable rate debt. A 1% increase in rates would lead to a £356,340 additional interest charge. We also have an indirect exposure to bond rates through our pension scheme commitments.

The standalone derivatives can give rise to margin calls if interest rates fall. This risk is managed by securing sufficient properties to cover margin calls in the event of a 0.5% fall in interest rates.

Capital

The company defines capital as net assets or equity. Due to the intra-group nature of its assets and liabilities the company holds its capital levels to its share capital of £10. DCH holds reserve capital of £278m which are held to reduce future borrowing requirements on development spend.

28 PENSION SCHEMES

As explained in the accounting policies set out in note 1 the group operates three separate pension schemes. The assets of the schemes are held separately from those of the group.

THE PENSIONS TRUST

DCH participates in two schemes with the Pensions Trust, the Social Housing Pension Scheme ("SHPS") and The Growth Plan, which are multi-employer schemes, providing benefits to non-associated employers. The schemes are classified as defined benefit schemes in the UK; however, it is not possible for the company to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore it accounts for the scheme as a defined contribution scheme.

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

A full actuarial valuation for the SHPS scheme was carried out with an effective date of 30 September 2014. This actuarial valuation was certified on 23 November 2015 and showed assets of £3,123m, liabilities of £4,446m and a deficit of £1,323m. To eliminate this funding shortfall, the trustees and the participating employers have agreed that additional contributions will be paid, in combination from all employers, to the scheme up to 30 September 2026. DCH will make deficit contributions of £1.833m in 2017/18.

A full actuarial valuation for the Growth Plan was carried out at 30 September 2014. This valuation showed assets of £793m, liabilities of £970m and a deficit of £177m. To eliminate this funding shortfall, the Trustee has asked the participating employers to pay additional contributions to the scheme up to 30 September 2028. DCH will make deficit contributions of £8,000 in 2017/18.

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

	31 March 2017	31 March 2016	31 March 2015
SHPS			
Present value of provision (£000)	**13,393**	14,483	11,235
Rate of discount (%)	**1.33**	2.06	1.92
GROWTH PLAN			
Present value of provision (£000)	**75**	79	64
Rate of discount (%)	**1.32**	2.07	1.74

RECONCILIATION OF OPENING AND CLOSING PROVISIONS	GROUP			
	SHPS		Growth Fund	
	31 March 2017 £000	31 March 2016 £000	**31 March 2017 £000**	31 March 2016 £000
At beginning of the year	**14,669**	11,302	**79**	64
Unwinding of the discount factor	**283**	204	**2**	1
Deficit contribution paid	**(1,764)**	(1,295)	**(8)**	(8)
Remeasurements – change in assumptions	**384**	(89)	**2**	(1)
Remeasurements – contribution schedule	**–**	4,547	**–**	23
At end of the year	**13,572**	14,669	**75**	79

INCOME AND EXPENDITURE IMPACT	GROUP			
	SHPS		Growth Fund	
	31 March 2017 £000	31 March 2016 £000	**31 March 2017 £000**	31 March 2016 £000
Interest expense	**283**	204	**2**	1
Remeasurements – change in assumptions	**384**	(89)	**2**	(1)
Remeasurements – contribution schedule	**–**	4,547	**–**	23

RECONCILIATION OF OPENING AND CLOSING PROVISIONS	COMPANY			
	SHPS		Growth Fund	
	31 March 2017 £000	31 March 2016 £000	**31 March 2017 £000**	31 March 2016 £000
At beginning of the year	14,483	11,235	79	64
Unwinding of the discount factor	279	203	2	1
Deficit contribution paid	(1,747)	(1,289)	(8)	(8)
Remeasurements – change in assumptions	378	(88)	2	(1)
Remeasurements – contribution schedule	–	4,422	–	23
At end of the year	**13,393**	14,483	**75**	79

INCOME AND EXPENDITURE IMPACT	COMPANY			
	SHPS		Growth Fund	
	31 March 2017 £000	31 March 2016 £000	**31 March 2017 £000**	31 March 2016 £000
Interest expense	279	203	2	1
Remeasurements – change in assumptions	378	(88)	2	(1)
Remeasurements – contribution schedule	–	4,422	–	23

DEFINED BENEFIT SCHEME – CORNWALL COUNCIL PENSION FUND

DCH participated in this fund as an admitted body under the Local Government Superannuation Regulations 1986.

