

FIRST CHOICE HOMES  
OLDHAM LIMITED

**Report and Financial  
Statements**

for the year ended  
31st March 2017

## Report and Financial Statements

for the year ended 31st March 2017

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## Non Executive Directors

### Board of Directors

**Bernadette Callaghan** (*resigned as Chair- September 2016*)

**Ged Lucas** (*Board Chair and Chair of Development Committee*)  
– appointed August 2016

**Matthew Jones** (*Board Vice Chair*) – appointed October 2016

**Pauline Richardson** (*Chair Audit and Risk Committee*)

**Barbara Brownridge** (*Chair Governance and Remuneration Committee*)

**Philip Pearson**

**Mumtaz Ali**

### Newly appointed

**Clare Doyle** – appointed 1 June 2016  
(*Co-optee Development Committee member from 22nd February 2017*)

**Hilda Kaponda** – appointed 1 June 2016

**Carl Brazier** – appointed 1 October 2016

### Resigned

**David Hibbert** – not reappointed by OMBC 20 April 2016

**Dave Murphy** – not reappointed by OMBC 20 April 2016

**Caroline Edwards** – naturally retired September 2016

**Mohammed Alyas** – resigned 2 August 2016

## Executive Officers



**Chief Executive**  
Cath Green



**Deputy Chief Executive**  
Vincent Roche



**Business Transformation Director and Company Secretary**  
Sheena McDonnell



**Customer First Director and Deputy Company Secretary**  
David Smith



**Homes and Investments Director**  
Dave Woods

## FCHO Advisors



**Barclays Bank Limited**  
Merseyside and North  
Cheshire Team  
11th Floor  
20 Chapel Street  
Liverpool  
L3 9AG



**Santander Corporate Banking**  
2 Triton Square  
Regents Place  
London  
NW1 3AN



**Trowers and Hamlins**  
Heron House  
Albert Square  
Manchester  
M2 5HD



**Mazars LLP**  
The Lexicon  
Mount Street  
Manchester  
M2 5NT



**BDO LLP**  
3 Hardman Street  
Spinningfields  
Manchester  
M3 3AT

### Registered Number

Registered Co-operative and Community Benefit Society number 31138R  
Registered by the Homes and Communities Agency number 4582

### Registered Office

First Place, 22 Union Street, Oldham OL1 1BE

## The Report of the Board of Directors

The Board of Directors present their report and audited financial statements for the year ended 31 March 2017.

### **First Choice Homes Oldham Limited (FCHO)**

First Choice Homes Oldham Limited (FCHO or “the Organisation”) is a not-for-profit Registered Provider (RP) administered by a Board of Non-Executive Directors. FCHO is a public benefit entity (PBE).

FCHO began trading as a Registered Provider on 7 February 2011 with 11,867 properties transferring from Oldham Metropolitan Borough Council (OMBC) on that date.

On 20th October 2016 FCHO established a subsidiary organisation, New Living Homes Limited (NLH) and NLH is a Limited Company by guarantee, registered with Companies House.

NLH will be responsible for the future development and build of FCHO’s new home development programme. There are no financial transactions in 2016/17 in respect of NLH. It is anticipated that trading will commence in August 2017. NLH is a subsidiary of FCHO and is Limited by virtue of the control of the appointment of the majority of the Board members. For VAT purposes however, the company stands outside of the VAT Group. NLH does not have any staff or any housing properties.

### **Charitable Status**

FCHO is a Community Benefit Society which has been assigned charitable status for tax purposes.

### **Review of the Year**

The details of FCHO’s annual performance and future plans are set out within the Strategic Report financial review that follows the Report of the Board of Directors.

### **The Board and Executive Officers**

The Board and Executive Officers are listed on page three of this report. The Executive Officers are responsible for the day to day management of FCHO. The Executive Officers are employed on the same terms and conditions as staff members within FCHO.

The Board is made up of between 8 and 12 Non-Executive Directors (including co-optees) as is determined by the Board and may include one Local Authority Non-Executive Director. Non-Executive Directors are recruited on a skills based approach and they have the appropriate range of skills, experience and qualities required to make decisions and monitor FCHO’s performance.

The Board met on eight scheduled occasions during 2016/17. There were two special meetings convened during 2016/17. In addition there were two Board Away days and a further two strategic briefing sessions.

In 2016/17 there have not been any personnel changes to the Leadership Team.

## **Corporate Governance**

The Board is responsible for providing leadership, support and guidance to FCHO and setting the policy framework. The Board is responsible for monitoring the performance of the business against its Strategic Objectives and key performance targets, challenging and scrutinising that performance. The Board's central role is to direct the business work to determine strategic direction, monitor performance and drive continuous improvement. The Board also define the Values, sets the Mission Statement and Strategic Objectives, inclusive of the financial objectives, approves short and medium-term plans and priorities and monitors the results from these plans.

In 2016/17 FCHO established a Customer Congress whose role is to scrutinise the organisation's delivery and performance against agreed goals and objectives and focus on delivery of operational targets. The Customer Congress provides a 'critical friend' challenge from residents to FCHO's Board and executive policy-makers and decision-makers. The Customer Congress membership is limited to customers of FCHO and led by a Customer Chair.

The Governance structure ensures that customers measure, test and monitor the services they receive and demonstrates that customers influence the on-going development of the business.

FCHO are fully compliant with the NHF Code of Governance 2015.

## **Board Delegation**

In order to operate effectively and ensure appropriate governance in business critical areas, the Board has delegated authority to three committees.

- The Audit and Risk Committee – the committee met to consider official duties on four occasions during 2016/17
- The Governance and Remuneration Committee – the committee met to consider its official duties on four occasions during 2016/17
- The Development Committee – the committee met to consider its official duties on three occasions during 2016/2017

## **Audit and Risk Committee**

The Audit and Risk Committee contributes to the Board's process for ensuring effective internal controls and risk management. This includes both internal and external audit activities of FCHO and in particular the duties, requirements and guidance set by the applicable regulator. FCHO also follows the Charity Commission's 'Hallmarks of an Effective Charity' guidance.

## **Governance and Remuneration Committee**

The purpose of the Governance and Remuneration Committee is to:

- Ensure that the Board fulfils its legal, ethical, and functional responsibilities monitoring of Board activities and the evaluation of Non-Executive Directors' performance.
- Ensure that remuneration arrangements support the strategic aims of a business.
- Ensure that the Chief Executive has the skills, competence and capacity to deliver the overall strategy of the business, its plans and proposals.

### **Development Committee**

As part of FCHO's commitment to delivering new homes in 2016/17 FCHO's Board established a Development Committee. The role of the Development Committee is to provide strategic direction and leadership to ensure that FCHO's development programme delivers the outcomes and strategic objectives set by the FCHO Board. The committee will take an overview of the business' development activity, monitor progress against programme, reviewing and commenting upon individual schemes as necessary.

### **New Living Homes Limited (NLH)**

The Board of NLH are appointed by the FCHO Board. The NLH Board of Directors is made up of between three and five members, excluding Co-optees. This is made up of one Chairperson, two FCHO Non-Executive Directors and two FCHO Officers and may include Co-optee membership as outlined in the NLH articles. NLH's Non-Executive Directors are registered as Company Directors with Companies House. The first meeting of the Board took place on 26 May 2017. The Board did not meet in the period 2016/2017.

### **Employment and Policy**

The Board recognises the importance of employee involvement for FCHO's success. FCHO had an average of 385 colleagues throughout 2016/17 and as at 31 March 2017 there was 398 staff in post, of which 17 declared a disability. The business has a comprehensive range of employment policies supporting FCHO's commitment to its colleagues.

### **Equality and Diversity Policy**

The FCHO Board is committed to embedding equality across the business. It ensures FCHO has appropriate accessibility policies, services and employment practice which reflect the diverse community FCHO serves and recruits from.

The Equality and Diversity Policy is the Single Equality Scheme, which outlines the commitments FCHO has made and the actions taken to ensure equality of opportunity for all. The Board is the driver for embedding the Single Equality Scheme and championing FCHO's Equality and Diversity commitments.

### **Health and Safety**

Health and Safety Committee meetings are held for the purpose of ensuring effective communication, monitoring performance and consultation in matters affecting the health, safety and welfare of all those affected by the work of FCHO.

The aim of the meetings is to ensure that the business's Health and Safety policies and arrangements are effective, enable concerns and suggestions for improvements to be made, promote the role of health and safety within the business and assist in the management of health and safety within FCHO.

The Health and Safety Committee is chaired by a member of the Leadership Team and includes the Board Champion for Health and Safety.

FCHO also has a colleague Health and Safety group comprising colleagues across the business to ensure feedback and promotion of a positive safety culture across the whole business.

FCHO networks with similar businesses and has several memberships, which enable access to information relating to health and safety issues, for example, the British Safety Council (BSC), the National Housing Federation (NHF), the Institution of Occupational Safety and Health (IOSH) and local Health and Safety groups. In 2016/17 FCHO continued to achieve the ISO 18001 accreditation for Health and Safety.

No major incidents have been reported in 2016/17.

## Donations

During the year FCHO has made charitable donations to the total of £93,365 (2015/16: £100,759) to various charities and community groups.

## Policy on payment of creditors

It is the policy of the organisation to pay its creditors within 30 days.

Regulation 113(7) of the Public Contracts Regulations 2015 introduced the following publication requirements: After March 2016, all in-scope organisations must publish, on an annual basis and covering the previous 12 months, (i) the percentage of their invoices paid within 30-days and ii) the amount of interest paid to suppliers due to late payment, (iii) the total amount of interest that the contracting authority was liable to pay due to late payment. The data for financial year ending 31 March 2017 is shown in the following table:-

| Financial Year 2016/2017 | Proportion of valid and undisputed invoices paid within 30 days in accordance with regulation 113 | The amount of interest paid to suppliers due to a breach of the requirement in regulation 113 | The total amount of interest that the contracting authority was liable to pay (whether or not paid and whether under any statutory or other requirement), due to a breach of Regulation 113 |
|--------------------------|---|---|---|
| FCHO                     | 97.96%  | £110  | £1,570.02   |

## Modern Slavery Act 2015

FCHO's turnover exceeds £36m for that period, therefore under section 54(1) of the Modern Slavery Act 2015 FCHO has a Slavery and Human Trafficking Statement for the year ending 31 March 2017 and the statement can be accessed via FCHO's website.

This statement is approved by FCHO's Board and Leadership team and will be reviewed and updated as necessary or on an annual basis.

## Compliance with the National Housing Federation Code of Governance

FCHO adopted the National Housing Federation's 2015 Code of Governance. The Board reviewed its compliance with the code at its meeting held on 5 July 2017 and approved that FCHO complies with all the requirements and provisions within the code.

## Compliance with the Homes and Communities Agency Governance and Financial Viability Standard

FCHO's Board has assessed compliance with the Homes and Communities Agency Governance and Financial Viability Standard. FCHO has developed an assurance model (based on a three line of defence model) which supports evidencing compliance with the standard and supporting HCA Code of Practices (where applicable). This model was reported and formally approved by the Board at its meeting held on 5 July 2017 – this confirmed FCHO is fully compliant and that FCHO meets all the requirements of the standard. The key elements of compliance within the assurance model are:

- July 2016 and July 2017 – Confirmed compliant with the NHF Code of Governance
- June 2016 and November 2016 – Board review of Strategic Planning, Risk Management Framework, inclusive of financial plan (supported by assurance model)
- January 2017 – Board approved Strategic Plan inclusive of financial plan and stress testing

## Statement of Director Responsibilities in respect of the Non-Executive Director Report and the Financial Statements

### Board members' responsibilities

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

Co-operative and community benefit society law and social housing legislation require the board members to prepare financial statements for each financial year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

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

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards and the Statement of Recommended Practice: Accounting by registered social housing providers 2014 have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the association will continue in business

The Board members are responsible for keeping adequate accounting records that are sufficient to show and explain the business' transactions and disclose with reasonable accuracy at any time the financial position of the organisation and enable them to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. They are also responsible for safeguarding the assets of the business and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board is responsible for ensuring that the report of the Board is prepared in accordance with the Statement of Recommended Practice: Accounting by Registered Social Housing Providers 2014.

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

### **Disclosure of information to auditor**

The Board of Directors who held office at the date of approval of this Board of Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the business' auditors are unaware. Each Director has taken all the steps that he/she ought to have taken as a Director to make him/her aware of any relevant audit information and to establish that the business' auditors are aware of that information.

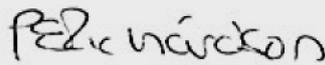
### **Auditor**

BDO are FCHO's current external auditors and FCHO is in the process of re-procurement of its external audit services. This procurement is due to conclude in December 2017.

The report of the Board was approved on 16 August 2017 and signed on its behalf by:



**Ged Lucas**  
Chair of the Board



**Pauline Richardson**  
Chair of Audit and Risk



**David Smith**  
Deputy Company Secretary  
Committee



## FCHO Strategic Report

FCHO's Board have prepared a strategic report which includes:

- FCHO's Strategic Objectives
- Financial performance and year end position including Key Performance Indicators
- Employee involvement and engagement
- Risk and Assurance (including Governance)
- Value for Money Self-Assessment

### FCHO - Background

The primary activity of FCHO is the provision of rented social housing accommodation across the borough of Oldham. FCHO was incepted and commenced trading in 2002 as an Arm's Length Management Organisation (ALMO) and was wholly funded by Oldham Metropolitan Borough Council (OMBC). The ALMO was limited by guarantee and did not have any share capital.

On 30 December 2010 FCHO was registered under the Industrial and Provident Societies Act (1965) and began trading as a Registered Provider on 7 February 2011 following the transfer of 11,867 properties from OMBC on that date.

Santander is FCHO's primary funder and there is a 30-year business plan in place, which is reviewed and approved annually by Santander as part of the £55m loan facility agreement in place.

On the 1 August 2014, the Co-operative and Community Benefit Societies' Consolidation Bill was approved by Parliament and from this date FCHO is no longer governed by the Industrial and Provident Societies Act 1965 and is now registered as a Community Benefit Society (registration number 31138R) with charitable objectives under the Co-operative and Benefit Societies Act 2014.

FCHO's housing stock is solely within the borough of Oldham and is made up of 11,571 properties. These are traditionally rented properties mixed between General Needs Stock, Supported Housing and Affordable Rent properties.

During the year ended 31 March 2017 the number of units had reduced by 95 due to 92 Right to Buy & 3 Right to Acquire Sales. There were also 2 additions due to the completion of new-build properties.

| General Needs Rental       | 2017   | 2016   |
|----------------------------|--------|--------|
| Social Housing             | 10,810 | 10,902 |
| Affordable – General Needs | 761    | 762    |
|                            | 11,571 | 11,664 |

FCHO is governed by a Board of between 8 and 12 Non-Executive Directors. FCHO is led and managed by a Chief Executive, supported by a Deputy Chief Executive (directly responsible for the Commercial Division) and a team of three Executive Directors, who are respectively responsible for the Homes and Investment, Customer First and Business Transformation divisions. The Executive team is supported by seven Assistant Directors.

## FCHO – Strategic Direction

FCHO recognises its role and responsibility as a Registered Provider and social business providing social housing within Oldham. FCHO's Strategic Plan outlines its Strategic Objectives for the next five years and identifies business objectives which have been identified as bespoke priorities for its customers and communities.

FCHO has a Strategic Planning and Risk Management Framework in place. This framework outlines the process of the setting of FCHO's Strategic Objectives, delivery of the objectives and how the objectives align to risk and assurance and financial planning (inclusive of stress testing).

FCHO's Strategic Plan includes:

- "One Message" statement – FCHO's Vision and Mission
- Strategic Objectives and Enabling Activities
- Operating Environment Review
- Strategic Risk Analysis
- 30-year financial plan (inclusive of stress testing)

FCHO's "One Message" is shown below:

### VISION

*What we want to achieve*

*Improving lives in Oldham*

### MISSION

*Headline target*

*To be a trusted provider of quality homes, excellent landlord and support services, creating thriving and independent communities*

### PILLARS

*Strategic objectives*

*Excellent Landlord Services*

*Thriving Communities*

*Build New Homes*

### VALUES

*How we do things*

*We listen  
We act*

*We keep it simple*

*We own  
We learn*

*We care*

The delivery of our Vision is underpinned by three Strategic Objectives:

- **Excellent landlord services**
- **Create thriving communities**
- **Build desirable homes**

Delivery of the Strategic Objectives is supported via an Enabling Plan, focused on the following cross-cutting business outcomes:

- **Right first time services**
- **Maximising income**

The above is incorporated within FCHO's Strategic Plan, which is reviewed annually by the Board.

Below is a brief outline of the themes included in the Strategic Objectives. Further details on progress and outcomes for 16/17 can be found in FCHO's VFM Self-Assessment on pages 22 to 40

### **Landlord**

The scope of landlord services covers property lettings, all property works, tenancy management, estate maintenance, supporting customers to sustain a tenancy and rent collection, (the latter covered under maximising income as an Enabling Activity).

### **Communities**

FCHO believes that the cornerstone of establishing a good community is the provision and security of a good home. FCHO's objective is to provide above and beyond the core landlord service and "Create Thriving Communities".

FCHO has identified two key areas which it believes supports the delivery of creating thriving communities. These are anti-poverty and improving health and wellbeing.

### **Development**

The delivery of this Strategic Objective, "Building New Homes" will support FCHO to deliver new affordable homes whilst maximising the impact on meeting housing need and demand within Oldham.

FCHO's Board has approved a five-year development programme with the aim of delivering over 800 new homes by 2022/23.



## **2016/17 – The Year Review**

2016/17 has been a very positive year for FCHO with some key achievements in delivery of the £4.1m savings required following the four-year 1% rent reduction, as well as the development and expansion of FCHO's employment service and the implementation of its health and wellbeing offer. FCHO continues to work to improve Oldham and its neighbourhoods as places to live, provide a great workplace for colleagues and support local business and the local economy.

FCHO is committed to the delivery of excellent landlord services. FCHO recognises its role as more than a landlord, and central to its strategic objectives to create thriving communities are FCHO's range of support services to benefit customers to improve their health and wellbeing, employment prospects and quality of life.

