Keeping our customers safe and finances strong

Financial Statements 19/20

midland heart

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Financial Statements
19/20

Chair's Foreword

This has been the first year of our new corporate plan *Making What Matters Brilliant*.

Our plan focuses our resources on building safety following the tragic events of Grenfell Tower, increasing investment to meet customers' expectations, attracting and retaining a well-trained workforce, delivering a step change in the number of new affordable homes built and concentrating on the need to build balanced communities where people not only want to live but can thrive.

Our renewed attention on the needs of customers has seen the first year of *Making What Matters Brilliant* deliver major improvements and some notable successes. This year we have delivered 570 new homes, maintained a strong track record in building safety and continued to turn our properties around at an industry-leading speed, meaning people move into the homes they need sooner. This resulted in our strongest customer satisfaction and colleague engagement scores on record.

> **"We have also completed two major change projects transforming our older persons' living offer and simplifying our business."**

We transferred care contracts across nine local authorities to new providers and formed a new partnership to deliver supported living services in Birmingham. These projects allow us to focus on providing new lifestyle activities for older people and helping those in supported living move into independent living.

Such changes mean that we are able to focus our attention and investment on being a first class landlord and, for the first time, this report has several case studies to help bring to life the changes we are making and the focus we are paying to achieving this objective.

These case studies include an industry-leading pilot to see how we can best communicate safety information and other key changes to our customers, the launch of a new degree apprenticeship programme and the start of an innovative intervention scheme project that will see us concentrate on hard-to-let properties to improve their appeal to new customers and the experience of our existing customers and the communities that surround them.

As an organisation, we have consistently stayed ahead of the curve over the last few years.

Times of crisis tell us a lot about ourselves and the organisations we rely upon. They tell us how adaptable and resilient we are, demonstrate how robust our planning has been and what our priorities really are. This crisis has illustrated these points on a global scale.

Without question, Midland Heart has responded well and our financial strength, as highlighted in this report, will serve us well for the coming year as we deal with Government imposed restrictions to tackle COVID-19 and their impact on our operations.

I would like to thank all of my hardworking colleagues at Midland Heart, our partners and our board for their support and effort this year; it is fair to say it's been a brilliant start to our new corporate plan and another great year of results.

John Edwards CBE
Chair, Midland Heart

Chief Executive's Foreword

In April 2019, we launched our new corporate plan *Making What Matters Brilliant* which centres on delivering first class core landlord services, delivering a marked increase in the level of new affordable homes built and ensuring we take pride in being a good employer, becoming somewhere people aspire to work.

In short, our aim is to focus on the day-to-day issues that our customers have told us matter most to them, be it getting our repairs right first time or resolving anti-social behaviour issues, and devote our full energy to making these issues better. We will avoid trying to operate across too broad a range of services and lose focus on what matters most to our customers. I'm pleased to say that the first year has been a great step in the right direction. **We have:**

- Recorded customer satisfaction scores across the year over 90%
- Put the keys to 570 brand new homes into the hands of families across the Midlands
- Maintained our G1 V1 and Moody's A1 stable ratings
- Invested £19m in our stock, including new kitchens, bathrooms and roofs
- Recorded our highest ever colleague engagement scores, showing we are well on track to becoming a top employer.

Finally, our finances are in a robust position.

This was not only generated from the underlying performance of the business but as a result of 248 sales of general needs properties to existing customers through the Government's Voluntary Right to Buy pilot.

Due to the work we have done over the last five years to make sure we are a strong business, we also have record levels of liquidity at a time when that is even more crucial. We are of course ambitious, we want the best for our customers and staff, but we will not be reckless. We will retain our attention as much on managing and protecting our current business, as we will on growth and new ventures.

This means we are in a good position to weather the current crisis and continue our journey to make what matters brilliant.

> **"We have delivered another strong surplus, delivering an enhanced operating surplus of £86.4m"**

We know that for our customers the year ended, as the new one began, in challenging and unprecedented circumstances. Looking ahead, our focus and priority is therefore ensuring and maintaining the safety of our customers in their homes, doing all we can to support them to sustain their tenancies and supporting our staff to ensure they can continue to provide essential services.