The Local Government Superannuation Scheme was funded jointly by employees participating in the scheme and DCH. The scheme is a defined benefit salary scheme based on final pensionable salary and is administered by Cornwall Council.

During the financial year contributions were paid at 24.6%. The pension costs for the year were £62,000 (2016: £319,000) covering 12 employees (2016: 13).

This pension scheme was closed to future accrual on 31 May 2016 and a final payment was made to Cornwall Council in October 2016 of £2,653,000 to settle all associated liabilities.

DEFINED BENEFIT SCHEME – DEVON COUNTY COUNCIL PENSION FUND

DCH participates in this fund as an admitted body under the Local Government Superannuation Regulations 1986.

The Local Government Superannuation Scheme is funded jointly by employees participating in the scheme and DCH. The scheme is a defined benefit salary scheme based on final pensionable salary and is closed to new entrants. The scheme is administered by Devon County Council.

The scheme operated two separate admission agreements relating to Tor Homes and West Devon Homes which were consolidated into one agreement at 31 March 2016.

The financial year contributions were paid at 19%. The pension costs for the year were £93,000 (2016: £119,000) covering 12 employees (2016: 16).

The most recent valuation was carried out as at 31 March 2016 and has been updated by independent actuaries to the Devon Council Pension Fund to take account of the income and expenditure items for the period to 31 March 2017. Liabilities are valued on an actuarial basis using the projected unit method which assesses the future liabilities discounted to their present value.

This pension scheme was closed to future accrual on 31 May 2016.

FINANCIAL ASSUMPTIONS

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the time scale covered, may not necessarily be borne out in practice.

The main financial assumptions for the Cornwall Council and Devon Council Pension Funds in respect of the FRS102 valuation are listed opposite.

	CORNWALL COUNCIL		DEVON COUNCIL	
	31 March 2017 %	31 March 2016 %	**31 March 2017 %**	31 March 2016 %
Discount rate	–	3.5	2.7	3.6
Rate of increase in salaries	–	4.2	4.1	4.1
Rate of increase in pensions	–	2.2	2.6	2.3
Rate of inflation	–	2.2	3.5	3.2

The current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations on retirement at 65 are:

	CORNWALL COUNCIL		DEVON COUNCIL	
	31 March 2017	31 March 2016	**31 March 2017**	31 March 2016
LONGEVITY AT AGE 65 FOR CURRENT PENSIONERS				
Males	**–**	22.2	**23.4**	22.9
Females	**–**	24.4	**25.5**	26.2
LONGEVITY AT AGE 65 FOR FUTURE PENSIONERS				
Males	**–**	24.4	**25.6**	25.2
Females	**–**	26.8	**27.8**	28.6

	CORNWALL COUNCIL		DEVON COUNCIL	
	31 March 2017 £000	31 March 2016 £000	**31 March 2017 £000**	31 March 2016 £000
ACTUARIAL LOSSES				
Cumulative actuarial losses in other comprehensive income	**–**	(2,638)	**(2,601)**	(1,796)
ANALYSIS OF THE AMOUNT CHARGED TO THE INCOME AND EXPENDITURE ACCOUNT				
Service cost	**(510)**	136	**25**	328
Total operating charge	**(510)**	136	**25**	328
Net interest on pension liabilities	**–**	120	**214**	209
Other financial costs	**–**	120	**214**	209
MOVEMENT IN THE FAIR VALUE OF ASSETS AND PRESENT VALUE OF LIABILITIES FOR THE YEAR TO 31 MARCH 2017				
FAIR VALUE OF ASSETS				
At beginning of the year	**5,454**	5,535	**8,738**	8,944
Scheme crystallisation	**(5,515)**	–	**–**	–
Interest on assets	**–**	178	**307**	40
Remeasurements	**–**	(329)	**1,180**	–
Employer contributions	**45**	319	**88**	173
Employee contributions	**16**	29	**5**	37
Administrative expenses	**–**	–	**(6)**	(4)
Net benefits paid out	**–**	(278)	**(524)**	(452)
At end of the year	**–**	5,454	**9,788**	8,738
PRESENT VALUE OF LIABILITIES				
At beginning of the year	**8,662**	9,363	**14,711**	15,278
Scheme crystallisation	**(8,678)**	–	**–**	–
Current service cost	**–**	136	**19**	159
Past service cost	**–**	–	**–**	165
Interest on liabilities	**–**	298	**521**	500
Contributions by participants	**16**	29	**5**	37
Remeasurements	**–**	(886)	**1,985**	(976)
Net benefits paid out	**–**	(278)	**(523)**	(452)
At end of the year	**–**	8,662	**16,718**	14,711