### **High-Rise Blocks – Fire Risk**

Following the recent tragic fire at Grenfell Tower in London, FCHO has reviewed each of its five high-rise blocks. Of the five blocks owned by FCHO, four have external wall insulation, FCHO has confirmed to the Department of Communities and Local Government (DCLG) that both the insulation system and product used are fully compliant with fire and building regulations.

FCHO has significantly invested in compartmentation and fire risk works in the last five years. All of the five high-rise blocks have Fire Risk Assessments carried out by an external fire consultant on an annual basis, the most recent being completed in March 2017.

Following the Grenfell fire it is anticipated there will be a number of recommendations that will be implemented relating to the management of fire risks in high-rise buildings.

### **Rent Reduction – Efficiency Savings**

Following the 1% rent reduction announcement in July 2015, FCHO identified that savings totalling £4.1m needed to be made over the four-year period. Over £3.3m of these savings were achieved in 2016/17. The remaining £0.8m was planned to be implemented over the remaining three years. As part of the 2017/18 budget setting process all savings were identified and included within the 2017/18 budgets.

As part of the efficiency process FCHO's Board also reviewed FCHO's Strategic Objectives and reconfirmed their commitment to the delivery of the same objectives.

Key areas of savings included the reduction of over 80 posts, which was implemented as part of the "Managing Change" process in November 2015. In 2016/17 FCHO's Board considered and approved the implementation of £1.3m service charges to over 5,600 flatted properties. As part of reviewing the impact of the charges on both affordability for customers and potential demand for FCHO's properties, the Board approved to cap the high-rise charges at £5 per week and also approved the introduction of the charges on the basis that these would be being phased in over a three-year period (1/3, 2/3, 3/3). This then allows the new charges in part to be offset by the three years rent reductions up to 2019/2020.

FCHO continues to have a strong financial strategy, which sets out how the business will realise VFM cashable gains, and central to this is FCHO's annual budget process. The Board approve financial targets more challenging than that assumed in the Business Plan. Delivery of these targets thereby releases significant funds, which are utilised to protect FCHO's financial viability and to provide investment opportunities for the business.

## The Year Review

As a key strategic objective to deliver new homes, FCHO has been working to identify land opportunities and sites across Oldham to support FCHO's 2017-22 development programme which was considered by the Board in April 2017. The development programme of 820 homes costing £103m was approved subject to refinancing, which is currently underway.

In 2016/17 FCHO prepared a grant bid to the Homes and Communities Agency (HCA) for the development of 208 new homes. These homes will be a mix of three tenures, Affordable Rent, Rent to Buy and Shared Ownership homes. In January 2017 the HCA confirmed FCHO had been allocated £5.9m grant funding to support delivery of the programme. In 2017/18 there are 134 units planned to start on site.

FCHO has also introduced new services aimed at supporting the health and wellbeing of communities and to support customers into sustainable employment. Full details of these services and the progress achieved in 2016/17 can be found in the Value for Money self-assessment (pages 22 to 40).

## FCHO Future Plans

FCHO's Strategic Objectives and Enabling Activities are identified in the below table, along with how the Board will measure delivery of these operations.

| Business Area                 | Strategic and Enabling Objective              | Measured By  |
|-------------------------------|---|--|
| Landlord                      | Excellent Landlord Services                   | <b>Customer Satisfaction KPIs for:</b> <ul style="list-style-type: none"> <li>● Landlord</li> <li>● Repairs</li> <li>● Neighbourhoods</li> </ul>   |
| Communities                   | Create Thriving Communities                   | <b>Employment:</b> number of customers FCHO support into sustainable employment, (i.e. still in employment six months after they have been supported into a permanent job)<br><br><b>Health:</b> reduction in demand from FCHO customers for social and health care services,(used as a proxy measure for health and well-being and requires baseline figures from NHS / other applicable agencies and to agree measurement indices with these partners) |
| Development                   | Build New Homes                               | Number of new homes built or acquired  |
| Strategic Enabling Activities | Right First Time Services and Maximise Income | <b>Delivery of:</b> <ul style="list-style-type: none"> <li>● Strategic Objectives</li> <li>● Maximising Income KPIs</li> </ul>   |

## Financial Performance of the Year Ended March 2017

On 7 February 2011 FCHO acquired 11,867 properties for rent from OMBC. FCHO has an obligation to repair and refurbish the properties. During the first 11 years of trading FCHO's current approved Financial Plan assumes borrowing of £54.380m to contribute to financing of this work. FCHO results should be considered with this in mind.

With regard to FCHO's main activity, (the letting, management and maintenance of rented housing), the turnover was £49.290m with an operating surplus of £17.911m. FCHO made a surplus for the year of £15.319m before taxation. Over 79% of investment work is capitalised with the remaining work expensed through the income statement.

### Financial Position

|                         | Year ending<br>31 March 2017<br>£ '000 | Year ending<br>31 March 2016<br>£ '000 |
|-------------------------|--|--|
| Turnover                | 49,290                                 | 49,532                                 |
| Operating surplus       | 17,911                                 | 12,912                                 |
| Surplus before taxation | 15,319                                 | 10,123                                 |

FCHO acquired two additional properties in 2016/17, both of these were previous Right to Buy properties and one was let in 2016/17, the other property however required substantial investment and is due to be completed early July 2017.

FCHO continues to be committed to maximising its resources with a key focus on rent collection and rent loss due to voids and has had another successful year. As of March 2017 year end FCHO achieved rent collection of 100.12% and rent loss due to voids was 0.77%. Further details on progress in this area can be found within the VFM Self-Assessment on pages 22 to 40.

The main accounting policies are set out in pages 53 to 57 of these financial statements.

Following completion of the stock transfer offer document promises FCHO continues to meet 100% decency of its stock. Future investment works over the next three years will be focussed on environmental improvements totalling £28m. FCHO is currently implementing an environmental works framework to maximise resources to deliver the environmental programme. Other investment works are subject to an OJEU tender process on either a workstream or scheme by scheme basis. This will ensure there is a strong competitive element to the award of work.

In relation to property sales a Right to Buy Sharing Agreement with OMBC was agreed at the point of stock transfer. Under this agreement, OMBC receive all sales income from Right to Buy properties for the first 25 years and FCHO will retain the Net Income foregone which ensures that the business plan for FCHO is left in a neutral position. After 25 years all receipts shall be retained by FCHO.

FCHO has an approved VAT shelter for 15 years post-stock transfer and as a result VAT incurred on the Regeneration Programme will be recovered. As part of the stock transfer agreement the initial first tranche of £15.913m was retained by FCHO and from December 2015 the VAT shelter balance is shared with OMBC under the 50/50 sharing agreement. Further details on the VAT Shelter are included in the accounting policies.

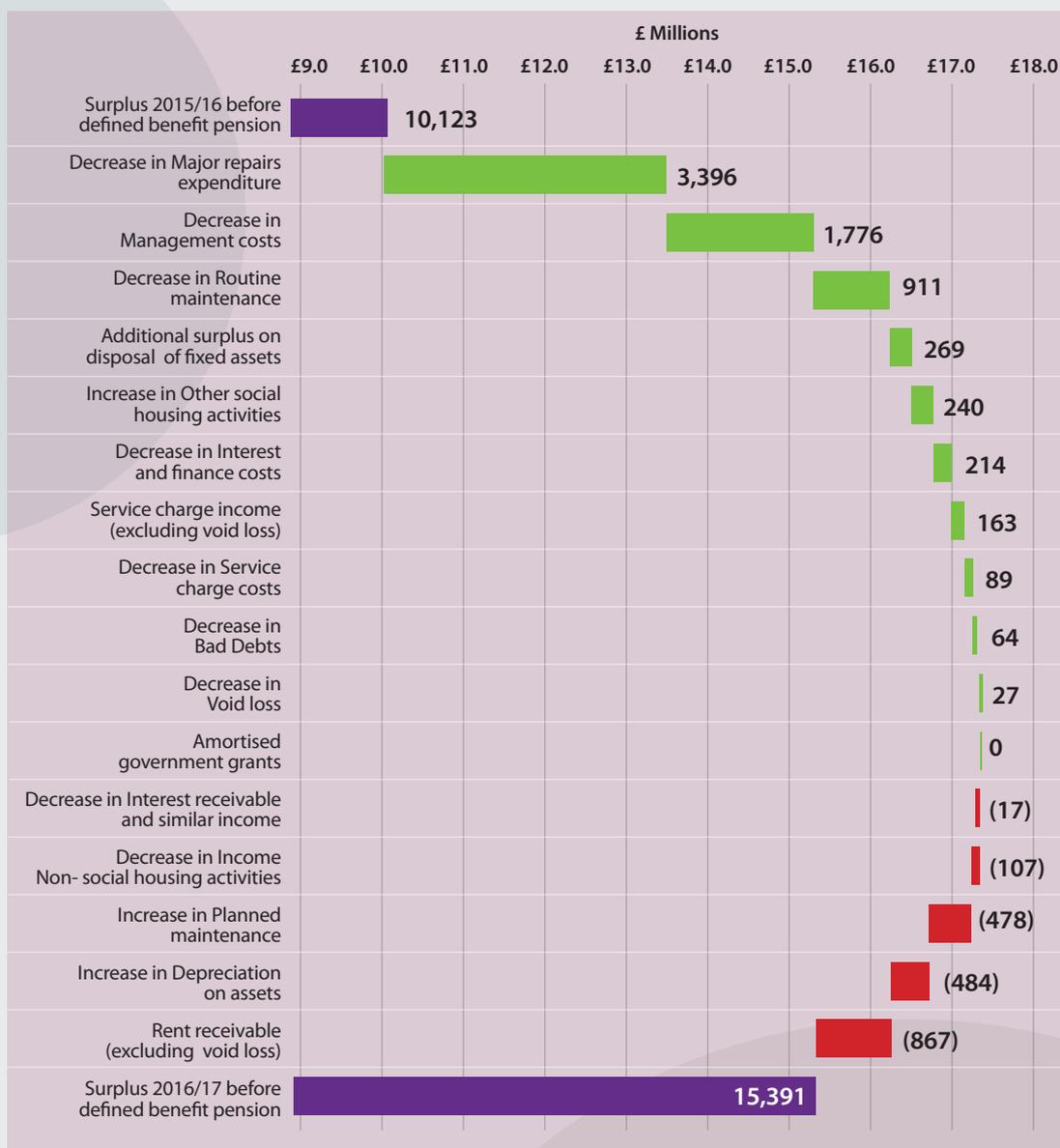
## Financial Highlights are included for the year 31 March 2017

|  | 2017<br>£'000 | 2016<br>£'000 |
|--|---------------|---------------|
| <b>Income &amp; Expenditure account</b>                  |               |               |
| Turnover   | 49,290        | 49,532        |
| Operating costs  | (32,825)      | (37,797)      |
| Surplus on disposal of fixed assets                      | 1,446         | 1,177         |
| Operating surplus  | 17,911        | 12,912        |
| Surplus for the year after taxation                      | 15,319        | 10,123        |
| <b>Balance Sheet</b>                                     |               |               |
| Housing properties net of depreciation                   | 96,753        | 87,277        |
| Other tangible assets                                    | 8,500         | 8,627         |
| Net current assets                                       | 118,265       | 127,601       |
|  | 223,518       | 223,505       |
| <b>Creditors due after one year</b>                      |               |               |
| Provisions - Pension Liability & VAT Shelter             | 126,620       | 137,201       |
| Revenue Reserve  | 63,878        | 53,450        |
|  | 223,518       | 223,505       |
| <b>Operational indicators</b>                            |               |               |
| Total housing stock                                      | 11,571        | 11,664        |
| Arrears of rent and service charges as a % of Rent Debit | 2.55%         | 3.44%         |
| Total loans due in 5 years or more                       | 26,000        | 26,000        |
| Operating Margin   | 36%           | 26%           |
| % of non-decent homes                                    | 0%            | 0%            |
| SAP rating   | 74            | 74.5          |

\*Note – In line with emerging accounting practice in the sector the surplus on disposal of fixed asset housing properties has been presented as part of the operating surplus. The impact in reclassifying the 2016 comparative information is to increase operating surplus by £1,177,000.

## Income and Expenditure Summary

Turnover for the year was £49.290m achieving an operating surplus of £17.911m and an overall surplus for the year £15.319m.



This graph illustrates how the overall surplus was achieved against the previous year's outturn. FCHO achieved an operating surplus of £15.319m (2015/16: £10.123m). The increase in surplus is largely due to a significant reduction in net operating costs (excluding depreciation) by 16%, of which mainly relates to decrease costs in major repairs, routine repairs and management costs offset by an increase planned maintenance cost. This has been further offset by a reduction of rental income of (£0.867m) through applying the 1% rent reduction and an increase in depreciation.

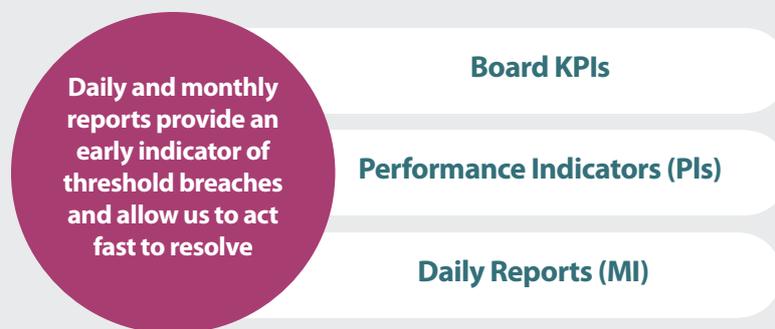
## 2016/17 Performance

### Performance Monitoring Framework

The Performance Monitoring Framework is reviewed on an annual basis to ensure it meets the needs of the business and the need for performance information and data to inform strategic decisions. The framework incorporates the Strategic Planning Cycle and reporting requirements. The framework is designed to work alongside Covalent and the operational dashboards to further drive and embed the growing culture of performance and continuous improvement.

The framework sets out how FCHO monitors challenges and improves performance in all of its service areas and it details how data, management information and business intelligence will be gathered, recorded, reported and used to develop the services to customers.

Indicators are split into three categories:



- **Board level - Key Performance Indicators (KPI):** A set of indicators covering the whole organisation reported to Board to provide a health check of the organisation and help the Board guide the strategic direction of the business. The KPI targets should demonstrate a tangible route map to delivery of the Strategic Objectives.
- **Leadership level – Balance Scorecard Performance Indicators (BSC PI):** A set of Financial and Non-Financial indicators that provide a more in-depth look at the business and inform and support the Performance Challenge process.
- **Operation Dashboards - Team / Directorate Performance Indicators (MI):** Used by team / service area managers or members of the Leadership Team to monitor information about the service that they provide.



## Improvement and intervention

Performance indicators are used to enable continuous improvement and targeted intervention where necessary. The following traffic light rating system is applied, alongside trend information.

- Red = Outside predefined target tolerance
- Amber = Within predefined target tolerance
- Green = Achieving or exceeding the target set

Target tolerances for KPIs are set by Board and target tolerances for BSC PIs will be set by FCHO's Leadership Team in conjunction with the Business Intelligence and Customer Insight Team.

To support the development of the tolerance against target, the following should be considered –

- Risk - the higher the risk the lower the tolerance
- Financial Impact - the higher the risk to potential income collection financial loss the lower the tolerance
- Legal / regulatory requirements - if bound by legal requirement the lower the tolerance
- Delivery of the Strategic Plan - we need a lower tolerance where there is a risk to delivery
- Benchmarking - how will poor performance impact on the quartile placement, the lower the tolerance

The table below sets out KPI results for FCHO in 2016/17. Performance has been very positive throughout the year with 5 out of the 7 targeted indicators exceeding or achieving targets. Satisfaction with responsive repairs has increased to over 9 in 10 satisfied and has shown a year-on-year improvement to reach an all-time high of 91%. Satisfaction with landlord services is below target but has improved on the previous year. The percentage of customers satisfied with neighbourhoods dropped to 78.13% from 83% the previous year and the key drivers have been identified as behavioural. The customer excellence forum in conjunction with the Business Intelligence and Customer Insight Team are leading a review of how FCHO monitors, reports and improves customer satisfaction. The aim is to implement transactional surveys at key touchpoints to gain a more granular view of key drivers at each stage in the customer journey. This will produce more actionable insight to improve outcomes for customers.

| KPI   | 2015/16 |         | 2016/17 |         |
|---|---------|---------|---------|---------|
|   | Target  | Outturn | Target  | Outturn |
| % Rent collected                                | 98.88%  | 99.78%  | 99.60%  | 100.12% |
| % Rent loss due to voids                        | 1.10%   | 0.86%   | 0.90%   | 0.77%   |
| % of staff satisfied with FCHO                  | 90.00%  | 87.50%  | N/A     | 89.50%  |
| % of properties with a gas certificate          | 100.00% | 100.00% | 100.00% | 100.00% |
| % of non-decent homes                           | 0.00%   | 0.00%   | 0.00%   | 0.00%   |
| % of customer satisfied with landlord services  | 88.00%  | 81.28%  | 83.00%  | 81.97%  |
| % of customer satisfied with neighbourhoods     | 87.00%  | 83.90%  | 86.00%  | 78.13%  |
| % of customer satisfied with responsive repairs | 90.00%  | 87.40%  | 90.00%  | 91.00%  |

## Employee Engagement

FCHO places a great emphasis on consultation and engagement with colleagues at all levels within the business and works to achieve this by using an open consultative management style as well as regular surveys of colleagues' views. The principle consultation mechanism is the Colleague Voice which comprises trade union representatives and colleagues from across FCHO. This has been augmented this year by a further employee group "Chatterbox" which focuses on improving employee communication and being a focus and catalyst for change in the way FCHO works. FCHO achieved a place in the Best Companies Top 100 Companies for the second time, being placed at number 65. This year has seen a positive trend in employee engagement as colleagues have settled into the new organisational structure put in place last year.