The future is uncertain due to the COVID-19 pandemic, but the purpose, strength and endeavour of this organisation is not. It means we will emerge through the pandemic and push on towards our goals to build new affordable homes, deliver first class services and be an organisation we can all be proud of.

Glenn Harris MBE
Chief Executive, Midland Heart

Strategic Annual Review

We have completed the first year of our five-year corporate plan *Making What Matters Brilliant* and have delivered an exceptional set of financial and operational results.

Our financial strength has meant that we have been able to make substantial levels of investment in both new and existing homes, investment in services provided to our customers and investment in our colleagues' development.

Our priority remains providing a first class service to our customers that fits their lives and helps them to live independently. We will also build as many new affordable homes as we can and strive to be a place where people want to work and grow their careers.

The key highlights of the year include:

- Our overall customer satisfaction reaching 90% for the first time ever
- Our repairs satisfaction being consistently above 90% for each of the last three years
- Developing 570 new homes; the highest number of properties handed over for five years with a gross investment of £87m. With two new partnerships secured, we have completed 19% of our development target of 3,000 by the end of 2024, have over 1,000 properties in development and a further 1,000 in the pipeline. This means that two-thirds of the 3,000 is now committed. We will also commence the replacement of homes sold under the Voluntary Right To Buy (VRtB) programme, ensuring that all proceeds received from these sales are used to build new affordable homes
- Having significant levels of liquidity (c£238m) of cash and undrawn facilities and retaining our leading A1 stable rating from Moody's
- Investing £19m in our properties including windows, roofs, bathrooms and kitchens and are ahead of schedule on all our key volume targets
- Maintaining our strong track record in building safety, including inspections and services
- Finishing the year with our arrears at their lowest level of 4.46%
- Remaining sector-leading against our peers in regards to re-let days at 20.1 days
- Hitting 80% on our colleague engagement score, the highest for seven years, and achieving our lowest ever year-end sickness absence rate, with an average of 6.3 working days lost
- Continuing to achieve the highest governance and viability rating from the regulator (G1,V1)

During the year, we fundamentally transformed and simplified our business through completing operational changes in both our retirement and supported living services, the most significant operational change since our merger in 2006.

We reshaped our retirement living services through divestment of all care contracts to more specialist care providers, turning our attention to other areas of the customer experience, focusing on our accommodation, catering and lifestyle activities. We also forged new partnerships with local authorities and housing associations to deliver bespoke supported living services to meet commissioner requirements. The combined effect has meant that the average number of active employees across the organisation fell from 1,351 to 1,161 by the end of 2019/20.

Our Highlights

PROVIDING NEW HIGH-QUALITY HOMES AND PLACES

570
new homes built

Over
1,000
homes in development

1,000
homes in the pipeline

DELIVERING CUSTOMER-LED SERVICES

90%
customer satisfaction

91%
repairs satisfaction

7,100
customers using our new app

INVESTING IN OUR HOMES AND COMMUNITIES

£19m
investment in our homes

ENSURING OUR COLLEAGUES ARE ENGAGED

80%
colleague engagement

KEEPING OUR FINANCES STRONG

c£238m
of cash and undrawn facilities

Retaining our leading
A1 stable
rating from Moody's

Operating and Financial Review

Financial highlights

Financial Performance	2020	2019
Turnover (£m)	200.9	219.3
Operating surplus (£m)	86.4	77.1
Operating margin (%)	43.0	35.2
Surplus for the year (£m)	63.8	52.9
Interest cover (%)	411	354
Balance Sheet		
Housing properties (net of depreciation) (£m)	1,556.9	1,506.1
Gearing (%)	41	44
Operational indicators		
Total housing stock	33,611	33,454
Customer satisfaction (%)	90	84
Current tenant arrears (%)	4.46	4.67
Average re-let time (days)	20.1	18.1
% Routine repairs on time	95.4	95.4

Statement of comprehensive income

- Turnover of £200.9m, shows a decrease of £18.4m over the previous year as a result of a planned decrease in outright sales following the completion of our successful Wolsey Island development and the exit during the year from the provision of care contracts at all our retirement living schemes and some of our supported living schemes. Turnover benefitted from growth in new units, which was partially offset by the final year of the -1% rent reduction across the majority of the housing portfolio.
- Operating surplus has increased by £9.3m to £86.4m largely as a result of our participation in the pilot Voluntary Right to Buy scheme, where surpluses were made on sales of property through the Midlands' pilot. We also benefitted from a revaluation of our market rent properties. This represents an operating margin of 43.0%.