The fair value of the assets held by the pension funds at 31 March 2017, and the expected rate of return for each class of asset is as follows:

TYPE	CORNWALL COUNCIL				DEVON COUNCIL			
	2017		2016		2017		2016	
	Long Term Return %	**Fund value £000**	Long Term Return %	Fund value £000	**Long Term Return %**	**Fund value £000**	Long Term Return %	Fund Value £000
Equities	–	–	3.5	2,509	3.6	5,758	3.6	4,917
Gov't bonds	–	–	3.5	–	3.6	293	3.6	239
Bonds	–	–	3.5	2,454	3.6	250	3.6	310
Property	–	–	3.5	382	3.6	856	3.6	979
Other	–	–	3.5	109	3.6	2,631	3.6	2,293
TOTAL	–	–		5,454		**9,788**		8,738

FUNDING POSITION	CORNWALL COUNCIL		DEVON COUNCIL	
	31 March 2017 £000	31 March 2016 £000	**31 March 2017 £000**	31 March 2016 £000
Assets	–	5,454	9,788	8,738
Estimated liabilities	–	(8,662)	(16,718)	(14,711)
Deficit in scheme	–	(3,208)	**(6,930)**	(5,973)

DEFINED CONTRIBUTION SCHEME – SOCIAL HOUSING PENSION SCHEME

This scheme administered by the Pensions Trust is the pension scheme for auto-enrolment and is also open to all members of staff. The company paid contributions between 2% and 9% and employees paid contributions from 1%. On retirement, funds or units earned can be converted into a pension with the Trust, or used to secure a pension with another provider. At 31 March 2017 there were 400 active members (2016: 379) of the scheme.

Our Executive Management team have the responsibility to manage the day to day operations of the group

29 RELATED PARTIES

All trading transactions between DCH and its non-regulated subsidiaries are charged at the cost of providing the service between the subsidiaries. Recharges are determined by an appropriate allocation depending on the nature of the cost, such as headcount, floor space and services.

	TRANSACTIONS IN YEAR		BALANCE AT YEAR END		NATURE OF SUPPLY
	Income £000	Expenditure £000	Debtor £000	Creditor £000	
DCT from DCH	48	–	295,007	–	Treasury services
DCH from DCT	–	48	–	295,007	
Westco from DCH	28,177	–	–	20,123	Development services
DCH from Westco	–	28,177	20,123	–	
DCLS from DCH	313	–	–	47	Scheme management
DCH from DCLS	–	313	47	–	
PHASE from DCH	–	–	54	–	Maintenance services
DCH from PHASE	–	–	–	54	
IF from DCH	874	–	–	77	Support services
DCH from IF	–	874	77	–	
Westco from DCLS	2,684	–	4,364	–	Development services
DCLS from Westco	–	2,684	–	4,364	
Westco from DCLS	–	–	–	50	Scheme management
DCLS from Westco	–	–	50	–	

30 CONTINGENT LIABILITIES

DCH has acquired a number of properties where grant is considered to be included as part of the acquisition cost and is not accounted for separately in the balance sheet. This contingent liability will be realised if the assets to which the grant relates are disposed.

As at 31 March 2017 this contingent liability is £12.8m (2016: £10.6m).

Ensuring DCH is a great place to work has never been more evident than at our 'DCHFest' this year

Companies within the group, board members, executives and advisers

Each year we invest all surplus from the sales of our open market homes to support the development of affordable homes across the south west.