FCHO undertook a range of activities this financial year including the following:

- The Leadership Way and Total Talents provided all FCHO leaders and aspiring leaders with a comprehensive programme of development focusing on leaders as people as well as focusing on their professional role and contribution
- Live Well continues as the business' health and wellbeing programme and delivered a number of successes including a health kiosk that was placed at each site for colleagues to use, mindfulness at work and Mental Toughness Training. There was also an annual walking challenge. FCHO also increased the number of colleagues signing up for discounted corporate gym memberships from Oldham Community Leisure.
- Launched and acted upon the outcomes from a monthly pulse survey to take the temperature of employee engagement across the business.
- FCHO launched a comprehensive benefits and reward portal "Live Happy" incorporating a comprehensive discount offer, instant recognition awards, salary sacrifice and HAPPY Award, the employee award scheme.
- FCHO launched a new colleague engagement initiative "Chatterbox" to improve communication and feedback across the business.
- Launched a comprehensive colleague talent and development offer. This includes a range of approaches from traditional training courses, e-learning, audio books, books and website links all of which are mapped across the competency framework and 360 framework to enable colleagues to easily see what is available for any areas where they need development.

All of FCHO's Talent and Development events and programmes were well received and received positive feedback from attendees. Colleague satisfaction remains high, having increased to 89.5% of colleagues being satisfied or very satisfied with their job.



# FIRST CHOICE HOMES OLDHAM VALUE FOR MONEY SELF-ASSESSMENT 2016/17

## INTRODUCTION

The First Choice Homes Oldham (FCHO) Board has carried out the 2016/17 annual self-assessment against the Homes and Communities Agency Value for Money, (VFM) Standard. The self-assessment identifies FCHO's:

- Overview – including FCHO's response to rent reduction and governance
- Financial Strategy inclusive of benchmarking
- Strategic Plan Objectives critical to the delivery of VFM, inclusive of:
  - approach to and delivery of generating a return on its assets
  - costs and how they compare to similar businesses
  - VFM gains made during the year, how these have been delivered, and the performance of key customer services

## STRATEGIC PLAN

FCHO's vision is to "Improve lives in Oldham". The delivery of the vision is underpinned by three Strategic Objectives:

- Excellent landlord services
- Create thriving communities
- Build new homes

Delivery of our Strategic Objectives is supported via an Enabling Plan, focused on the following cross-cutting business outcomes:

- Right First Time services
- Maximising income

The above is incorporated within FCHO's Strategic Plan, which is reviewed annually by the Board.

The VFM assessment identifies FCHO's 2016/17 achievements, which have supported the delivery of FCHO's Strategic Objectives, inclusive of addressing any areas where service improvements are required and key actions for 2017/18.

## FCHO'S RESPONSE TO THE 1% RENT REDUCTION

Following the Chancellor's budget statement on the 8th July 2015, where it was announced that social housing rents would be reduced by 1% each year for four years from April 2016. FCHO's focus has been to ensure financial viability is not threatened, whilst retaining provision of services that customers value and ensuring FCHO's housing assets are protected.

As outlined in the 2015/16 VFM Self-Assessment, FCHO implemented its efficiency strategy identifying and implementing the £4.1m of recurring savings required to mitigate the rent reduction. All savings were fully included within the 2016/17 Financial Plan.

## **GOVERNANCE**

In 2016/17 the FCHO Board approved the recruitment and remuneration of a new Chair and appointed Ged Lucas. Ged brings a wealth of experience to the Board of FCHO and has a proven track record in housing, planning, regeneration, economic development, environment and community development.

The Board continues to recruit any vacant board positions based on the FCHO skills and behaviour framework.

In order to maximise efficiency in 2016/17 FCHO has established a design and build company, New Living Homes Limited to deliver FCHO's future development units. New Living Homes is a subsidiary of FCHO and has a separate board in place to oversee operations.

FCHO has also adopted and is fully compliant with the NHF Code of Governance 2015.

## **FINANCIAL STRATEGY**

In 2016/17 the Board considered and approved a formal Financial Strategy (inclusive of VFM). The objective of this strategy is to "provide a robust, long term, sustainable financial position that supports FCHO in maximising the delivery of its Vision and associated Strategic Objectives.

In delivery of this objective, FCHO will ensure:

- There is a clear and robust approach towards financial planning, decision making and the allocation of resources
- The allocation of resources is consistent with FCHO's Strategic Objectives as prioritised
- The financial risks associated with both ongoing activities and new opportunities are understood, communicated and managed appropriately
- Value for money is achieved in all activities

The strategy considers how FCHO measures financial performance and has determined that the most appropriate indicator is the "Operating Surplus per unit".

The Operating Surplus is defined as "Turnover less all business operating expenditure excluding investment works to existing properties, new-build development costs, (inclusive of offices), depreciation, interest costs, interest income and Right to Buy sales".

The Operating Surpluses are used to fund investment in FCHO's existing stock and also the development of new homes. The extent of the surplus generated determines the level of investment FCHO can make whilst remaining financially viable.

Operating Surplus per unit is used to measure the financial performance of FCHO as it:

- Has a direct relationship with new-build development investment - if surpluses increase or decrease (based on the financial plan assumptions) then the for development will also increase or decrease
- Includes key revenue operating income and expenditure activities
- Is clearly defined and easy to calculate with minimal risk of misinterpretation
- Provides consistency of calculation in comparing internal direction of travel and with other organisations, (if available)

### **Current Performance and Targets**

FCHO has a strong record of financial stability and continues to outperform its annual budget, increasing surpluses which have then been reinvested into each annual revised Financial Plan.

In the last three financial years (2014-2017) FCHO has delivered an average Operating Surplus per Unit of circa £2,090, (see below):

|                            | <b>Actual<br/>14/15</b> | <b>Actual<br/>15/16</b> | <b>Actual<br/>16/17</b> |
|----------------------------|-------------------------|-------------------------|-------------------------|
| Operating Surplus per unit | £2,008                  | £2,046                  | £2,199                  |

In 2016/17 FCHO achieved its highest level of Operating Surplus, i.e. £2,199 per unit. This was due to the delivery of £3.3m of the £4.1m savings required to fund the 1% rent cut, upfront in 2016/17. Operating Surpluses are expected to reduce as further 1% rent cuts take effect, (annual until 2020/21).

As part of the Financial Strategy, FCHO has set a budget target to deliver an average Operating Surplus of £2,000 per unit over the medium term. Maintaining operating surpluses at this level is at risk primarily due to the Government's welfare reforms, inclusive of Universal Credit but also the aforementioned 1% rent reductions.

To manage these financial risks and support new-build development, FCHO's financial plan is therefore predicated on a significantly reduced average operating surplus per unit over the next five years.

This approach has allowed FCHO's Board (in April 2017) to approve a 2017-22 development programme of £102m to build 820 units.

The Financial Strategy is integral to FCHO's approach to delivery of efficient, effective, value for money services, whilst supporting new build development. The approach reviews direction of travel of financial performance over time, in addition to considering benchmarking data with other similar housing associations.

### **Resource Allocation**

To ensure FCHO's resources are allocated appropriately to support the business in delivery of its Strategic Objectives FCHO has set a target to achieve this balance. This is set at 75% of operating cost resources to delivery of frontline services with the remaining 25% allocated to overhead costs. This ensures a formal relationship which links income and expenditure and operating surplus.

Frontline services include responsive, void and cyclical repairs, bad debts and housing management including non-chargeable service costs. Overhead costs are inclusive of insurance costs (circa £0.500m pa). All costs exclude investment works.

### **Financial Performance Benchmarking**

FCHO is aware that there are limitations with the use of benchmarking as it can be difficult to make direct comparisons due to a range of factors including consideration of each business' strategic objectives.

In analysing performance FCHO uses financial benchmarking data in assessing whether the financial performance can be considered to be above, below or within the average range in comparison to similar housing associations.

FCHO produces and reviews three sources of financial benchmarking analysis, Operating Surplus per unit, HCA unit costs and Housemark.

## Operating Surplus per Unit

FCHO has reviewed the Operating Surplus for a number of housing providers. This confirmed a wide range of operating surpluses, ranging from £1,200-£2,900 per unit, and a potential correlation between the length of time post-stock transfer and the level of operating surpluses. FCHO will analyse and benchmark the surpluses on a tri-annual basis and has requested comparative data from a number of North West housing associations and is currently awaiting responses.

## Homes and Communities Agency (HCA) - Annual Unit Costs

FCHO uses the HCA unit costs as a broad measure of cost consideration. The HCA unit costs allow a direct comparison of costs across providers and there are now two years of comparative data published by the HCA.

The HCA unit costs indicators do include an element of technical accounting adjustments such as FRS102 which can affect the unit cost comparisons. It is expected however, that over time, if consistently applied, the impact of such accounting adjustments will level out.

The unit costs are a useful comparator to understand costs in relation to other housing providers. As they focus purely on costs they do not consider the impact or include any increased income/performance outcomes such as rent collection. To supplement this measurement and allow comparison with income outcomes, FCHO also uses its Operating Surplus indicator which accounts for Income Collection performance (void loss and rent collection), whilst also not including any technical accounting adjustments.

The HCA measure is based on a Headline Social Housing Cost per unit (CPU) and details of this indicator along with FCHO's unit costs for 2014/15 – 2016/17 are shown below:

| 2014/15 - HCA Global Accounts | Stock Size | Headline Social Housing Cost per unit (CPU) | Management CPU | Service Charge CPU | Maintenance CPU | Major Repairs CPU | Other social Housing Cost CPU |
|-------------------------------|------------|---|----------------|--------------------|-----------------|-------------------|-------------------------------|
| FCHO                          | 11,720     | 4.24  | 1.02           | 0.24               | 0.78            | 2.10              | 0.10                          |
| Average All North West LSVT's | 7,319      | 3.54  | 1.02           | 0.24               | 0.98            | 1.14              | 0.16                          |

| 2015/16 - HCA Global Accounts | Stock Size | Headline Social Housing Cost per unit (CPU)* | Management CPU* | Service Charge CPU | Maintenance CPU | Major Repairs CPU | Other social Housing Cost CPU |
|-------------------------------|------------|--|-----------------|--------------------|-----------------|-------------------|-------------------------------|
| FCHO                          | 11,664     | 4.49   | 1.04            | 0.24               | 0.83            | 2.26              | 0.11                          |
| Average All North West LSVT's | 7,223      | 3.58   | 1.10            | 0.24               | 1.00            | 1.02              | 0.22                          |
| Actual outturn FCHO 2016/17   | 11,571     | 3.52   | 0.84            | 0.24               | 0.80            | 1.51              | 0.13                          |

FCHO's overall Headline Social Housing cost per unit for both 2014/15 and 2015/16 is above the average for North West Local Stock Voluntary Transfers (LSVTs). When major repair costs are excluded however, all other costs are either below or equal to the average for North West LSVTs. The high levels of major repairs investment are as a result of FCHO achieving the offer document promises and ensuring all homes achieved the Oldham Standard and Decent Homes standard by March 2016.

### **Housemark**

FCHO uses the annual Housemark benchmarking information to compare cost, the peer group FCHO has chosen is national LSVTs with over 7,500 properties.

Housemark provides a reasonable indication of cost comparison when comparing costs for the business as a whole. FCHO has found when comparing at a detailed level these cost comparisons are less useful.

FCHO has reviewed the use of Housemark's service performance data analysis, e.g. income and customer satisfaction. For rent collection, the review identified that a high proportion of comparator organisations have not published their data therefore compromising meaningful comparison. In addition the Housemark validation process for service performance data cannot guarantee that data has been collected using the same methodology and/or to a consistent definition between housing associations.

For these reasons, in 2016/17 FCHO has chosen not to use Housemark's service performance data in its benchmarking analysis.

### **Assessment - Use of Benchmarking**

FCHO uses all three sources of benchmarking to determine financial efficiency. When combined together the indicators provide an overall realistic and rounded view of FCHO in relation to other housing providers, and by using various benchmarking measures it is possible to better understand FCHO's comparative costs.



## STRATEGIC PLANNING, RISK MANAGEMENT FRAMEWORK AND PERFORMANCE FRAMEWORK

FCHO's Strategic 30-year financial plan and objectives are reviewed annually. Providing VFM is integral to achieving these objectives and FCHO regularly reviews its approach to VFM to support this.

FCHO's Performance Management Framework ensures that it robustly and regularly monitors performance to deliver the Strategic Plan and Financial Strategy. The framework identifies the VFM Key Performance Indicators (KPIs) and VFM is assessed against these, taking account of:

- Has performance materially improved or worsened?
- How does 2016/17 cost performance compare with other similar service providers, (primarily comparing the 2015/16 Housemark benchmark comparison report)?

FCHO uses this VFM assessment to identify where VFM improvements are required in the business and to set its performance and financial targets for the coming year. The VFM assessment is summarised below:

### Indicator VFM Assessment

- Performance is at target and demonstrates a positive direction of travel and for cost compares favourably to other businesses.
- Targeted performance not achieved and improvements required in direction of travel. Cost performance improvements a priority in future years.

In 2016/17 FCHO established a new Customer Congress, which is responsible for the scrutiny of FCHO's overall service performance and compliance with HCA's Consumer Standards. Annually the Customer Congress reports to the Board on FCHO's compliance with the HCA Consumer Standards.

In 2016/17 FCHO committed to deliver further, specific VFM improvements including increasing FCHO's surpluses above the Financial Plan targets, which would deliver an additional £3.1m. Details of the progress made against these improvement areas can be found within the updates on each of three Strategic Objectives and supporting Enabling Plan commentary within the self-assessment.

### STRATEGIC OBJECTIVE - EXCELLENT LANDLORD SERVICES - VFM ASSESSMENT

| EXCELLENT LANDLORD   | 2016/17 Target | 2014/15 | 2015/16 | 2016/17 | VFM Assessment | Targets 2017/18 |
|--|----------------|---------|---------|---------|----------------|-----------------|
| Customer satisfaction of all responsive repairs to all FCHO properties | 90.00%         | 86.63%  | 87.40%  | 91.00%  | ●              | 90.00%          |
| % properties with a gas certificate                                    | 100.00%        | 100.00% | 100.00% | 100.00% | ●              | 100.00%         |
| % tenants satisfied with overall landlord services                     | 83.00%         | 83.21%  | 81.28%  | 81.87%  | ●              | 81.00%          |

## Customer Satisfaction

FCHO set challenging customer service targets for 2016/17 and there have been significant improvements in repairs satisfaction, however, FCHO has not achieved its performance targets for increased landlord satisfaction.

### What action has FCHO taken and what has this achieved?

FCHO delivered a significant number of service improvements in 2016/17 and these have led to significantly increased satisfaction for repairs (Property Care) increasing from 87.4 to 91%.

Key improvements for 2016/17 include:

- Repairs (Property Care) – In June 2014 FCHO invested in its repairs ICT provision implementing a new job scheduling and agile working IT solution for the in-house repairs and maintenance team. Following implementation FCHO has seen improving satisfaction. In 2016/17 FCHO achieved an overall 91% satisfaction with the repairs service

This is supported by:

- Satisfaction with “appointments kept” increased by 2% to 96%
  - Work completed right first time, increased by 3% to 85%
  - Satisfaction with communication, increased by 3% to 91%
  - Time taken to complete works, increased by 10% to 82%
- To support delivery of improved performance FCHO has invested in its capacity to improve the analysis and delivery of its performance management function through “data warehousing” and performance dashboards. Improvements implemented that have driven these performance improvements are:
    - Detailed satisfaction at operative level – included within the performance management framework allowing us to target both
    - Improving work scheduling and productivity
  - Gas Safety - FCHO has an excellent record in providing gas safety servicing and has achieved 100% compliance again in 2016/17

In 2016/17 FCHO undertook a Customer Insight Review into landlord satisfaction and identified where there were perceived problems of anti-social behaviour and repairs. This resulted in a number of actions being implemented however, despite these and the subsequent repairs satisfaction improvements these did not materially increase overall landlord satisfaction. In 2017/18 FCHO will identify and deliver actions targeted to improve landlord satisfaction via improved customer insight analysis.

### Effective Asset Management - Return on Property Assets

In previous years FCHO has used an asset modelling database to ensure that it can align its resources to achieve the maximum value to support delivery of the Strategic Plan Objectives, whilst informing on the long-term sustainability of its properties.

This model applied FCHO individual property data such as rents, voids, repairs and investment costs for a 30-year period. This data was then used to calculate a monetary value (also known as a Net Present Value or NPV) for each property which could then be aggregated by property type, estate and neighbourhood area.

### What action has FCHO taken and what has this achieved?

Due to the complexities associated with the modelling database, FCHO has sought to simplify its approach as part of an Asset Management Insight Review. This was part of a series of reviews undertaken in 2016/17, aimed at creating a business intelligence way of working within FCHO.

The Asset Management Review provided the functionality to analyse FCHO's Operating Surplus per Unit over every individual property, allowing it to be analysed over property types and sizes and neighbourhood area.

The table below provides the analysis over property type and size for FCHO's 2015/16 Operating Surplus per Unit, (see Financial Strategy reference above):

| Property type | Income Collected   | Costs              | Annual Surplus     | Costs % of income | Property type % of stock | Count of UPRN | Annual Average Surplus |
|---------------|--------------------|--------------------|--------------------|-------------------|--------------------------|---------------|------------------------|
| Flat 1 bed    | £11,657,790        | £6,664,310         | £4,993,480         | 57%               | 28%                      | 3288          | £1,519                 |
| Flat 2 bed    | £6,698,955         | £3,882,631         | £2,816,325         | 58%               | 15%                      | 1759          | £1,601                 |
| House 2 bed   | £10,039,685        | £4,882,691         | £5,156,994         | 49%               | 21%                      | 2413          | £2,137                 |
| House 3 bed   | £13,614,677        | £5,727,294         | £7,887,383         | 42%               | 26%                      | 3015          | £2,616                 |
| Other         | £4,739,214         | £1,936,757         | £2,802,457         | 41%               | 10%                      | 1189          | £2,357                 |
| <b>Totals</b> | <b>£46,750,321</b> | <b>£23,093,683</b> | <b>£23,656,639</b> | <b>n/a</b>        | <b>100%</b>              | <b>11664</b>  | <b>£2,046</b>          |

This confirmed that in 2015/16, three-bedroom houses were the highest performing property type, (average surplus of £2,607 per property) with one-bedroom flats being the lowest (£1,514 per property). Further analysis advised that significant factors influencing these variances were higher rents and lower void costs associated with the former.