	Turnover		Operating surplus	
	2020 £m	2019 £m	2020 £m	2019 £m
Social housing lettings	174.1	172.9	59.0	63.7
First tranche shared ownership	11.5	9.9	1.9	1.8
Ouright sales	2.4	19.7	(0.1)	2.9
Care contracts and other income	9.5	13.7	(0.5)	(1.7)
Disposal of fixed assets	0.0	0.0	24.8	8.8
Other social housing	2.1	2.1	0.2	0.6
Market rent	1.3	1.0	1.1	1.0
Total	**200.9**	**219.3**	**86.4**	**77.1**

Social Housing is the core of our business. Social housing lettings operating surpluses decreased in line with investment made in the first year of our corporate plan by investing in homes, enhancing building safety and inspection regimes and delivering a higher service level to our customers.

Care contracts and other income saw a decrease in turnover by £4.2m, as we exited as planned during the year from all our care contracts on our Retirement Living portfolio, whilst keeping the underlying rental assets.

Surplus on disposal of fixed assets were up £16m predominately due to our participation in the VRtB pilot. The proceeds from this will be reinvested in replacement social assets.

First tranche sales continued to do well with in-year demand strong and turnover and surpluses improving over prior years.

Outright sales were down this year by £17.3m as we completed the sale of all our units. There are currently no outright sales units in stock or in our development pipeline.

Market rent operating surpluses increased via new development units coming on stream and overall the portfolio benefitted from a £0.3m revaluation gain on its investment properties.

Interest costs of £23.2m are £1.4m lower than last year due to tight management and the full year effects of the repayment of high-cost contractual debt.

Statement of financial position

The gross cost of housing properties has increased by £67.5m to £1.8bn over the year. This is a result of expenditure of £86.9m on new homes and a further £13.9m invested in improvements to existing properties. Properties with a cost value of £24.6m were disposed of during the year, predominantly due to the VRtB scheme.

Social Housing Grant (SHG) has increased by £4.1m to £706.9m because of a net increase of grants receivable on new developments.

Debtors increased from £12.9m to £14m due to an increase of £0.7m on prepayments and other debtors, and £0.4m in rent arrears.

Cash at bank and in-hand increased to £91.2m (2019: £75.6m). This reflects strong operating cash flows and property sales receipts covering our increase in development spends. We remain in a strong cash position, that together with undrawn facilities, ensures that all commitments are fully funded.

Creditors of less than one year decreased £2.1m to £52.6m due to recycled capital grant being utilised on our current development programme.

Creditors over a year increased by £24.4m to £1,320.0m largely through higher recycled capital grant being generated on the VRtB sales and increases in mark to market on our derivative portfolio.

Our immediate operating environment

From April 2020, we know that the impact of COVID-19 will make the operating environment become more difficult.

It is likely to lead to the following:

- An increase in Universal Credit applications
- The likelihood of the UK entering a period of recession, which may increase the level of rent arrears affecting the ability to collect rent and sell shared ownership homes
- Delays in the progression of new development projects
- Backlogs of repairs that will require additional resources to meet short-term capacity constraints

Our liquidity position and financial strength means that we are well placed to meet these challenges.

Our Corporate Plan

Making What Matters Brilliant (2019-24)

We have a clear vision for our organisation and who we want to be, creating an operational blueprint for the sector, which is enshrined in our corporate plan, *Making What Matters Brilliant*.

The five core themes of the plan are:

- Investing in our Homes
- Service First
- Growth and Partnerships
- People Focused
- Safe and Strong

For each theme, we have set out below our key deliverables, outcomes achieved, future plans and how value for money is intrinsically embedded into our work, measures, targets and plans.

Investing in our homes

Customers have told us this is a key priority for them and sits at the centre of everything we do. We have produced an asset investment plan that will deliver circa £100m of improvements over five years to support the provision of safe, secure and well-maintained homes that customers choose to live in. This will support our drive to retain sustained levels of demand for our homes and ensure void loss is kept at less than 1% overall.