Companies within the group

As at 31 March 2017 DCH had five direct subsidiaries and one associated company which have been consolidated as required under Financial Reporting Standard 2 (FRS 2).

Details of the trading subsidiaries and their roles within the group are shown below. All of these companies trade under the single identity of DCH.

COMPANY	ROLE IN THE GROUP
Independent Futures CIC (i-Futures)	Brings together all our services focused on supporting people to live independent lives including general support, services for older people and services for younger people.
Westco Properties Limited (Westco)	Westco are our open market development arm. All profit made is returned to DCH in the form of Gift Aid, facilitating substantial investment for affordable homes in the region.
Devon and Cornwall Treasury Limited (DCT)	Our group treasury vehicle, responsible for £405m of the group's borrowing facilities.
Devon and Cornwall Leasehold Solutions Limited (DCLS)	DCH's stock owning landlord for new housing purchased without grant. DCLS also manages over 3,170 shared ownership and leasehold properties (including private retirement schemes).
Advantage SW LLP (ASW)	Our procurement consortium jointly owned by Westco and three other registered providers.
Penwith Housing Ancillary Services External Limited (PHASE)	Prior to amalgamation with West Devon Homes, this was our VAT cost sharing exempt vehicle.

EXECUTIVE MANAGEMENT TEAM	
Group Chief Executive	Paul Crawford
Group Director of Finance	Melvyn Garrett
Group Director of Asset Management	Doug Stein
Group Director of Development	Russell Baldwinson
Group Director of People and Communications	Sheila Whelan
Group Director of Strategy and Performance	Tom Woodman
Director of Neighbourhoods & Customer Services	Suzanne Brown (appointed 1 November 2016)
Director of Independent Living	Kathy Gilmore (appointed 1 November 2016)

BOARD MEMBERS

Angela Dupont
Group Chairman
Member of RC

Paul Crawford
Group Chief Executive
Member of DRG

Melvyn Garrett
Group Director of Finance
Member of DRG and TC

Jenefer Greenwood
RC Chairman
Member of DRG

Nick Hardie
Senior Independent Director
ARC Chairman
Member of TC and RC

Michael Jane
TC Chairman
Member of ARC

Paul Love
Member of ARC and RC

John Newbury
Member of CSC
(appointed 1 October 2016)

Mark Rowan
Member of TC

Andrew Wiles
CSC Chairman
Member of ARC

Tim Larner
Member of DRG and TC

Laurence Clarke
Member of DRG and ARC

Andy Joss
(resigned 30 September 2016)

ARC = Audit and Risk committee
CSC = Customer Services committee
DRG = Development Review group
RC = Remuneration committee
TC = Treasury committee

Secretary:	Jill Farrar
Registered office:	72 Paris Street, Exeter, EX1 2JZ
Company registration number:	7096
Homes and Communities registration:	4818
Auditors:	KPMG LLP, Plym House, 3 Longbridge Road, Plymouth PL6 8LT
Treasury advisers:	Centrus Advisers LLP, 3rd Floor, Mermaid House, 2 Puddle Dock, London EC4V 3DB

Fast facts about DCH

- 23,579 homes, including rent, leasehold and shared ownership
- turnover of £141m for 2016/17, generating a surplus of £36m for reinvesting in services and homes
- a significant development pipeline over the next five years across all tenures, including rent, shared ownership and open market sale
- largest housing organisation operating solely in the south west, with high-quality homes and services across Cornwall and Devon, and expanding into new areas
- over 920 skilled and committed employees, living our values and making our strategy happen
- our overall customer satisfaction is over 92%, putting us well within the top 15% of English housing associations
- last year we invested £91m into new housing to provide three homes for families every working day
- 300 people moved on from our supported housing in the past year to live independently
- in the past year DCH staff and customers have donated over 2,500 hours of volunteer time
- we spent £32m on maintaining and improving our homes, carrying out 69,000 repairs in the last year
- 93% of our customers had overall satisfaction with our neighbourhoods
- in the past 18 months 34 apprentices have been welcomed across the business from the start of the programme.

DCH Head Office
72 Paris Street, Exeter EX1 2JZ

www.dchgroup.com