The review focussed on differing financial performance between property types but also seeking to understand differentials between individual properties/estates within the same property type. This allowed FCHO to then identify interventions to improve the financial performance of the properties.

The graph below shows income received, cost and surplus generated across all property types, analysing FCHO's stock over deciles with decile 1 being the top 10% and decile 10 being the bottom 10% of our stock analysed over Operational Surplus per Unit.



As FCHO has had high performance on both rent collection and void loss, the review identified that these were not key drivers in impacting the financial surpluses on the properties. Therefore, in 2015/16 the financial performance of its properties was driven by cost rather than income performance, (see below table). This analysis has supported the actions FCHO is taking in 2016/17 (see below):

| Decile | Average Repair Cost per Decile Unit | Operating Surplus | No of Voids | Average Cost of a Void |
|--------|-------------------------------------|-------------------|-------------|------------------------|
| 1      | £109                                | £3,612            | 7           | £248                   |
| 5      | £207                                | £2,420            | 7           | £145                   |
| 10     | £1,415                              | (£1,899)          | 852         | £2,722                 |

### Neighbourhood Performance

Detailed analysis based on the 2015/16 data, (see below) was also undertaken on the financial performance of properties across all 18 neighbourhoods. This was to identify the best and worst performers in relation to a weighted average surplus, (which took into account the different property types within each area).

| Neighbourhood         | No' of props | Income     | Costs       | *Weighted Average Surplus | Actual surplus | Variance  |
|-----------------------|--------------|------------|-------------|---------------------------|----------------|-----------|
| Derker                | 1618         | £6,360,089 | -£3,622,473 | £2,033                    | £1,692         | -£551,778 |
| Werneth               | 697          | £2,523,490 | -£1,546,650 | £1,738                    | £1,401         | -£234,546 |
| Alt&Round             | 504          | £1,968,954 | -£1,076,196 | £2,122                    | £1,771         | -£176,730 |
| Hathershaw & Bardsley | 592          | £2,296,314 | -£1,252,754 | £1,934                    | £1,763         | -£101,368 |
| Holts Village         | 674          | £2,659,987 | -£1,357,675 | £2,072                    | £1,932         | -£94,216  |
| Coldhurst             | 1039         | £3,942,077 | -£2,106,630 | £1,809                    | £1,767         | -£44,104  |
| Glodwick              | 238          | £919,885   | -£489,301   | £1,925                    | £1,809         | -£27,566  |
| Sholver               | 557          | £2,388,997 | -£1,146,733 | £2,265                    | £2,230         | -£19,341  |
| Busk                  | 156          | £574,388   | -£303,213   | £1,743                    | £1,738         | -£733     |
| Oldham Edge           | 770          | £3,060,945 | -£1,383,145 | £2,167                    | £2,179         | £9,210    |
| Shaw&Crompton         | 852          | £3,470,290 | £1,699,930  | £2,019                    | £2,078         | £50,172   |
| Central Chadderton    | 322          | £1,294,841 | -£629,623   | £1,880                    | £2,066         | £59,858   |
| Saddleworth           | 530          | £2,294,501 | -£1,033,440 | £2,262                    | £2,379         | £62,201   |
| Royton                | 772          | £3,173,757 | -£1,532,465 | £2,040                    | £2,126         | £66,412   |
| Hollinwood            | 395          | £1,629,668 | -£725,361   | £2,074                    | £2,289         | £85,077   |
| North Chadderton      | 459          | £1,903,225 | -£839,964   | £2,087                    | £2,316         | £105,328  |
| Failsworth            | 813          | £3,329,911 | -£1,507,485 | £2,034                    | £2,242         | £168,784  |
| South Chadderton      | 676          | £2,799,055 | -£1,210,937 | £2,065                    | £2,349         | £192,178  |

For 2015/16, South Chadderton, Failsworth and North Chadderton were the best performing areas, (£466,300 in excess of weighted average surplus, over 1,948 properties).

Derker, Werneth and Alt/Round were the worst performing areas, (£963,000 less than weighted average surplus, over 2,819 properties).

### **Asset Management Customer Insight Review - What action is FCHO taking:**

Following the outcome of the insight review, the following actions have been identified for implementation in 2017/18 aimed at improving the financial performance of our properties (primarily focussing on the worst performing areas).

1. Properties with repairs costing over £500 in a rolling 12 month period, will be applicable.
2. A cap on void expenditure for those properties which experience relatively high turnover.
3. 2016/17 financial performance of our properties produced and analysed and comparing it to the above 2015/16 analysis, identifying high performing and low performing trends, (property types, sizes and neighbourhoods).
4. Repairs and void reporting developed to inform both cyclical and Investment works programming.

### **Major Works Investment in FCHO properties**

Since stock transfer FCHO has invested over £121 million in improving the housing stock and external environment of its communities.

FCHO has an asset management strategy supported by an externally validated Stock Condition Survey. In 2015/16 FCHO completed its quinquennial stock condition survey based on a 17% Stock Condition Survey and this was used to determine the level of investment required within FCHO's Financial Plan.

### **What action has FCHO taken and what has this achieved?**

In 2016/17, FCHO has procured and delivered £15.5 million of works, analysis of which is provided below:

|                     | <b>2016-17</b>      |                   | <b>2011-16</b>      |                    |
|---------------------|---------------------|-------------------|---------------------|--------------------|
|                     | <b>No. of units</b> | <b>(£)</b>        | <b>No. of units</b> | <b>(£)</b>         |
| Environmental works |                     | 6,039,716         |                     | 9,096,000          |
| Kitchens            | 397                 | 1,452,580         | 7872                | 26,631,000         |
| Bathrooms           | 421                 | 959,848           | 5211                | 12,396,000         |
| Adaptations         | 30                  | 263,142           | 1013                | 5,882,000          |
| Doors Windows etc   | 409                 | 275,067           | 4824                | 3,648,000          |
| Heating & Wiring    | 1278                | 1,415,629         | 9911                | 16,153,000         |
| Fees                |                     | 1,201,504         | 0                   | 8,946,000          |
| Other major works   |                     | 3,897,308         | 0                   | 24,062,000         |
|                     |                     | <b>15,504,794</b> |                     | <b>106,814,000</b> |

Based on the investment works delivered in 2016/17 there is an overall saving on unit rates of £0.7m. This has been reinvested into the 2017/18 financial plan to support the development of new homes in line with the five year development programme.

## STRATEGIC OBJECTIVE - CREATING THRIVING COMMUNITIES – VFM ASSESSMENT

| CREATE THRIVING COMMUNITIES   | 2016/17 Target       | 2014/15       | 2015/16       | 2016/17 | VFM Assessment | Targets 2017/18     |
|---|----------------------|---------------|---------------|---------|----------------|---------------------|
| % tenants satisfied with neighbourhood services                       | 86.00%               | 83.40%        | 83.90%        | 78.13%  | ●              | not a KPI for 17/18 |
| % spend with local companies(10 miles)                                | 50.00%               | 52.08%        | 50.00%        | 48.00%  | ●              | 50.00%              |
| FCHO employment service - no of Oldham residents gained employment    | no target set        | not collected | 102           | 152     | ●              | n/a                 |
| FCHO Employment Service - no of sustained employments (over 6 months) | no data on Housemark | not collected | not collected | 44      | n/a            | 120                 |

### Creating Thriving Communities

FCHO believes that the cornerstone of establishing a good community is the provision and security of a good home. FCHO's objective is to provide above and beyond the core landlord service and "Create Thriving Communities".

FCHO has identified two key areas which it believes supports the delivery of Creating Thriving Communities. These are Anti-Poverty and improving Health and Wellbeing. FCHO's focus has been on understanding its influence in these areas and then focussing on interventions that maximise delivery of customer outcomes and outputs.

To deliver on reducing poverty FCHO is focussed on increasing employment for its customers and this is delivered through FCHO's internal employment service – Directions. FCHO recognises that sustainable employment is a crucial factor in reducing poverty and in 2016/17 a new KPI has been introduced to monitor employment sustained for over six months.

In 2016/17 FCHO commenced delivery of its Health Offer, with the introduction of a hospital discharge service and also a new service from April 2017, Housing Options for Older People.

### What action has FCHO taken and what has this achieved?

#### Employment

Employment service "Directions" has also continued to deliver and sustain employment opportunities for its customers in Oldham.

In 2016/17 FCHO increased funding by a further £0.120m for its Directions service allowing it to grow the employment and training team and its offer. This has enabled the team to both increase the number of customers they work with and offer additional support for job seekers.

The employment service have had great success in 2016/17 with key outcomes, including:

- 287 customers supported with job seeking
- 152 employment outcomes
- As of March 2017, 84% of these customers were still in employment
- 69% of customers sustained work for six months or more (44 customers)

As noted above from 2016/17 there will be a new indicator monitored which assesses sustainable employment and the target for 2017/18 is for 120 customers to have sustained employment for more than six months.

## **Health**

Greater Manchester Housing Providers developed three investable service propositions to be delivered across all ten GM local authority areas. These were to deliver Warm Homes Services to the private sector, Housing Hospital Discharge services and Housing Options for Older People Services.

### **Warm Homes Services**

In 2012/13 FCHO, Oldham Housing Partners, Oldham Council and Oldham Clinical Commissioning Group (Oldham CCG) set up a partnership agreement with the aim of bringing 1,000 people each year out of fuel poverty. The model was based on a payment by results with all payments reinvested in future years to support delivery of additional outcomes year on year.

As of March 2017 over 4,300 people are no longer in fuel poverty. This scheme is now being adopted across Greater Manchester.

### **Hospital Discharge Services (Hospital 2 Home)**

The service commenced in April 2016 and a FCHO officer is based at the Royal Oldham Hospital, as part of the new Integrated Hospital Discharge Team, managed by Pennine Care Trust and led by Oldham Council. They are part of a team that assesses, agrees and implements discharge plans for patients with housing related issues that are preventing their discharge from hospital or from care and resettles them to prevent hospital re-admission.

This scheme has received national recognition and in 2016/17 93 customers who were experiencing housing related difficulties in being discharged and who would have had further delayed discharges have been helped to move to a new home with support and additional services.

### **Housing Options for Older People Services**

In March 2017 FCHO introduced a new Housing Options for Older People (HOOP) service based on a Manchester pilot. This service provides specialist housing, care and support advice and support services for older people to enable them to continue to live independently in their own homes. Based on the success of the Manchester pilot FCHO will be the second provider in Greater Manchester to commence a HOOP service with the initial funding for this post shared on a 50/50 basis with FCHO and Oldham Clinical Commissioning Group.

This service will see level 1 self-serve information and level 2 telephone advice services provided by First Stop (a national specialist older persons housing service). FCHO will provide the level 3 involved casework helping to advise and support older people to receive the most suitable housing, care and support solutions for them.

In 2017/18 FCHO is commissioning a formal evaluation (with its partner businesses) to support the additional investment it has made for health and wellbeing initiatives and provide a greater understanding of the key outcomes and impacts of hospital discharge and HOOP services.

### **Place Based Approach to Integrated Service Delivery - Holts and Lees**

FCHO was chosen by the Oldham Partnership to lead on the Oldham Place Based Integrated Services Early Adopter. The scheme is one of 15 being piloted across Greater Manchester, and takes place in the Holts Village and Lees area due to its high demand on public and housing services.

### **What action has FCHO taken and what has this achieved?**

In September 2016 FCHO set up a new Neighbourhood Hub and the new place based team was put together comprising of FCHO, Greater Manchester Police (GMP), Oldham Council and Early Help and Health colleagues. They are supported by training and evaluation methods by Vanguard (the GM lead and advisor). The teams focus is on piloting new ways of working to deliver better outcomes for complex dependency households and making the highest demands on more public services. The programme of work is now well underway and the initial outcomes are currently being evaluated.

The pilot will provide a person centred service focussed on:

- People – Casework ensuring people access appropriate services to enable them to improve their lives
- Community – To develop community resilience, self help and support and to reduce social isolation
- Place – Working with communities to make the area somewhere to be proud of

As a partnership, FCHO is in the process of commissioning an independent evaluation of the early adopter. This will enable an assessment of the pilot's success, and to identify key learning to help the Oldham Partnership to develop a framework and way of working for delivering similar place based integrated working solutions across Oldham and Greater Manchester.

### **Communities**

BGreen, our multi-award winning £20m community regeneration project of 1,400 homes, gained further recognition in 2016/17 winning the National Energy Awards for Partnership working with British Gas.

In June 2017 FCHO won the Housing Excellence Award – Social Housing Landlord of the year. FCHO were commended for its community focus, social purpose and eye for efficiency. The judges highlighted two areas in particular, the Hospital 2 Home service (see page 10 for further details) and the introduction of Community Protection Warnings.

FCHO introduced Community Protection Warnings in 2016/17 as part of a strategic review of the available legal powers FCHO can utilities. FCHO consulted with the Office of the Police and Crime Commissioner for Greater Manchester and Greater Manchester Police on the use of the notices. The aim of these warnings was to achieve early resolution of the anti-social behaviour, effect behaviour change in the individual and where possible avoid legal action.

To date 24 Community Protection Warnings have been issued, for a variety of issues such as noise, untidy gardens and cannabis use. There have only been three breached which has led to further action.

Each successful warning has avoided the need for injunctive proceedings and saved significant internal resources for FCHO.

### **Neighbourhood Satisfaction**

In 2016/17 FCHO carried out a review of customer satisfaction which considered FCHO's ability to identify and improve satisfaction. This review concluded that neighbourhood satisfaction was driven by many factors which FCHO had limited influence on. It has been agreed that for 2017/18 this indicator will no longer be a Strategic KPI supported by a board target.

Neighbourhood satisfaction data will however, continue to be collected by FCHO as it is recognised that this information remains integral to understanding key issues within an area/estate.

FCHO will work collectively with partners and Oldham Council to see how it can best contribute to neighbourhood satisfaction.

## BUILD DESIRABLE HOMES – VFM SELF ASSESSMENT

In 2016/17 FCHO identified a £21m provision within its 2016/17 Financial Plan to fund the development of 170 new homes. In December 2016 the Homes and Communities Agency confirmed that FCHO would receive grant funding of £5.9m as part of the Shared Ownership and Affordable Homes Programme (SOAHP). This allowed FCHO to increase its development programme to £26m and 208 new homes whilst remaining within FCHO's existing loan facility agreement.

### What action has FCHO taken and what has this achieved?

#### 2016/17

- Financial provision of £21m to develop 170 new homes
- £5.9m approved by the HCA
- Financial provision increased to £26m to develop 208 new homes

#### 2017/18

- Financial Provision increased in 17/18 financial plan to £34m to develop 278 new homes
- Board approved five year development programme totalling £103m to deliver 820 new homes
- Re-financing work commenced on new financial plan inclusive of 820 new homes

As a key strategic objective to deliver new homes, FCHO has been working to identify land opportunities and sites across Oldham to support FCHO's 2017-22 development programme which was considered by the Board in April 2017. The development programme of 820 homes and £130m was approved subject to re-financing, which is currently underway.

In order to maximise resources in 2016/17 FCHO has established a design and build company as a subsidiary of FCHO - New Living Homes Ltd who will be contracted to deliver FCHO's future new homes.

In 2016/17 FCHO has also recruited an internal development team to support the delivery of FCHO's development ambitions. FCHO has established detailed processes and procedures determining how sites are appraised ensuring that the property type and tenure maximise the opportunity for FCHO to meet housing needs also meet the affordability needs of Oldham residents.

## ENABLING PLAN

### What action has FCHO taken and what has this achieved?

Since 2011 FCHO has implemented a clear financial approach and focussed on a strategy of maximising resources which has created surplus funds to support the ongoing development of services and also to mitigate against future business risks such as welfare reform and to date FCHO has been extremely successful in this approach.

In the last six years FCHO has continued to deliver its strong financial strategy and central to this is FCHO's annual budget process, in which the Board approve financial targets more challenging than that assumed in the 30 Year Financial Plan.

This approach has allowed FCHO to re-invest significant surplus funds into FCHO's future bad debt provision to support mitigation of the future impact of welfare reform particularly the introduction of direct payment. It has also supported FCHO in delivery of the cost reductions and increased incomes required to mitigate the 1% rent reduction (2016-2020) and also fund future development investment for new homes.

As outlined on page's 21-24, FCHO has implemented a formal financial strategy supported by two new targets - Operating surplus per unit and a target ratio for front line and overhead costs.

Moving forward, FCHO recognises that maintaining operating surpluses at this level is at risk due to reducing rental income levels as a result of both the welfare reform risks and the Government imposed 1% rent reductions, (annual until 2020/21).

To ensure we have a sustainable funding strategy for our development programme, reduced income levels are reflected in FCHO's Financial Plan over the next five years, (2017/18 to 2022/23).

In 2016/17 FCHO has now achieved the implementation and delivery of recurring savings of £3.3 m required to meet the 1% rent reduction. A further £0.493m of savings are included within the 2017/18 budgets. The future savings options of £0.326m have already been identified and are included with the 2016/17 Financial Plan with no current material risk to delivery.

|                 | 2016/17      | 2017/18    | 2018/19    | 2019/20    | Total        |
|-----------------|--------------|------------|------------|------------|--------------|
| Savings Options | 3,120        | 330        |            |            | 3,450        |
| 1.5% Inflation  | 163          | 163        | 163        | 163        | 650          |
| <b>Total</b>    | <b>3,283</b> | <b>493</b> | <b>163</b> | <b>163</b> | <b>4,100</b> |

In 2016/17 FCHO commenced work on exploring any specific areas of focus for potential opportunities to share services in partnership with two local LSVT's part of its "Better Together" approach along with Rochdale Boroughwide Housing and Bolton at Home. This work has completed and having investigated both the financial opportunities and businesses structures the outcome was that the reviews identified several areas of good practice which have been shared with key leads across the three businesses. However at this stage it is not realistic to pursue the initial overall ambition to create shared services. In 2017/18 there are future plans to share procurement and learning and development opportunities.