Our key highlights:

- We've developed our asset investment framework so that the right decisions can be made
- We performed ahead of schedule on our component replacements, including new kitchens, bathrooms, windows and roofs. We've increased our resources in this area to £19m this year, an increase of 20% against budget
- We are progressing well on a project to review our asset systems and data relating to property digital records and core stock information. This will help to meet a key recommendation from the Hackitt review on building safety that also allows us to more accurately project future spend, and make better investment decisions, particularly planned revenue spend
- We've worked up a plan for investing in our retirement living and general needs properties and ensuring that our investments create stable future demand for our properties
- For our agency managed portfolio of specialist accommodation, we have a clear forward plan from all agents and have completed the majority of leases and sales, subject to consultation
- We have externally reviewed our stock condition data, which has showed a high degree of accuracy (96%) on 73% of our properties where we hold this information. A plan is in place to hold stock condition data on 100% of our property by the end of March 2024

Performance of our homes

- To ensure we make the most of our properties, we continually review the performance of our stock. Although we have seen improvements on our management and maintenance costs, we have prioritised 68 units for disposal
- Our in-house Strategic Asset Management System (SAMS) is designed to aid decision making through assessing the financial performance of rented homes. SAMS analyses property performance from a financial perspective and the output is a 30-year discounted cash flow of future income net of expenditure (present value or PV) for each property.

  This is achieved by projecting forward expected income and costs associated with each property over 30 years
- The analysis identified 68 units that have a negative PV and these have been earmarked for disposal. Our current average PV for our general needs properties is £45,352. Through disposing of these units, the average PV will improve to £45,527.

Investing in our Homes key metrics:

Measure	18/19	19/20	20/24 targets
Property investment spend	£7.2m (budget £6.8m)	£7.8m (budget £6.9m)	This is the total number we will do over the five years of the corporate plan
Volume of: kitchens, bathrooms, windows, roofs	Bathrooms: 502 Kitchens: 848 Windows: 156 Roofs: 5	Bathrooms: 571 Kitchens: 791 Windows: 248 Roofs: 90	Bathrooms: 3,250 Kitchens: 4,600 Windows: 5,000 Roofs: 630
Vois loss %	1.30%	1.31% (0.74% general needs)	1%
Re-let days	19.3 days	20.1 days	16.5 days

Case Study

Asset data driving the best investment decisions

To ensure we are making the best VFM decisions, both strategically and on a day-to-day basis on our asset portfolio, we need to ensure that our stock condition data is as robust as possible. This data will mean that we are better informed in relation to investment decisions for both the ongoing planned capital programme and other major capital expenditure. Moreover, this will enable us to proactively reshape the portfolio, through the re-purposing and re-development of existing sites, around our core general needs services.

An external audit (Rand, Feb 2019) delivered findings that showed that for the stock condition data sets we hold, we achieved an accuracy level of 96%.

We have been utilising our multiple data sets more effectively to review segments of the portfolio, which has allowed for the identification of value enhancing opportunities, such as full re-development (e.g. 427/429 Hagley Road – see figure 1), re-purposing of older schemes into our core operating area of general needs (e.g. St Thomas House – see figure 2), and responding to market demand to create more family homes from our existing portfolio (e.g. Wellington Road).

Following the Hackitt review on building safety, we have been working to develop our Property Digital Record (PDR), which will hold our key building safety components for each property. The data requirements have now been finalised and configured into our asset management system (Keystone). Early development of the PDR visual interface has started. We are on track to produce a proof of concept early in quarter two (2020).

Fig 1: Hagley Road – Planning agreed for 19 new dwellings for general needs housing

Fig 2: St Thomas House – Planning submitted for conversion into 7 one-bed apartments

Service First

Our Service First theme is about excelling in service delivery and achieving consistently high levels of customer service satisfaction each and every year. We want to ensure that we offer a sector leading digital offer for our customers and to provide them with a platform to access our services in a digital age.

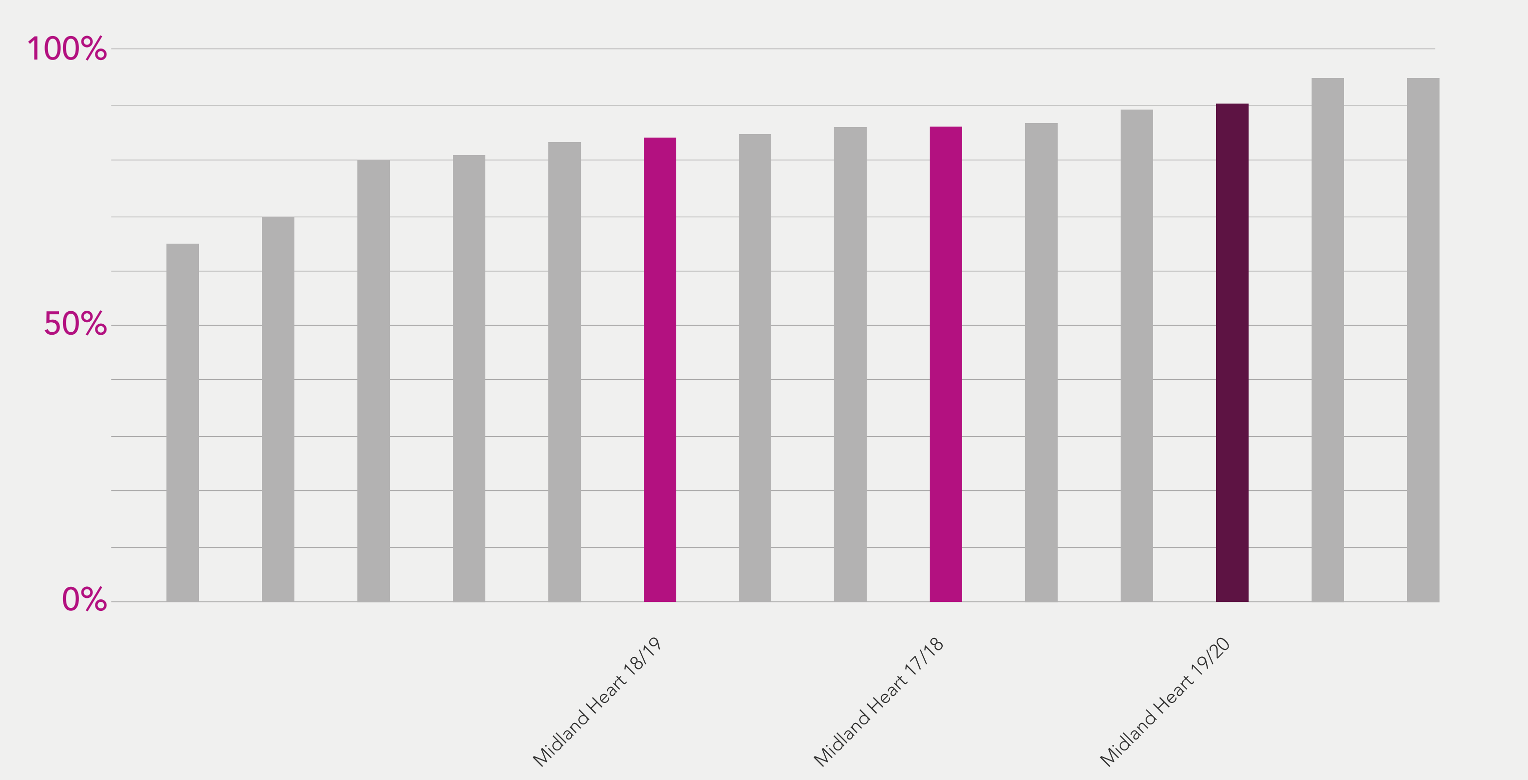
A key measure of success of Service First will be demonstrated through the responsiveness of our service delivery and the degree to which colleagues are able to devise solutions proactively, both individually and collaboratively in teams, to ensure issues are dealt with before customers have to report them to us.

Furthermore, through our balanced and sustainable communities investment programme, we will create schemes and neighbourhoods where customers want to live and, most importantly, choose to stay. Our work involves focusing on key general needs schemes and putting in interventions to ensure that as customers move into our homes, tenancies are sustainable and that we invest in things that matter most to them, such as lighting and security to tackle anti-social behaviour. This year we have started work on the first 16 schemes.