The following table provides an analysis of "Enabling" VFM KPIs, followed by further details on some of the key areas of work in this part of the business.

| ENABLING PLAN                                    | 2016/17 Target | 2014/15   | 2015/16   | 2016/17   | VFM Assessment | Targets 2017/18 |
|--|----------------|-----------|-----------|-----------|----------------|-----------------|
| Rent Collection                                  | 99.60%         | 100.03%   | 99.82%    | 100.12%   | ●              | 99.60%          |
| Rent loss due to Voids                           | 0.90%          | 1.73%     | 0.86%     | 0.77%     | ●              | 0.80%           |
| No of days lost through sickness absence         | 7.20           | 6.77      | 8.79      | 10.80     | ●              | 9.20 days       |
| Overheads direct cost per property*              | £460.00        | £521.73   | £502.00   | £423.00   | ●              | £474.00         |
| Average cost of void works per property*         | £3,009.00      | £2,721.00 | £2,933.00 | £2,755.00 | ●              | £3,095.00       |
| Housing Management direct cost per property*     | £273.00        | £276.18   | £290.00   | £302.00   | ●              | £298.00         |
| Average cost of a responsive repair per property | £353.00        | £363.99   | £437.00   | £385.00   | ●              | £438.00         |

\* Housemark 15/16 Median performance usually used to compare - replaced with 2016/17 Target

## RENT COLLECTION

### **What action has FCHO taken and what has this achieved?**

FCHO has continued to deliver upper quartile rent collection and has consistently outperformed both the 30 Year Financial Plan and budget targets leading to increased income which has allowed FCHO to invest funds to strengthen its resilience against the impending welfare reform impacts and also ensuring maximisation of income supporting the delivery of FCHO's three strategic objectives.

FCHO has continued to deliver its Rent First approach which includes:

- Customer credit check
- Two weeks rent in advance
- Mandatory direct debits
- Affordability assessments
- Formal tenancy reviews for probationary tenancies
- Two distinct separate tenancy agreements to support our tenancy review and enforcement approach, the one year probationary tenancy and a five year fixed term tenancy agreement which is used when tenants have "passed" their probationary/introductory tenancy.

Due to the increased risk of affordability new customers under 35's are assessed on the LHA Shared Room Rate to determine any risks for both the customer and FCHO.

FCHO recognises the affordability issues for customers under 35, particularly given the shared room rate of circa £60 per week. In 2017/18 FCHO will be undertaking a small scale pilot on the use of shared accommodation for customers where affordability is an issue. Based on the outcomes of the pilot this may be a future model FCHO considers to address housing need and affordability issues for both existing and new younger customers.

Prior to the introduction of the LHA cap, FCHO has also introduced a two year fixed tenancy for customers under 35 to mitigate against the increased risk of affordability, this allows FCHO to understand the support customers may need.

In 2016/17 FCHO has carried out a Customer Insight Review which will allow FCHO to fully utilise all income collection data to influence future service delivery and ensure FCHO maximises resources. The outcomes from this review are focused on the customer and payment behaviour influences whilst also looking to maximise our return on investment focussing on utilising low cost interventions/contact where appropriate.

On 29th April 2017 Oldham's Job Centre+ commenced with the full service Universal Credit service. This has already seen a significant increase in numbers of customers now receiving Universal Credit and a full review of the impact in Quarter 1 of 2017/18 will be carried out to assess the impact, and support requirements for both customers and FCHO rent collection levels.

### **Service Charges**

Following the impact of the 1% rent reduction on FCHO's financial viability, FCHO implemented an efficiency strategy. As part of this strategy FCHO committed to implementing service charges to over 5,600 customers, these charges include grounds maintenance, cleaning, communal electricity and CCTV monitoring.

Following extensive customer consultation over the summer 2016 the charges were introduced in November 2016 and FCHO is implementing these charges in full over a 3 year period. This aligns with the 1% rent reduction and allows the impact of the rent reduction to partly offset the new service charges. Once phased in full by 2020/21 FCHO will be recovering over £1.1m of additional income annually.

## RENT LOSS DUE TO VOIDS

### **What action has FCHO taken and what has this achieved?**

Voids have continued to reduce in 2016/17 and as of March 2017 the rent loss due to voids was 0.77%.

FCHO has seen reduced turnover, on average 93 per month in 2015/16 to 89 in 2016/17. There has also been a small reduction in the turnaround for void properties – from 33 days to an average of 32 days.

In addition FCHO implemented a daily letting process and this has supported the reduction in void loss from 0.86% in 2015/17 to 0.77% in 2016/17.

### **Costs – Overheads and Housing Management**

As outlined in FCHO's financial strategy when considering costs FCHO have determined that the HCA unit costs are more appropriate when comparing costs. Although FCHO use the Housemark costs to provide greater insight, as the costs are more granular, these are less useful for comparison purposes. In 2016/17 Housemark has changed the cost apportionment methodology across three distinct areas, these are Housing Management, Overhead and Voids Costs. The change in methodology compromises the ability to make a meaningful comparison. Therefore for 2016/17 FCHO is not able to compare FCHO actual costs to the 15/16 Housemark median performance. The HCA unit costs confirm that FCHO is below average when comparing overall management costs.

In 2016/17 overhead costs were forecast to reduce as part of FCHO's response to the 1% rent reduction.

In addition, in previous years FCHO has incurred high costs for public and property insurance premiums as a result of poor property and public liability claims history in the early years post the stock transfer. Over the last 5 years FCHO has implemented new systems and processes to support a reducing claim history and in 2016/17 tendered for the procurement of all insurances as one package to support efficiency savings. As a result of the much improved claims history over the last 3 years FCHO has realised savings of over £0.450m per annum and secured these savings by agreeing a two year fixed price for property insurance from 2017/18.

To support delivery of Creating Thriving Communities the 2017/18 budget allows for increased investment in both employment and health services and there is circa £0.300m of dedicated resources for further growth included in the 2017/18 budgets (£0.170m for employment, £0.130m for health).

### **Our Colleagues**

FCHO recognises the importance of its key resource – its employees. A large proportion of FCHO's workforce are Oldham residents and FCHO is proud of the contribution it makes to the local economy. FCHO has further re-emphasised its commitment to fairness in employment practices and has been recognised through its accreditation as a Living Wage Employer.

In 2016/17 the Colleague Survey evidenced high levels of engagement and satisfaction from colleagues with 89.5% of colleagues satisfied or very satisfied with their job. In 2016/17 FCHO increased the weekly hours from 35 to 37 to ensure improved service delivery with reduced staffing levels.

In 2015/16 the days lost per employee to sickness absence was 8.79 days per employee, this has increased to 10.80 days in 2016/17. The increase in sickness absence is mainly attributed to two service areas. Reducing sickness absence is a key priority for 2017/18 and FCHO is seeking to address this via its Organisational Development Strategy and Absence Management Procedures.

FCHO continues to achieve Investors in People Gold status demonstrating to customers and colleagues FCHO's commitment to continuous improvement.

## **FCHO – VFM SELF-ASSESSMENT CONCLUSION**

**As a result of the review of the actions and outcomes that FCHO has outlined in the self-assessment we believe that FCHO complies with the current HCA VFM Standard.**

There have been some key Strategic Objective VFM achievements in 2016/17 which are outlined below:

### **Excellent Landlord**

- Increased overall Repairs satisfaction to over 90%
- Maintained FCHO's excellent record of delivering annual gas safety servicing to 100% of its properties

### **Create Thriving Communities**

- Increased resources in FCHO employment team – 152 job outcomes for Oldham residents
- Continued to support local employment through apprenticeships, volunteering and increasing local spend within the Oldham area (spend of £14.3m)
- Implemented a Hospital2Home discharge service with health partners aimed at improving health and well-being for our customers, whilst supporting the NHS to deliver efficiencies in this critical area
- Developed and implemented the new Housing Options for Older People (HOOP) service

### **Build New Homes**

- Created new internal development team
- Developed detailed site appraisal process to maximise housing need/demand
- Developed a five-year new-build programme for 820 new homes to be built

### **Maximise Resources**

- Retaining high levels of rent collection performance and balancing impacts of welfare reform and Universal Credit
- Outperformance of Financial Plan – savings of £5m generated in 2016/17 which will allow FCHO to invest in the development of additional new homes in Oldham
- Implemented service charges which support the achievement to deliver over £4m of year-on-year efficiency savings required as a result of the rent reduction

FCHO has also identified further work in 2017/18 to ensure the improvement in VFM continues:

### **Excellent Landlord**

- Improve and increase customer satisfaction with landlord services, key actions include:
  - Customer satisfaction text surveys at each customer touchpoint – high priority/contact surveys to be implemented include the service centre and Anti-Social Behaviour
  - Continued high performance on repairs satisfaction
  - Utilise the survey feedback to deliver a consistently good service to customers
  - Resolve damp property issues

### **Create Thriving Communities**

- Employment- increase number of customers gaining sustainable employment to 120
- Health and Housing Offer – successful services up-scaled and mainstreamed via effective partnership and joint evaluation
- Place based approach to neighbourhoods – delivering key outcomes for customers via effective partnership and joint evaluation

### **Build New Homes**

- Development –134 start on sites in 2017/18, substantially increase site acquisition and opportunities to maximise grant
- Refinancing to support the development of a minimum of 820 homes over the next five years
- Continue to work on the GM Devolution work as part of the Greater Manchester Housing Providers, (GMHP) and local authority representatives in the Greater Manchester Combined Authority, (GMCA) with a focus on delivering growth in housing supply and public sector reform

### **Maximise Resources**

- Improve the financial performance of FCHO's housing properties, measured via the Operating Surplus per Unit
- Deliver efficiencies, whilst maintaining an "Excellent Landlord" offer via the upscaling and implementation of customer "self-serve" initiatives
- Maximise income collection whilst balancing the increasing risk of direct payment following full digital service roll out and implementation of welfare reform changes (reducing income and benefits to customers)
- To address sickness absence levels via the development and implementation of an Organisation Development Strategy and approach to absence management

The 2016/17 FCHO Value for Money self-assessment and relevant information on FCHO's approach to Value for Money can be accessed via the website link below:

<https://www.fcho.co.uk/about-us/company-information/about-our-business/value-for-money-and-performance/>

## Risk and Assurance (including Governance)

### Internal Control Assurance

The Board has overall responsibility for risk management within FCHO. The Board acknowledges its role and responsibility for ensuring that the business has an effective system of internal control and for reviewing its on-going effectiveness. The Audit and Risk Committee is responsible for ensuring effective internal controls and risk management.

FCHO has a strategic planning and risk management framework, which incorporates the strategic plan, 30-year financial plan, risk management framework and assurance framework. The framework was introduced in 2015 and was reviewed in 2016. The approach taken ensures a golden thread between Strategic and Financial Planning and Risk Management and integrates assurance which underpins FCHO's internal controls.

The objectives of the framework are outlined below.

- Effective delivery of Strategic Objectives via clear and tangible linkages between FCHO's Strategic Delivery Plans, the Financial Plan (30 Year) and Risk Management /Assurance activity
- The Board and officers understand and are informed on these "clear and tangible" linkages, providing a "golden thread" approach to the delivery of Strategic Objectives;
- Embed risk management within strategic and investment decision making processes.
- A clear understanding for FCHO's risk tolerance.
- Compliance with the regulatory framework.

This ensures that each strategic objective and associated risks are clearly aligned and supported by FCHO's assurance framework. Assurance is taken from key elements of FCHO's assurance framework.

There are no fundamental risks to the systems of internal control as basic controls and governance arrangements are in place for all areas.

The assurance framework provides evidence to confirm that the appropriate systems are in place and that these are subject to the appropriate levels of scrutiny for those areas that could have a significant impact on FCHO both financially and via the businesses reputation. This is a significant part of FCHO's governance arrangements and whilst every effort has been made to ensure that these controls manage key business risks, it should be noted that risks cannot always be eliminated. Consequently, whilst the Board is satisfied that the existing internal controls provide a substantial level of assurance, such assurance is not absolute.

Other elements of the internal control framework are outlined below.

- The business has a formally constituted Board and Committee network. There exists a suitable Code of Governance for Board and adequate Terms of Reference and delegated authority for each of its committees, all of whom meet on a regular basis. There is also a Probity Policy and a Code of Conduct for Non-Executive Directors and employees of the organisation.
- A comprehensive Non-Executive Director Appraisal programme carried out by external consultants with a training programme is in place to ensure Non-Executive Directors remain professionally updated and have the skills to meet the needs of the business.

- All business activities are managed through comprehensive policies and procedures.
- FCHO has robust strategic and business planning processes, including detailed financial budgets, forecasts and cashflows. The Management Accounts are reported to the leadership team monthly and quarterly to the Board and Funders.
- Internal audit is provided by Mazars LLP. The internal audit programme is based on a three-year strategic audit plan. An annual audit plan based on key controls and risks is agreed, monitored and reported to the Audit and Risk Committee. The Board received an annual report from the internal auditors which concluded that:
  - FCHO has in place an appropriate framework for identifying, evaluating and managing the significant risk faced by the association.
  - FCHO has an adequate, effective and reliable framework of internal control and effective risk management and governance processes which provides reasonable assurance regarding the effective and efficient achievement of the business objectives, subject to the weaknesses identified in internal audit reports.
  - No instances of actual or suspected fraud have been encountered during audit work
- From the internal audit work Mazars carried out in 2016/17 there were not any areas of fundamental risk identified across the eleven internal audits. All recommendations due to be completed in 2016/17 have been completed and signed off by Mazars.
- External audit is provided by BDO LLP, who review and report on the effectiveness of existing internal controls in their annual audit management letter.
- Self-assessment against best practice guides and benchmark clubs indicate that the organisation is viable, suitably governed and well managed.
- Tenant scrutiny is also undertaken to review the performance of service delivery.

Whilst not exhaustive, the above represents the key elements within the existing system of internal controls. Whilst there are areas for development, the foundations of a sound system for control are in place. The assurance framework has been reviewed throughout 2016/17 and this has aligned with the Risk Management framework. This provides a full overview of the high level risks facing FCHO, including all forms of assurances provided in relation to the risk such as internal and external audit, performance monitoring and other external forms of accreditation. Key work continues in embedding an integrated risk management culture across FCHO.

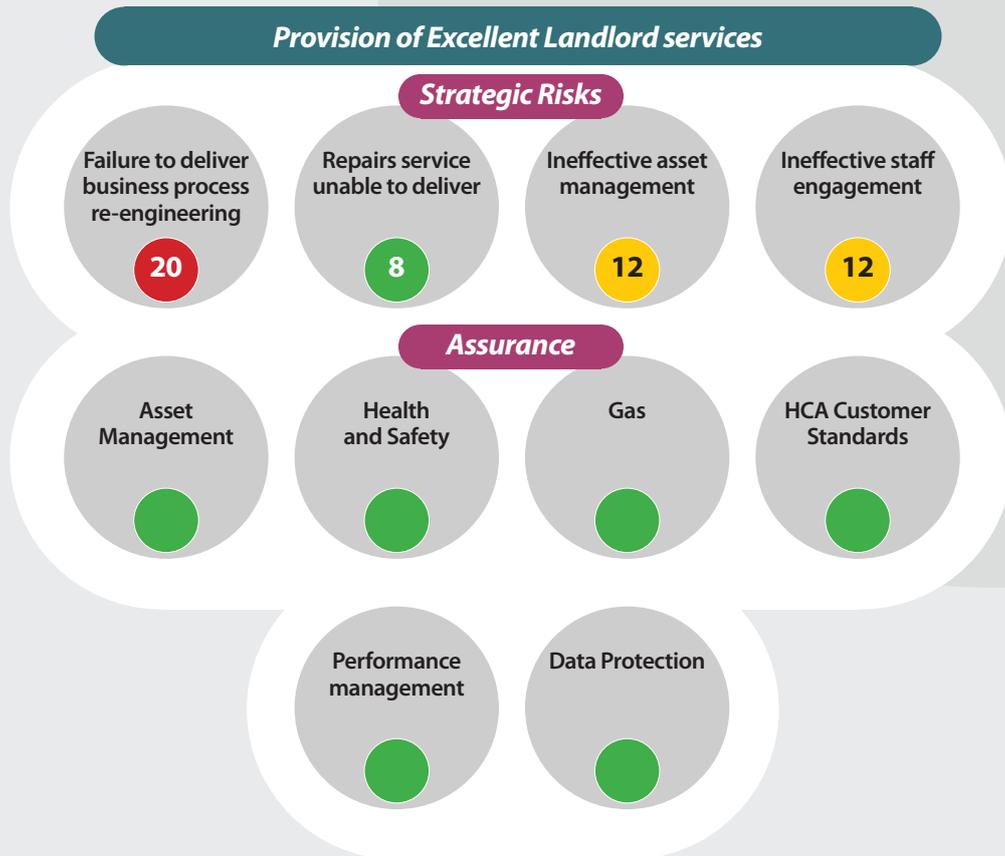
In concluding its review, the Board are satisfied with the adequacy of these controls for the year ending 31 March 2017, and for the period to the date of signing the financial statements.

## Key Risks Facing FCHO

Each risk within the risk register is analysed and prioritised in terms of likelihood and severity and inherent risk. The register identifies the existing controls and further controls in development to mitigate the risk. Once mitigations are factored in, the score is recalculated and a residual risk score provided.

All risk and risk movements are reported quarterly to the Audit and Risk Committee for assessment and also reported annually to the Board on key annual movements.

As of March 2017 there were 12 strategic risks identified within the register. All operational risks are supported by FCHO's assurance framework. The three strategic objectives and the associated risks with the areas of supporting assurance are shown below:



### Build desirable homes

#### Strategic Risks

Ineffective Financial Strategy

8

Ineffective asset management

12

Ineffective Partnerships

12

Impact on housing need

12

#### Assurance

Financial Planning



The three objectives are supported by an enabling plan which is to ensure FCHO maximises income supported by a Right First Time culture.

### Strategic enabling plan

#### Key Risks

Failure to deliver business process re-engineering

20

Government Policy

20

Ineffective staff engagement

12

Failure to maximise income

8

1% Rent reduction

6

#### Key Sources Assurance

Human Resources



Income Collection



Financial Planning



HCA Economic Standards



Risk & Assurance



Strategic Plan



Governance



Procurement



Performance Management



ICT



The year-end strategic risk score analysis is shown here:

| Risk Exposure | Risk Score | Number of Risks Q4 16/17 |
|---------------|------------|--------------------------|
| Very high     | 21-25      | 0                        |
| High          | 16-20      | 2                        |
| Medium        | 12-15      | 5                        |
| Low           | 6-11       | 5                        |
| Very low      | 1-5        | 0                        |
| <b>TOTAL</b>  |            | <b>12</b>                |

The key risks scored over 16 (high and above) within the risk register are shown below:

| Risk  | Risk Mitigations/Processes in place  |
|---|--|
| <p>Government policy becoming a significant barrier to delivery of FCHO's Strategic Objectives.</p> | <p><b>Welfare Reform</b><br/>           FCHO has implemented a welfare reform action plan which continues to have a positive impact on rent collection. However this risk will remain high and possibly increase to a significant risk due to the recent introduction of the full Universal Credit service in Oldham (commenced April 2017) which has accelerated the roll out of direct payment.</p> <p>To mitigate risks to income collection FCHO has undertaken a Customer Insight Review in this area and the report is due to be considered in July with a proposed range of new interventions potentially impacting policies and procedures.</p> <p>The following continue to be in place:</p> <ul style="list-style-type: none"> <li>● Mandatory direct debits</li> <li>● Two weeks' rent payment in advance</li> <li>● 9/15 month tenancy reviews</li> <li>● Affordability assessments</li> </ul>   |
| <p>Failure to deliver necessary business process re-engineering</p>                                 | <p>This risk was identified as part of the review of FCHO's Strategic Objectives, conducted in response to the 1% annual rent reduction, (next four years), announced in the Government's July 2015 Budget.</p> <p>The Risk Control actions centre upon:</p> <ul style="list-style-type: none"> <li>● Customer Insight Reviews – These reviews identify what outputs FCHO's services contribute to the delivery of the Strategic Objectives including management information and processes required to ensure these outputs are delivered efficiently and effectively.</li> <li>● There are a number of reviews across FCHO that are in progress and or actions in progress of being implemented. The reviews are:               <ul style="list-style-type: none"> <li>● Service centre</li> <li>● Asset management</li> <li>● Neighbourhoods</li> <li>● Income collection</li> </ul> </li> <li>● Implementation of Self-Serve – this is aimed at moving people to utilise the available digital services.</li> <li>● Customer Insight Data Analysis – via mapping of satisfaction survey results linked to services customers have accessed. This analysis is aimed at identifying what service outputs drive customer satisfaction and dissatisfaction, whilst taking account of the cost of these services.</li> </ul> |

FCHO is fully compliant with the NHF Code of Governance 2015.

### Pension Costs

FCHO has admitted body status to the Local Government Pension Scheme (LGPS) and contributes via the Greater Manchester Pension Scheme. The scheme is a final salary pension scheme. FCHO contributes 17.9% of pensionable pay and this is the final year of the three-year period with the tri-annual valuation outcome confirming a 1% increase per year for the next three years.

In October 2015 FCHO closed LGPS scheme to new employees and all new employees are offered the option to enrol in a defined contribution scheme.

### Corporation Tax

FCHO has charitable status and therefore there is no estimated tax liability for the current year.

### Capital Structure and Treasury Policy

To support the delivery of FCHO's Treasury Management Policy and Strategy a set of treasury management procedures was developed and approved by the Board in May 2017. FCHO's policy is to retain minimum cash whilst ensuring sufficient funds for the refurbishment programme are available. A process is in place to enable cashflow forecasting and is used to continually monitor future borrowing requirements.

The borrowing strategy, which is approved annually by the Board, aims to forward fix interest rates on as much debt as possible. This will reduce exposure to any future interest rate increases and create a degree of guarantee over future interest payments.

### Future forward interest rate fixings agreed to date are detailed below

| Interest rate fixing | Date of Forward Fix | Term     | Rate (exc margin) |
|----------------------|---------------------|----------|-------------------|
| Fix 5 - £6.0m        | 31 Mar 2018         | 13 years | 3.58%             |

### Loan Facilities

FCHO currently has a loan facility of £55m as follows:

| Type          | £                  |
|---------------|--------------------|
| Non-revolving | 40,000,000         |
| Revolving     | 15,000,000         |
| <b>Total</b>  | <b>£55,000,000</b> |

The £40m non-revolving facility is available for drawing, repaying and redrawing upon signing the loan facility agreement up to one month before peak debt. The revolving facility is available for drawing upon signing the loan facility up to the date of peak debt, which is determined from within the latest approved Business Plan.

The term of the facility is 30-years with effect from 7 February 2011. Total borrowing as at 31 March 2017 was £26.0m.

### Current Loan Portfolio

|       | £         | Original          | Term Remaining    |
|-------|-----------|-------------------|-------------------|
| Fix 1 | 6,500,000 | 9 years 3 months  | 4 years           |
| Fix 2 | 6,500,000 | 14 years 6 months | 10 years 9 months |
| Fix 3 | 6,500,000 | 15 years 3 months | 12 years          |
| Fix 4 | 6,500,000 | 18 years 3 months | 16 years          |

### **Cashflow and Liquidity**

The net cash inflow from operating activities before interest costs was £20.216m. Bank balances and short term investments were £16.816m at the year end. In addition, FCHO has agreed loan facilities up to £55m.

### **Covenant Compliance**

Under the terms of the loan agreement the company has to comply with two financial covenants, being:

- Ratio of net cash flow to total interest
- Asset cover i.e. the value of the stock compared to the outstanding loan

Performance to 31 March 2017 showed that the company was compliant with both covenants.

### **Going Concern**

After making appropriate enquiries, the Board of Directors confirms that it is a reasonable expectation that FCHO has adequate resources to continue in operational existence for the foreseeable future. Accordingly, it has adopted the going concern basis in preparing FCHO's financial statements.

### **Approval**

This strategic report was approved by the Board of Directors on 16th August 2017.



Cath Green

Chief Executive



## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FIRST CHOICE HOMES OLDHAM

We have audited the financial statements of FCHO for the year ended 31 March 2017, which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in reserves, the statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the association's members, as a body, in accordance with the Housing and Regeneration Act 2008 and Section 87 of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the association and the association's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the board and auditors

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

### Scope of the audit of the financial statements

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

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the association's affairs as at 31 March 2017 and of the association's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

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

We have nothing to report in respect of the following matters where we are required to report to you if, in our opinion:

- the information given in the Report of the Board for the financial year for which the financial statements are prepared is not consistent with the financial statements;
- adequate accounting records have not been kept by the association; or
- a satisfactory system of control has not been maintained over transactions; or
- the association financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

**BDO LLP**

*BDO LLP, statutory auditor*

*Manchester*

*United Kingdom*

*Date* 23/08/2017

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

## Statement of Comprehensive Income

| For the year ended 31 March 2017                           |              | Year ended<br>31 March<br>2017<br>£'000 | Year ended<br>31 March<br>2016<br>£'000 |
|--|--------------|---|---|
|  | <b>Note:</b> |   |   |
| Turnover   | 2            | 49,290                                  | 49,532                                  |
| Operating costs  | 2            | (32,825)                                | (37,797)                                |
| Surplus on disposal of fixed assets                        | 2/6          | 1,446                                   | 1,177                                   |
| <b>Operating surplus</b>                                   | <b>5</b>     | <b>17,911</b>                           | <b>12,912</b>                           |
| Interest receivable and similar income                     | 8            | 49                                      | 66                                      |
| Interest and finance costs                                 | 7            | (2,641)                                 | (2,855)                                 |
| <b>Surplus before taxation</b>                             |              | <b>15,319</b>                           | <b>10,123</b>                           |
| Taxation   | 9            | -                                       | -                                       |
| <b>Surplus for the financial year after taxation</b>       |              | <b>15,319</b>                           | <b>10,123</b>                           |
| <b>Other comprehensive income:</b>                         |              |   |   |
| Actuarial (losses)/gains on defined benefit pension scheme | 12           | (4,891)                                 | 7,961                                   |
| <b>Total comprehensive income for year</b>                 |              | <b>10,428</b>                           | <b>18,084</b>                           |

All activities relate to continuing operations.

The notes on the following pages form part of these financial statements.

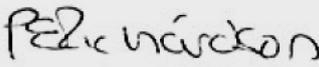
## Statement of Financial Position

For the year ended 31 March 2017

|  | Note: | 2017<br>£'000 | 2016<br>£'000 |
|--|-------|---------------|---------------|
| <b>Tangible fixed assets</b>                                   |       |               |               |
| Housing properties   | 13    | 96,753        | 87,277        |
| Other fixed assets   | 14    | 8,500         | 8,627         |
|  |       | <hr/>         | <hr/>         |
|  |       | 105,253       | 95,904        |
| <b>Current Assets</b>  |       |               |               |
| Debtors - receivable after one year                            | 15    | 90,336        | 106,670       |
| Debtors - receivable within one year                           | 15    | 21,271        | 22,196        |
| Investments in short term deposits                             |       | 5,000         | 2,000         |
| Cash and cash equivalents                                      |       | 11,816        | 9,131         |
|  |       | <hr/>         | <hr/>         |
|  |       | 128,424       | 139,997       |
| <b>Creditors: amounts falling due within one year</b>          | 16    | (10,158)      | (12,396)      |
|  |       | <hr/>         | <hr/>         |
| <b>Net current assets</b>                                      |       | 118,265       | 127,601       |
|  |       | <hr/>         | <hr/>         |
| <b>Total assets less current liabilities</b>                   |       | 223,518       | 223,505       |
|  |       | <hr/> <hr/>   | <hr/> <hr/>   |
| <b>Creditors: amounts falling due after more than one year</b> | 17    | 33,020        | 32,854        |
| <b>Provisions for liabilities and charges</b>                  |       |               |               |
| Other provisions   | 20    | 106,253       | 122,859       |
| Pension liability  | 12    | 20,367        | 14,342        |
|  |       | <hr/>         | <hr/>         |
| <b>Long-term creditors and provision</b>                       |       | 159,640       | 170,055       |
| Capital and reserves   |       |               |               |
| Income and expenditure reserve                                 |       | 63,878        | 53,450        |
|  |       | <hr/>         | <hr/>         |
|  |       | 223,518       | 223,505       |
|  |       | <hr/> <hr/>   | <hr/> <hr/>   |

The financial statements were approved by the Board of Directors on 16 August 2017 and were signed on its behalf by:

  
Ged Lucas  
Chair

  
Pauline Richardson  
Chair of Audit and Risk  
Committee

  
David Smith  
Deputy Company  
Secretary

## Statement of Changes in Reserves

|   | Note: | Income and<br>expenditure<br>reserve<br>£'000 |
|---|-------|---|
| <b>For the year ended 31 March 2017</b>         |       |   |
| Balance as 1 April 2015                         |       | 35,366  |
| Surplus for the year                            |       | 10,123  |
| <b>Other comprehensive income for the year:</b> |       |   |
| Actuarial gain relating to pension scheme       | 12    | 7,961   |
| <b>Balance as 31 March 2016</b>                 |       | <b>53,450</b>                                 |
| Surplus for the year                            |       | 15,319  |
| <b>Other comprehensive income for the year:</b> |       |   |
| Actuarial loss relating to pension scheme       | 12    | (4,891)                                       |
| <b>Balance as 31 March 2017</b>                 |       | <b>63,878</b>                                 |

The notes on the following pages form part of these financial statements

## Statement of Cash Flows

| <b>For the year ended 31 March 2017</b>                      | <b>2017</b>  | <b>2016</b>  |
|--|--------------|--------------|
|  | <b>£'000</b> | <b>£'000</b> |
| <b>Cash flows from operating activities</b>                  |              |              |
| <b>Surplus for the financial year</b>                        | 15,319       | 10,123       |
| Adjustments for:   |              |              |
| Interest payable and finance costs                           | 2,641        | 2,855        |
| Interest received  | (49)         | (66)         |
| Depreciation on tangible fixed assets - housing properties   | 3,893        | 3,403        |
| Depreciation on fixed assets - other                         | 937          | 943          |
| Amortised grant  | (75)         | (75)         |
| Difference between net pension expense and cash contribution | 608          | 1,127        |
| Surplus on the sale of fixed assets - housing properties     | (1,446)      | (1,177)      |
| Decrease/(Increase) trade and other debtors                  | 664          | (1,047)      |
| Increase/(Decrease) in trade and other creditors             | (2,276)      | 2,854        |
| <b>Cash from operations</b>                                  | 20,216       | 18,940       |
| Taxation paid  | -            | -            |
| <b>Net cash generated from operating activities</b>          | 20,216       | 18,940       |
| <b>Cash flows from investing activities</b>                  |              |              |
| Proceeds from sale of fixed assets – housing properties      | 2,189        | 1,438        |
| Purchase of fixed assets – housing properties                | (14,277)     | (20,528)     |
| Purchase of fixed assets – other                             | (393)        | (318)        |
| Cash and similar investments                                 | (1)          | -            |
| Receipt of grant   | 18           | 15           |
| Interest received  | 47           | 66           |
| <b>Net cash used in investing activities</b>                 | (12,417)     | (19,329)     |
| <b>Cash flows from financing activities</b>                  |              |              |
| Interest paid  | (2,114)      | (2,154)      |
| Loan advances received                                       | -            | -            |
| Transfer to deposits   | (3,000)      | -            |
| Repayment of loans   | -            | -            |
| <b>Net cash used in financing activities</b>                 | (5,114)      | (2,154)      |
| <b>Net change in cash and cash equivalents</b>               | 2,685        | (2,542)      |
| Cash and cash equivalents at beginning of the year           | 9,131        | 11,673       |
| Net cash movement  | 2,685        | (2,542)      |
| <b>Cash and cash equivalents at end of the year</b>          | 11,816       | 9,131        |

The notes on the following page form part of these financial statements.

## Notes to the financial statements for the year ended 31 March 2017

### Legal status

FCHO is incorporated under the Co-operative and Community Benefit Societies Act 2014 and is registered with the Homes and Communities Agency as a Registered Provider of Social Housing. FCHO has no ultimate controlling party, the non-executive Board is responsible for the direction of the business but Board members do not have an equity stake in the business. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

### Note 1: Accounting Policies

#### Basis of preparation

FCHO is a Public Benefit Entity (PBE) and has applied the provisions for FRS102 specifically applicable to PBEs. The financial statements have been prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP) including Financial Reporting Standard 102 (FRS102), the Statement of Recommended Practice for registered housing providers: Housing SORP 2014, and comply with the Accounting Direction for Private Registered Providers of Social Housing 2015.

The preparation of financial statements in compliance with FRS102 requires the use of certain critical accounting estimates. It also requires FCHO management to exercise judgement in applying the organisation's accounting policies.

#### Turnover

Turnover represents rental income receivable, service charges receivable, amortised capital grant, revenue grants from local authorities, central government and the Homes and Communities Agency and other income which is recognised in relation to the period when the goods or services have been supplied. Rental income is recognised when the property is available to let, net of voids. Income from property sales is recognised on legal completion.

#### Value Added Tax VAT

FCHO's main income stream is rental income, which is exempt from VAT.

The majority of FCHO expenditure is subject to VAT and is shown inclusive of VAT to the extent that it is suffered by the association and not recoverable.

For certain activities VAT can be reclaimed under the partial exemption method and credited to the Income Statement.

#### Sale of Properties / Property Disposals

The profit or loss incurred upon the disposal of fixed assets will be included in the Income Statement in the year in which the actual disposal occurs. This will be shown as a separate item.

#### Housing Properties Valuation

Housing properties are stated at cost, less accumulated depreciation and impairment (where applicable). Housing properties under construction are stated at cost and are not depreciated. These are reclassified as housing properties on practical completion of construction. Freehold land is not depreciated. Where a housing property comprises two or more major components with substantially different useful economic lives (UELs), each component is accounted for separately and depreciated over its individual UEL. Expenditure relating to subsequent replacement or renewal of components is capitalised as incurred. The housing stock's useful and economic life will be reassessed on an annual basis.

## Notes to the financial statements for the year ended 31 March 2017

### Note 1: Accounting Policies (continued)

#### Improvements to housing properties and depreciation

FCHO will capitalise repairs expenditure on housing properties which results in an enhancement of economic benefit of the asset. This includes:

- An increase in rental income
- A reduction in maintenance costs
- A significant extension of the life of the property

In line with the Statement of Recommended Practice (SORP 2014), FCHO adopts component accounting, i.e. that where assets have two or more major components with substantially different lives, then the assets will be treated as separate components and depreciated over the different lives. Housing property components are identified as and depreciated as follows:

| Component                       | UEL (Years) |
|---------------------------------|-------------|
| Roof                            | 40          |
| Window & Doors                  | 30          |
| Kitchen                         | 20          |
| Bathroom                        | 30          |
| Heating System                  | 30          |
| Communal                        | 30          |
| Environmental                   | 30          |
| Boiler                          | 15          |
| Electrical Wiring               | 30          |
| Lift                            | 15          |
| Structure - existing properties | 80          |
| Structure - new build           | 100         |
| Structural Works                | 30          |

The improvement works are capitalised at the end of the project. Any direct development staff time spent on schemes up to completion will be capitalised during the year. The depreciation will commence at the date of capitalisation and will be then calculated over the economic life of the improvements.

Any costs that are capitalised under the improvement programme comprise all expenditure on doors, windows, roofs, kitchens, bathrooms and heating systems, including: fees, preliminary costs and any other associated costs, but excluding any loan interest payments. Environmental works are capitalised if they meet the value threshold, UEL and can be directly attributable to a block or individual property.

All other expenditure incurred in respect of general repairs to its housing stock will be charged directly to the Income Statement in the year in which it is incurred.

#### Impairment

The housing property portfolio for FCHO is assessed for indicators of impairment at each balance sheet date.