Key highlights:

- Overall, we've consistently hit high levels of customer and repairs satisfaction each month (c90%)
- This year we launched a pilot project for an operational app, Connect 360, to frontline colleagues, where they are able to report property or neighbourhood related issues, enabling us to move towards a more proactive landlord approach. As part of the pilot programme, over 1,000 issues have already been raised, which have been proactively remediated
- In addition, we have made strong progress on our internally created customer app, providing more choice to customers on their ability to view their rent balance and a further means of paying rent and service charges. Over 7,100 customers have registered as a user of the app, which equates to circa 19% of customers
- We have introduced a new lettings portal that reflects our allocations criteria with over 10,800 registered users to date
- Our first class repairs pilot launched in July 2019 using flexible appointment slots, increased text messaging and the implementation of a priority repairs category within 48 hours. A fundamental aim of first class repairs will be to improve the ratio of first time fixes for customers. This will be fully rolled out in 2020-21

Customer Satisfaction



Our performance remains consistently good across a benchmarking group. Based on our 2019/20 results, we rank 3 out of 14.

Service First key metrics

Measure	18/19	19/20	2024 target
Customer satisfaction	84%	90%	≥85%
Repairs satisfaction	90%	91%	≥92%
% Routine repairs completed on time	97%	95%	≥95.5%

Case Study

Our exciting digital transformation journey

We made significant strides this year to become a sector leader in our customer digital offer, providing choice, meeting the aspirations of customer access and service delivery in a digital age.

We have built on the success of launching our rent app in January 2019, which now has more than 7,100 customer users. Customers can view their rent statements, check balances and make payments 24/7. This has been important as more customers are paying via the app.

We followed this up with launching our new lettings portal in February 2020. We already have more than 10,800 users. Customers and prospective customers can view properties available to let, submit applications and we manage this all the way through to when they sign up.

We are now starting to look at repairs online, a fundamental part of our customer digital transformational journey, as it will allow customers to report, track and rate their repairs.

In addition, we are well underway in developing our Connect 360 dashboard for colleagues. Key features of this app include the ability for field officers (Estates and Tenancy teams, Rangers, Repairs and some Retirement Living colleagues) to see up-to-date information to enable them to carry out generic landlord functions whilst out on site. This will include information on household members, issues and repairs in progress, complaints, arrears, warning flags and safeguarding. We are expecting a release date later this year.

Growth and Partnerships

We are committed to building as many affordable homes as we can, recognising the acute shortage across the country and the importance of our contribution to this national challenge. Our corporate plan sets out our ambition to build 3,000 new homes between 2019 and 2024, as well as replacing homes, using all of the proceeds received through the Government's VRtB pilot.

- We are already two-thirds of the way (completed, on site or in pipeline) to achieving our 3,000 new homes target
- We have made excellent progress in the first year of our new corporate plan, completing 570 new homes with a further 1,060 in construction at the end of the financial year and a strong forward pipeline of an additional 1,000 properties secured for future years
- Striking development partnerships that will make a major contribution to supporting our programme has been a key feature of the development strategy. We were successful in securing a strategic relationship with Countryside Properties UK PLC, a major regional developer, with a commitment to build 1,000 new affordable homes over a three year period. We also signed a memorandum of understanding with Partner Construction, part of the Fast Flow Group, that will see around 150 new homes delivered every year. These partnerships give us confidence that we can achieve our development aspirations to continue to deliver much needed affordable homes
- We work closely with Homes England through the Continuous Market Engagement programme to ensure that we are able to demonstrate a responsible use of grant monies for use in each of our developments. During 2019/20, we received £21.3m of grant to subsidise the cost of the affordable housing developed. In addition, during the year we submitted grant applications totalling £16.85m
- We remain committed to delivering mainly social and affordable rented homes as the backbone of our programme, with shared ownership supporting mixed tenure communities, helping first time buyers on to the housing ladder
- Outside of development, we have also forged new partnerships across our retirement and supported living portfolio in response to the changing needs of our customers and local authority commissioning requirements
- We have exited from the delivery of care related services in 22 schemes across nine local authority areas, choosing to invest more of our attention in other aspects of the customer experience, including core landlord services, catering and lifestyle activities. In partnership with each local authority commissioner, we are now working with newly appointed care providers in each of our schemes to provide customers with an integrated retirement living environment
- This year saw a fundamental transformation of our supported living service in Birmingham that commenced on 1 December 2019. As a result of a new tender for health and wellbeing services, we teamed up with Trident Housing Association and Trident Reach to offer an integrated housing pathway for vulnerable adults and young people experiencing, or at the risk of, homelessness. Our combined approach of accommodation and support related services will ensure individuals will receive the relevant support to gain access to short-stay accommodation and services to enable a move on to permanent accommodation in the future
- Our partnership has seen 11 supported living schemes transfer to Trident Housing Association through a lease arrangement and staff transferring to Trident in the delivery of support services