Where indicators are identified then a detailed assessment is undertaken to compare the carrying value of its transfer properties at estate level and this is compared this to the Existing Use Value for Social Housing (EUV-SH). EUV-SH is used as the estimate of the recoverable amount of the property. For the estates where there is an indication of impairment the next step is to review depreciated replacement costs for these assets. The depreciated replacement cost is calculated as the lower of construction cost or acquiring a replacement on the open market for an equivalent property.

## Notes to the financial statements for the year ended 31 March 2017

### Note 1: Accounting Policies (continued)

#### Impairment (continued)

Where housing properties have suffered a permanent diminution in value, the fall in value is recorded through a charge to income and expenditure.

#### Social Housing Grant and other government grants

Where developments have been financed wholly or partly by Social Housing Grant (SHG) receivable from the Homes and Communities Agency and local authorities. The amount of the grant received has been included as deferred income and recognised in turnover over the estimated useful life of the associated asset structure (excluding land costs) under the accruals model. When SHG received in respect of housing properties in the course of construction exceeds the total cost to date of those housing properties, the excess is shown as a current liability. SHG received in respect of revenue expenditure is credited to the income statement in the same period as the expenditure to which it relates.

SHG is subordinated to the repayment of loans by agreement with the Homes and Communities Agency and local authorities. SHG released on sale of a property may be repayable but is normally available to be recycled and is credited to a Recycled Capital Grant Fund or Disposal Proceeds Fund (DPF) and included in the Statement of Financial Position in Creditors.

If there is no requirement to recycle or repay the grant on disposal of the asset, any unmortgaged grant remaining within creditors is released and recognised as turnover.

#### Non-government grants

Grants received from non-government sources are recognised under the performance model. If there are no specific performance requirements the grants are recognised when received or receivable. Where grant is received with specific performance requirements it is recognised as a liability until the conditions are met and then it is recognised as turnover in the same period as the expenditure to which they relate.

#### Disposal Proceed Fund (DPF)

Receipts from Right to Acquire Sales are required to be retained in a ring fenced fund that can only be used for providing replacement housing. The sales receipts less eligible expenses are credited to the DPF. Any sales receipts less eligible expenses held within DPF, which it is anticipated will not be used within one year is disclosed in the Statement of Financial Position under "creditors due after more than one year". The remainder is disclosed under "creditors due within one year".

#### Depreciation of other fixed assets

Other fixed assets are stated at cost less accumulated depreciation. Freehold land is not depreciated. Depreciation is charged on a straight line basis over their expected economic life. The depreciable amount is recognised in the Income Statement over the asset's useful life. Costs over £1,000 will be capitalised and depreciated as follows:

Gains or losses arising on the disposal of other tangible fixed assets are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised as part of the surplus/deficit for the year.

| Other Fixed Assets             | UEL (Years) |
|--------------------------------|-------------|
| Office Premises                | 80          |
| Plant & Machinery              | 5 - 7       |
| Office & Computer Equipment    | 3           |
| Furniture, Fixtures & Fittings | 4           |
| Lift                           | 15          |

## Notes to the financial statements for the year ended 31 March 2017

### Note 1: Accounting Policies (continued)

#### Short-term debtors and creditors

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

#### Holiday pay accrual

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

#### Leasing Commitments

Rentals paid under operating leases will be charged to the Income Statement on a straight-line basis over the term of the lease.

#### Pension costs

Contributions to the organisation's defined contributions pension scheme are charged to profit or loss in the year in which they become payable. The cost of providing retirement pensions and related benefits are charged to management expenses over the periods benefitting from the employee's services.

The difference between the fair value of the assets held in the organisation's defined benefit pension scheme and the scheme's liabilities measured on an actuarial basis using the projected unit method, are recognised in the Association Statement of Financial Position as a pension scheme asset or liability (as appropriate).

#### Bad Debts and Write-Offs

Bad debts will be charged to the income and expenditure account in the year in which they are incurred. A provision for bad and doubtful debts will be made on an estimation of those debts that will not be recovered at the balance sheet date.

In respect of rental debtors provision is made on the following basis:

- (a) Current tenants at varying percentages dependant on value of the debt based on a bespoke calculation using the current tenant arrears.
- (b) Former tenants at 100% of the debt.

In respect of other debtors provision is made for specific debtor balances.

#### Agreement to improve existing properties

FCHO has an approved VAT shelter for 15 years post-stock transfer and as a result VAT incurred on the Regeneration Programme will be recovered. As part of the stock transfer agreement the initial first tranche of £15.913m was retained by FCHO, this sum was within the first five years post-transfer. Following the first tranche, there will be a remaining second tranche of VAT shelter savings of up to £6.0m and this will be retained and potentially utilised solely for asbestos works that exceed the value that is contained within the Stock Condition Survey of £10.380m. If the second tranche is not required the balance will be shared with OMBC under the 50/50 sharing agreement. FCHO commenced the 50/50 Sharing agreement with OMBC in December 2015 and has continued to monitor asbestos spend levels (as per the Second tranche), current indications are that the asbestos spend is likely to exceed £10.380m in 2018/19 and therefore any spend above this level will be shared 50/50 with OMBC. Related assets and liabilities are shown at gross values.

## Notes to the financial statements for the year ended 31 March 2017

### Note 1: Accounting Policies (continued)

#### Provisions

Provisions are made to the extent that FCHO has no discretion to avoid the expenditure provided for. Provisions will be calculated in line with the guidance contained in FRS102.

#### Financial liabilities and equity

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

#### Cash and cash equivalents

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

#### Judgements and key sources of estimation uncertainty

In preparing these financial statements, the key judgments have been made in respect of the following.

- a) Whether there are indications of impairment of FCHO's tangible and intangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the assets, and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit. Based on our review it has been concluded that there were no impairment triggers in respect of the association's fixed asset housing properties.
- b) The critical underlying assumptions in relation to the estimate of the pension defined benefit scheme obligation such as standard rates of inflation, mortality, discount rate and anticipated future salary increases. Variations in these assumptions have the ability to significantly influence the value of the liability recorded and annual defined benefit expense.
- c) What constitutes a cash generating unit when indicators of impairment require there to be an impairment review.

#### Other key sources of estimation and assumptions:

**Tangible fixed assets** – These are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In reassessing assets' lives, factors such as product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

**Financial instruments (borrowings)** – Negative compensation and funding indemnity clauses Management have assessed the organisation's loan facilities as basic financial instruments. The business' fixed-rate loan facilities allow early payment of the principal and accrued interest in relation to fixed-interest tranches. There is an indemnity clause that requires the borrower to pay a compensation premium to the lender if market rates have fallen since the inception of the loan. There is also a clause that means that if market rates have increased, the borrower (i.e. FCHO) would benefit from a compensation premium.

Management do not consider that the clause allowing FCHO to potentially receive a compensation premium upon early repayment of some or all of the fixed-rate loan liability makes this financial instrument 'non-basic' or 'other' as outlined in FRS 102 section 11. Management consider that this particular loan clause is specifically compliant with section 11.9b) and 11.9c) of FRS 102 and that the substance of this loan arrangement was that it was always intended to be a simple fixed-rate loan arrangement.

## Notes to the financial statements for the year ended 31 March 2017

### Note 2: Particulars of turnover, operating costs and operating surplus

|   | Turnover      | Operating costs | Surplus/ (Deficit) disposal of assets | Operating Surplus/ (Deficit) |
|---|---------------|-----------------|---------------------------------------|------------------------------|
|   | 2017<br>£'000 | 2017<br>£'000   | 2017<br>£'000                         | 2017<br>£'000                |
| <b>Social housing lettings – note 3</b>     | 46,746        | (31,121)        | -                                     | 15,625                       |
| <b>Other social housing activities</b>      |               |                 |                                       |                              |
| Management fee                              | 1,242         | (1,049)         | -                                     | 193                          |
| Surplus on disposal of fixed assets         | -             | -               | 1,446                                 | 1,446                        |
| Other                                       | 876           | (509)           | -                                     | 367                          |
| <b>Activities other than social housing</b> |               |                 |                                       |                              |
| Other                                       | 426           | (146)           | -                                     | 280                          |
| <b>Total</b>                                | <u>49,290</u> | <u>(32,825)</u> | <u>1,446</u>                          | <u>17,911</u>                |

|   | Turnover      | Operating costs | Surplus/ (Deficit) disposal of assets | Operating Surplus/ (Deficit) |
|---|---------------|-----------------|---------------------------------------|------------------------------|
|   | 2016<br>£'000 | 2016<br>£'000   | 2016<br>£'000                         | 2016<br>£'000                |
| <b>Social housing lettings – note 3</b>     | 47,424        | (36,396)        | -                                     | 11,028                       |
| <b>Other social housing activities</b>      |               |                 |                                       |                              |
| Supporting People                           | 137           | (135)           | -                                     | 2                            |
| Management fee                              | 673           | (588)           | -                                     | 85                           |
| Surplus on disposal of fixed assets         | -             | -               | 1,177                                 | 1,177                        |
| Other                                       | 808           | (575)           | -                                     | 233                          |
| <b>Activities other than social housing</b> |               |                 |                                       |                              |
| Other                                       | 490           | (103)           | -                                     | 387                          |
| <b>Total</b>                                | <u>49,532</u> | <u>(37,797)</u> | <u>1,177</u>                          | <u>12,912</u>                |

Note – In line with emerging accounting practice in the sector, the surplus on disposal of fixed asset housing properties has been presented as part of the operating surplus. The impact in reclassifying the 2016 comparative information is to increase operating surplus by £1,177,000.

## Notes to the financial statements for the year ended 31 March 2017

### Note 3 : Particulars of income and expenditure from social housing lettings

|   | 2017                  |               | 2016          |
|---|-----------------------|---------------|---------------|
|   | General needs housing | TOTAL         | TOTAL         |
|   | £'000                 | £'000         | £'000         |
| <b>Income from social housing lettings</b>          |                       |               |               |
| Rent receivable net of identifiable service charges | 45,996                | 45,996        | 46,837        |
| Service charge income                               | 675                   | 675           | 512           |
| Amortised government grants                         | 75                    | 75            | 75            |
| <b>Turnover from social housing lettings</b>        | <b>46,746</b>         | <b>46,746</b> | <b>47,424</b> |
| <b>Expenditure on social housing lettings</b>       |                       |               |               |
| Management  | (10,362)              | (10,362)      | (12,139)      |
| Service charge costs                                | (2,766)               | (2,766)       | (2,855)       |
| Routine maintenance                                 | (6,526)               | (6,526)       | (7,437)       |
| Planned maintenance                                 | (2,709)               | (2,709)       | (2,231)       |
| Bad debts   | (388)                 | (388)         | (452)         |
| Major repairs expenditure                           | (3,540)               | (3,540)       | (6,936)       |
| Depreciation on assets                              | (4,830)               | (4,830)       | (4,346)       |
| Operating expenditure on social housing lettings    | (31,121)              | (31,121)      | (36,396)      |
| <b>Operating surplus on social housing lettings</b> | <b>15,625</b>         | <b>15,625</b> | <b>11,028</b> |
| <b>Void losses</b>                                  | <b>567</b>            | <b>567</b>    | <b>594</b>    |

### Note 4: Units of housing stock for the year ended 31 March 2017

|                            | 2017<br>No. of<br>properties | 2016<br>No of<br>properties |
|----------------------------|------------------------------|-----------------------------|
| Social housing             | 10,810                       | 10,902                      |
| Affordable – general needs | 761                          | 762                         |
| <b>Total owned</b>         | <b>11,571</b>                | <b>11,664</b>               |
| Units under construction   | -                            | -                           |

Note – In line with the Welfare Reform Act 2016 and its definition of supported housing, 250 properties previously held within supported housing have been reclassified to social housing

## Notes to the financial statements for the year ended 31 March 2017

### Note 5: Operating Surplus

|  | <b>2017</b>  | 2016  |
|--|--------------|-------|
|  | <b>£'000</b> | £'000 |
| <b>The operating surplus is arrived at after charging:</b> |              |       |
| Tangible fixed assets depreciation and impairment:         |              |       |
| Housing stock  | 3,893        | 3,403 |
| Other fixed assets   | 937          | 943   |
| Auditor's remuneration:                                    |              |       |
| Amounts paid to BDO LLP (excluding VAT):                   |              |       |
| In their capacity as auditors                              | 22           | 27    |
| Fees for other non-audit services                          | 7            | 6     |
| Operating lease charges:                                   |              |       |
| Land and buildings   | 72           | 75    |
| Other  | 638          | 590   |

### Note 6: Surplus on sale of fixed assets – housing properties

|                                       | <b>2017</b>  | 2016  |
|---------------------------------------|--------------|-------|
|                                       | <b>£'000</b> | £'000 |
| Disposal proceeds                     | 2,198        | 1,438 |
| Carrying value of fixed assets        | (513)        | (261) |
|                                       | 1,685        | 1,177 |
| Disposal proceeds fund (note 19)      | (239)        | -     |
| Total surplus on sale of fixed assets | 1,446        | 1,177 |

Note – In line with emerging accounting practice in the sector the surplus on disposal of fixed asset housing properties has been presented as part of the operating surplus. The impact in reclassifying the 2016 comparative information is to increase operating surplus by £1,177,000.

## Notes to the financial statements for the year ended 31 March 2017

### Note 7: Interest payable and similar charges

|   | 2017<br>£'000  | 2016<br>£'000  |
|---|----------------|----------------|
| Bank loans and overdrafts                                       | (1,878)        | (1,930)        |
| Other finance costs   | (236)          | (231)          |
| Disposal Proceeds Fund (note 19)                                | (1)            | -              |
| Net interest on net defined benefit pension liability (note 12) | (526)          | (694)          |
|   | <u>(2,641)</u> | <u>(2,855)</u> |

### Note 8: Interest receivable and other income

|  | 2017<br>£'000 | 2016<br>£'000 |
|--|---------------|---------------|
| Interest receivable and similar income | 49            | 66            |
|  | <u>49</u>     | <u>66</u>     |

### Note 9: Taxation

The organisation has been granted exemption from taxation under the provision of Section 505 of the Income and Corporation Taxes Act 1988 because of its charitable status.

## Notes to the financial statements for the year ended 31 March 2017

### Note 10: Directors remuneration

|  | 2017<br>£'000 | 2016<br>£'000 |
|--|---------------|---------------|
| The aggregate emoluments paid to or receivable by non-executive directors and former non-executive directors excluding pension contributions | 6             | -             |
| The aggregate emoluments paid to or receivable by executive directors and former executive directors excluding pension contributions         | 871           | 833           |
| The emoluments paid to the highest paid director excluding pension contributions   | 155           | 155           |
| The aggregate amount of directors or past directors' pensions  | 105           | 87            |

Directors are defined as Non-Executive Directors, Chief Executive and the Executive Management Team. These are considered to be the key management personnel of the association.

The Chief Executive is no longer a member of the Pension Scheme. The association does not make any further contribution to an individual pension arrangement for the Chief Executive.

### Board Members

The Chair of the Board is currently the only member of the Board of Management to receive emoluments £5,797 (Nil in 2016). The aggregate amount of expenses paid to Board members in the period was £5,031 (£2,569 in 2016).

## Notes to the financial statements for the year ended 31 March 2017

### Note 11: Employee Information

The average number of persons employed during the year expressed as full time equivalents (calculated based on a standard working week of 37hrs):

|                     | <b>2017</b>  | 2016  |
|---------------------|--------------|-------|
|                     | <b>£'000</b> | £'000 |
| Housing maintenance | 131          | 149   |
| Housing management  | 172          | 183   |
| Support services    | 23           | 26    |
| Other services      | 59           | 63    |
|                     | 385          | 421   |
|                     | 385          | 421   |

| Staff costs (including Executive Management Team) consist of: | <b>2017</b>  | 2016   |
|---|--------------|--------|
|   | <b>£'000</b> | £'000  |
| Wages and salaries  | 10,466       | 11,613 |
| Social Security costs   | 984          | 837    |
| Cost of defined benefit scheme                                | 2,037        | 2,704  |
| Cost of defined contribution scheme                           | 73           | 2      |
|   | 13,560       | 15,156 |
|   | 13,560       | 15,156 |

Employers & members contribution for the defined benefit scheme are shown in note 12

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

|                     | <b>2017</b> | <b>2016</b> |
|---------------------|-------------|-------------|
| £60,000 - £70,999   | 1           | 2           |
| £70,000 - £80,999   | 3           | 1           |
| £80,000 - £90,999   | -           | -           |
| £90,000 - £100,999  | 3           | 3           |
| £100,000 - £110,999 | -           | -           |
| £110,000 - £120,999 | 1           | 1           |
| £120,000 - £130,999 | -           | -           |
| £130,000 - £140,999 | -           | -           |
| £140,000 - £150,999 | -           | -           |
| £150,000 - £160,999 | 1           | 1           |

## Notes to the financial statements for the year ended 31 March 2017

### Note 12: Pension obligations

Two pension schemes are operated by the business.

**a) Defined benefit pension scheme** - (employees with a start date pre 1 September 2016)

The association participates as a contributing member of the Greater Manchester Fund (administered by Oldham MBC in accordance with the Local Government Pension Fund Regulations), which is a funded defined pension scheme where contributions payable are held in trust and held separately from the company.

The financial assumptions underlying the last valuation are as follows:

|                     |                 |
|---------------------|-----------------|
| Date of valuation   | 31st March 2017 |
| Method of valuation | Projected unit  |

### The valuation was based on the following assumptions:

|                                      | 31 March 2017 | 31 March 2016 |
|--------------------------------------|---------------|---------------|
| Rate of return on accumulated assets | 2.6% pa       | 3.6% pa       |
| Rate of salary increases             | 3.2% pa       | 3.5% pa       |
| Rate of pension increases            | 2.4% pa       | 2.2% pa       |
| Discount rate                        | 2.6% pa       | 3.6% pa       |

Surpluses and deficits are spread over employees' future service lives and the pension charge recorded by the association during the accounting period was equal to the contributions payable.

### Mortality

The average future life expectancies at age of 65 are summarised below:

|                     | Males      | Female     |
|---------------------|------------|------------|
| Current pensioners  | 21.5 years | 24.1 years |
| Future pensioners * | 23.7 years | 26.2 years |

\* Figure assumes members aged 45 as at the last formal valuation

### Split of Scheme Assets:

|              | Distribution % | Distribution % |
|--------------|----------------|----------------|
| Equities     | 75.0%          | 73.0%          |
| Bonds        | 16.0%          | 17.0%          |
| Property     | 5.0%           | 6.0%           |
| Cash         | 4.0%           | 4.0%           |
| <b>Total</b> | <b>100%</b>    | <b>100%</b>    |

## Notes to the financial statements for the year ended 31 March 2017

### Note 12: Pension obligations (continued)

| <b>Asset and liability reconciliation</b>                                  | <b>31 March 2017</b> | <b>31 March 2016</b> |
|--|----------------------|----------------------|
|  | <b>£'000</b>         | <b>£'000</b>         |
| <b>Reconciliation of fair value of plan assets</b>                         |                      |                      |
| At the beginning of the year   | 46,605               | 45,500               |
| Interest income  | 1,698                | 1,524                |
| Contributions by members   | 533                  | 611                  |
| Contributions by the employer  | 1,429                | 1,577                |
| Actuarial gain / (losses)  | 8,223                | (1,794)              |
| Benefits paid  | (783)                | (813)                |
| <b>At the end of the year</b>  | <b>57,705</b>        | <b>46,605</b>        |
| <b>Reconciliation of present value of plan liabilities</b>                 |                      |                      |
| At the beginning of the year   | 60,947               | 65,982               |
| Current service cost   | 1,821                | 2,559                |
| Interest cost  | 2,224                | 2,218                |
| Contributions by members   | 533                  | 611                  |
| Actuarial losses / (gains)   | 13,114               | (9,755)              |
| Past service cost (including curtailments)                                 | 216                  | 145                  |
| Estimated benefits paid  | (783)                | (813)                |
| <b>At the end of the year</b>  | <b>78,072</b>        | <b>60,947</b>        |
| <b>Net pension scheme liability</b>  | <b>(20,367)</b>      | <b>(14,342)</b>      |
| <b>Amounts recognised in other Comprehensive Income are as follows:</b>    |                      |                      |
| Included in administrative expenses:                                       |                      |                      |
| Current service cost   | 1,821                | 2,559                |
| Past service cost (including curtailments)                                 | 216                  | 145                  |
| <b>Total operating charge</b>  | <b>2,037</b>         | <b>2,704</b>         |
| <b>Amounts (charged) / (credited to other finance costs)</b>               |                      |                      |
| Interest income on plan assets   | 1,698                | 1,524                |
| Interest on pension scheme liabilities                                     | (2,224)              | (2,218)              |
| <b>Net interest costs return</b>   | <b>(526)</b>         | <b>(694)</b>         |
| <b>Analysis of actuarial loss recognised in other comprehensive income</b> |                      |                      |
| Actual return less interest income included in                             |                      |                      |
| net interest income  | 8,223                | (1,794)              |
| Changes in demographic assumptions   | (206)                | -                    |
| Experience gains and losses arising on scheme liabilities                  | 4,430                | 272                  |
| Changes in assumptions on present value of liabilities                     | (17,338)             | 9,483                |
| <b>Actuarial (loss)/gain in other comprehensive income</b>                 | <b>(4,891)</b>       | <b>7,961</b>         |

## Notes to the financial statements for the year ended 31 March 2017

### Note 12: Pension obligations (continued)

The estimate the employer's contributions for the year to 31 March 2018 will be approximately £1.493m (2017 £1.642m)

#### b) Defined Contribution Scheme

A defined contribution pension scheme is operated by the bushiness which commenced on the 1 October 2015 on behalf of those employees who started post 1 September 2015. The assets of the scheme are held separately from those of the association in an independently administered fund provided by Friend's Life. The pension charge represents contributions payable by the association to the fund and amounted to £73,268 (2106: £2,418). Contributions amounting to £8,954 (2016: £831) e payable to the fund as at 31 March 2017 and are included in creditors.

### Note 13: Tangible fixed assets – Housing properties

|  | Social housing properties held for lettings | Social housing properties under construction | Total Social housing properties |
|--|---|--|---------------------------------|
|  | £'000                                       | £'000  | £'000                           |
| <b>Cost</b>                            |   |  |                                 |
| At 1 April 2016                        | 95,421                                      | 227  | 95,648                          |
| Works to existing properties           | 13,331                                      | 26   | 13,357                          |
| Additions                              | -   | 539  | 539                             |
| Schemes completed                      | 253   | (253)  | -                               |
| Disposals                              | (593)                                       | -  | (593)                           |
| <b>At 31 March 2017</b>                | <b>108,412</b>                              | <b>539</b>                                   | <b>108,951</b>                  |
| <b>Depreciation</b>                    |   |  |                                 |
| At 1 April 2016                        | 8,371                                       | -  | 8,371                           |
| Charge for the year                    | 3,893                                       | -  | 3,893                           |
| Disposals                              | (66)  | -  | (66)                            |
| At 31 March 2017                       | 12,198                                      | -  | 12,198                          |
| <b>Net Book Value at 31 March 2017</b> | <b>96,214</b>                               | <b>539</b>                                   | <b>96,753</b>                   |
| Net Book Value at 31 March 2016        | 87,050                                      | 227  | 87,277                          |

The net book value of housing properties may be further analysed as:

|                 | 2017          | 2016          |
|-----------------|---------------|---------------|
|                 | £'000         | £'000         |
| Freehold        | 92,210        | 83,384        |
| Long leasehold  | 4,004         | 3,666         |
| Short leasehold | -             | -             |
|                 | <b>96,214</b> | <b>87,050</b> |

No capitalised borrowing costs are included in the cost of housing properties.

## Notes to the financial statements for the year ended 31 March 2017

### Note 13: Tangible fixed assets – Housing properties (continued)

#### Works to existing properties in the year:

|   | <b>2017</b>   | 2016          |
|---|---------------|---------------|
|   | <b>£'000</b>  | £'000         |
| Components capitalised                    | 13,331        | 19,478        |
| Amounts charged to income and expenditure | 3,540         | 6,936         |
|   | <hr/>         | <hr/>         |
|   | <b>16,871</b> | <b>26,414</b> |
|   | <hr/> <hr/>   | <hr/> <hr/>   |

#### Total Social Housing Grant received or receivable to date is as follows:

|                                    | <b>2017</b>  | 2016         |
|------------------------------------|--------------|--------------|
|                                    | <b>£'000</b> | £'000        |
| Capital grant - housing properties | 7,613        | 7,613        |
| Disposal proceed funds             | 27           | -            |
|                                    | <hr/>        | <hr/>        |
|                                    | <b>7,640</b> | <b>7,613</b> |
|                                    | <hr/> <hr/>  | <hr/> <hr/>  |



## Notes to the financial statements for the year ended 31 March 2017

### Note 14: Tangible fixed assets – Other assets

|  | Office buildings | Equipment    | Works in progress | Total         |
|--|------------------|--------------|-------------------|---------------|
|  | £'000            | £'000        | £'000             | £'000         |
| <b>Cost</b>                            |                  |              |                   |               |
| At 1 April 2016                        | 7,086            | 2,916        | 126               | 10,128        |
| Additions                              | -                | 27           | 783               | 810           |
| Transfers                              | -                | 190          | (190)             | -             |
| Disposals                              | -                | -            | -                 | -             |
| <b>At 31 March 2017</b>                | <b>7,086</b>     | <b>3,133</b> | <b>719</b>        | <b>10,938</b> |
| <b>Depreciation</b>                    |                  |              |                   |               |
| At 1 April 2016                        | 114              | 1,387        | -                 | 1,501         |
| Charge for the year                    | 86               | 851          | -                 | 937           |
| Disposal                               | -                | -            | -                 | -             |
| <b>At 31 March 2017</b>                | <b>200</b>       | <b>2,238</b> | <b>-</b>          | <b>2,438</b>  |
| <b>Net Book Value at 31 March 2017</b> | <b>6,886</b>     | <b>895</b>   | <b>719</b>        | <b>8,500</b>  |
| Net Book Value at 31 March 2016        | 6,972            | 1,529        | 126               | 8,627         |

The net book value of office buildings may be further analysed as:

|                | 2017<br>£'000 | 2016<br>£'000 |
|----------------|---------------|---------------|
| Long leasehold | 6,886         | 6,972         |
|                | <b>6,886</b>  | <b>6,972</b>  |



## Notes to the financial statements for the year ended 31 March 2017

| <b>Note 15: Debtors</b>                    | <b>2017</b>    | 2016           |
|--|----------------|----------------|
|  | <b>£'000</b>   | £'000          |
| <b>Due within one year</b>                 |                |                |
| Rental and service charge arrears          | 3,713          | 4,310          |
| Less: Provision for bad and doubtful debts | (925)          | (1,327)        |
|  | <hr/>          | <hr/>          |
|  | 2,788          | 2,983          |
| Trade debtors                              | 486            | 401            |
| Prepayments & accrued income               | 1,065          | 968            |
| Other taxes and social security            | 592            | 1,275          |
| Other debtors                              | 16,340         | 16,569         |
|  | <hr/>          | <hr/>          |
| Total due within one year                  | 21,271         | 22,196         |
| <b>Due after more than one year</b>        | 90,336         | 106,670        |
|  | <hr/>          | <hr/>          |
| <b>Total debtors</b>                       | <u>111,607</u> | <u>128,866</u> |

The debtor due after more than one year represents £90.336m (£106.670m in 2016) obligation to have improvement work carried out to the properties transferred to FCHO net of £15.917m (£16.189m in 2016) budgeted to be spent in 2017-18 shown within other debtors due within one year. As part of the Stock Transfer Agreement, FCHO was obliged to carry out enhancement works to its housing stock valued at £229,792,273 excluding VAT. FCHO is contracted with OMBC to undertake this work over a 15-year period. Essentially the 'benefit' (commitment owed) to the organisation under the contract has created a debtor which is effectively offset by the provision stated in note 20. The debtor will reduce as the company completes the contracted work.

| <b>Note 16: Creditors -</b>                |               |               |
|--|---------------|---------------|
| <b>Amounts falling due within one year</b> | <b>2017</b>   | 2016          |
|  | <b>£'000</b>  | £'000         |
| Trade creditors                            | 1,720         | 4,552         |
| Rent & service charges received in advance | 2,106         | 1,814         |
| Other taxation and social security         | 246           | 228           |
| Oldham MBC - RTB Clawback                  | 1,465         | 997           |
| Accruals and deferred income               | 4,294         | 4,371         |
| Deferred capital grant (note 18)           | 75            | 75            |
| Disposal proceeds fund (note 19)           | -             | -             |
| Other creditors                            | 252           | 359           |
|  | <hr/>         | <hr/>         |
|  | <u>10,158</u> | <u>12,396</u> |

## Notes to the financial statements for the year ended 31 March 2017

### Note 17: Creditors -

| <b>Amounts falling due after more than one year</b> | <b>2017</b>  | 2016        |
|---|--------------|-------------|
|   | <b>£'000</b> | £'000       |
| Loan and borrowings                                 | 26,000       | 26,000      |
| Disposal proceeds fund (note 19)                    | 240          | -           |
| Deferred Capital Grant                              | 6,779        | 6,854       |
| Other   | 1            | -           |
|   | <hr/>        | <hr/>       |
|   | 33,020       | 32,854      |
|   | <hr/> <hr/>  | <hr/> <hr/> |

### Analysis of maturity of debt

|   | <b>2017</b>  | 2016        |
|---|--------------|-------------|
|   | <b>£'000</b> | £'000       |
| Housing loans repayable by instalments:       |              |             |
| In one year or less, or on demand             | -            | -           |
| In one year or more but less than two years   | -            | -           |
| In two years or more but less than five years | 6,500        | -           |
| In five years or more                         | 19,500       | 26,000      |
|   | <hr/>        | <hr/>       |
| <b>Total Loans</b>                            | 26,000       | 26,000      |
|   | <hr/> <hr/>  | <hr/> <hr/> |

### Security

The bank loans are secured by a floating charge over the assets of FCHO and by fixed charges on individual properties.

### Terms of repayment and interest rates

There are currently four fixed-loan amounts drawn down, the repayment dates and interest rates are as follows:

|               | Repayment date | Interest rate |
|---------------|----------------|---------------|
| Fix 1 - £6.5m | 31/03/2021     | 4.47%         |
| Fix 2 - £6.5m | 31/12/2027     | 4.91%         |
| Fix 3 - £6.5m | 31/03/2029     | 5.10%         |
| Fix 4 - £6.5m | 31/03/2033     | 5.10%         |

### Note 18: Deferred capital grant

|                                 | Social<br>Housing<br>Grant | Other<br>Government<br>Grants | <b>Total Grant</b>          | Total Grant   |
|---------------------------------|----------------------------|-------------------------------|-----------------------------|---------------|
|                                 | £'000                      | £'000                         | <b>2017</b><br><b>£'000</b> | 2016<br>£'000 |
| As at 1 April 2016              | 4,407                      | 2,522                         | 6,929                       | 6,991         |
| Grants received during the year | -                          | -                             | -                           | 13            |
| Released to income in the year  | (47)                       | (28)                          | (75)                        | (75)          |
|                                 | <hr/>                      | <hr/>                         | <hr/>                       | <hr/>         |
| <b>As at March 2017</b>         | 4,360                      | 2,494                         | 6,854                       | 6,929         |
|                                 | <hr/> <hr/>                | <hr/> <hr/>                   | <hr/> <hr/>                 | <hr/> <hr/>   |

## Notes to the financial statements for the year ended 31 March 2017

| <b>Note 19: Disposal proceed fund</b> | <b>2017</b>  | 2016     |
|---------------------------------------|--------------|----------|
|                                       | <b>£'000</b> | £'000    |
| As of 1 April 2016                    | -            | -        |
| Net sales proceed recycled            | 239          | -        |
| Interest accrued                      | 1            | -        |
| <b>As of March 2017</b>               | <b>240</b>   | <b>-</b> |

As at 31 March 2017, there is £nil due for repayment and £nil has been paid in the year.

| <b>Note 20: Provision for liabilities and charges</b> | <b>2017</b>    | 2016           |
|---|----------------|----------------|
|   | <b>£'000</b>   | £'000          |
| Opening balance as at 1 April 2016                    | 122,859        | 149,010        |
| Less: Investment expenditure                          | (16,606)       | (26,151)       |
| <b>Closing balance as at 31 March 2017</b>            | <b>106,253</b> | <b>122,859</b> |

The provision represents the best estimate of the costs of contracted works for the repair and improvement of transferred properties incurred under the Development Agreement. The provision will be utilised as the works are actually completed.

| <b>Note 21: Capital Commitment</b>   | <b>2017</b>  | 2016   |
|--|--------------|--------|
|  | <b>£'000</b> | £'000  |
| Capital expenditure that has been contracted for but not been provided for in the financial statements | 2,244        | 5,105  |
| Capital expenditure that has been authorised by the Board but has not yet been contracted for          | 25,870       | 11,084 |

The above commitments will be financed primarily through borrowings (£19,897k), which are available for drawn-down under existing loan arrangements, with the balance (£5,973k) funded through social housing grant.

### **Note 22: Operating Leases**

At the end of the year FCHO had commitments of total future minimum lease payments as follows:

|   | <b>2017</b>  | 2016         |
|---|--------------|--------------|
|   | <b>£'000</b> | £'000        |
| <b>Land &amp; Buildings</b>                       |              |              |
| Less than one year                                | 36           | 36           |
| Later than one year but not later than five years | -            | 36           |
| In five years or more                             | -            | -            |
| <b>Total</b>                                      | <b>36</b>    | <b>72</b>    |
| <b>Other leases</b>                               |              |              |
| Less than one year                                | 604          | 595          |
| Later than one year but not later than five years | 981          | 1,545        |
| In five years or more                             | -            | -            |
| <b>Total</b>                                      | <b>1,585</b> | <b>2,140</b> |

## Notes to the financial statements for the year ended 31 March 2017

### Note 23: Related party disclosure

One member of the Board is currently a councillor of OMBC. All transactions with OMBC are on normal commercial terms and they are not able to use their position on the board to their advantage.

There is currently one Board member in the organisation who is also a tenant:

|   |          |
|---|----------|
| Bernadette Callaghan (Former Chair)     | - Tenant |
| Caroline Edwards - retired 30 Sept 2016 | - Tenant |

Board members' tenancy arrangements are on normal commercial terms and they are not able to use their position on the Board to their advantage. Rent charged to the Tenant Board members was £6,397 (2016: £9,398). There are no arrears on their tenancies at the reporting period end (2016: £Nil).

### Note 24: Financial Instruments

The business' financial instruments may be analysed as follows:

|   | 2017<br>£'000  | 2016<br>£'000  |
|---|----------------|----------------|
| <b>Financial assets</b>                                   |                |                |
| <b>Fixed assets measured at historical cost:</b>          |                |                |
| Trade receivables   | 486            | 401            |
| Other receivables due within one year                     | 19,721         | 20,827         |
| Other receivables due after more than one year            | 90,336         | 106,670        |
| Investments in short-term deposits                        | 5,000          | 2,000          |
| Cash and cash equivalents                                 | 11,816         | 9,131          |
| <b>Total financial assets</b>                             | <b>127,589</b> | <b>139,173</b> |
| <b>Financial liabilities</b>                              |                |                |
| <b>Financial liabilities measured at amortised cost:</b>  |                |                |
| Loans payable   | 26,000         | 26,000         |
| <b>Financial liabilities measured at historical cost:</b> |                |                |
| Trade creditors   | 1,720          | 4,552          |
| Other creditors due within one year                       | 8,438          | 7,844          |
| Other creditors after more than one year                  | 7,020          | 6,854          |
| <b>Total financial liabilities</b>                        | <b>43,178</b>  | <b>45,250</b>  |

All financial assets and liabilities have been measured at historical or amortised cost as FCHO does not have any 'non-basic' financial instruments.