Growth and Partnerships key metrics

2019/20
Homes completed
570

305 Affordable rent

41 Social rent

121 Shared ownership

95 Market rent

8 Outright sale

Key metric to 2024

Measure	18/19	19/20	2024 target
New homes built	450	570	3,000 cumulative

Case Study

Plough Hill, Nuneaton and Bedworth

Plough Hill is the first scheme to be delivered through our exciting partnership with Countryside Properties UK Ltd, established in May 2019. The partnership has committed to build 1,000 new affordable homes over a three year period across the West and East Midlands. The scheme will see the redevelopment of a former golf centre with 300 new homes, 105 of which are for affordable housing, with 80 for affordable rent and 25 for shared ownership.

This is an excellent example of how affordable housing can be integrated successfully within a wider mixed tenure estate, containing homes for both outright sale and market rent. The first affordable homes are due to be completed during 2020.

People Focused

We want to be a leading employer in the Midlands, a place where colleagues can develop and grow their careers; creating an environment where they can succeed. To achieve this, we need to be people focused.

2019/20 has seen us fundamentally transform the business with the reshaping of retirement and supported living services. This has resulted in 486 colleagues transferring to new providers in the main with a workforce now of c1,000. This allows us to focus even more so on our core landlord services.

Key highlights:

Overall our HR KPIs have been exceptional:

- Our colleague engagement score hit 80%, an increase of c10% on last year and the highest for seven years
- Our sickness absence was the lowest ever at year-end at 2.76% (6.3 average working days lost) and voluntary staff turnover down to c14%
- We launched our leadership development programme in partnership with the prestigious Cranfield University to ensure we take our leaders to the next level in their development journeys and support the delivery of the corporate plan
- A key element of growing our own talent, we also launched our inaugural degree apprenticeship programme, which attracted 622 applications for six roles in hard to fill business areas. The first cohort is due to commence in September 2020. More broadly, we continue to utilise 100% of our apprenticeship levy to grow careers and upskill our workforce. We currently have 15 apprentices ranging from entry level two, to 35 colleagues utilising the levy to develop skills
- Our Leadership Academy has strengthened with 44 colleagues at strategic and operational leader and frontline manager level having completed the programme. It continues to contribute to improving our business performance, drive for efficiency and value for money, alongside supporting the development of a culture of empowerment and collaboration. Our final cohort of frontline managers sees 58 colleagues working towards ILM level 5, meaning that all will have a management qualification by March 2021
- In terms of recruitment, 97% of all new starters were directly sourced by our recruitment team in 2019/20. This is important as we identify and match skills and behaviours to create a culture of Service First
- We continue to review and revise our range of benefits so that colleagues can access meaningful options to suit their lifestyles. 90% of our colleagues are using our new Brilliant Benefits platform. The new Smart Spending App means they can access discounts 24/7 and on the go
- In January, we moved to a contractual pension enrolment, ensuring that all colleagues are enrolled into our Defined Contribution pension scheme from day one of their employment with us at 4%, matching their contributions up to 8%. Some 82% of colleagues are in a pension scheme
- Our Partnership Council has had another busy year, leading colleague consultation and feedback on a number of important issues including on our corporate plan deliverables and annual pay award
- We've continued to develop our work on inclusion and enhance the sense of belonging our colleagues have at work. We now have four active networks - Women, Race & Ethnicity, LGBT+ and Disability

Key metrics to 2024

Measure	18/19	19/20	2024 target
Voluntary turnover	14%	14%	12%
Time lost due to sickness	4.17%	2.8%	3.5%
Colleague engagement	70%	80%	80%

Gender pay gap

Our median gender pay gap was 24.36%, the UK median gender pay gap was 17.3%

Our median gender pay gap was14.53% (excluding social care roles)

Our mean gender pay gap was 20.37% the UK mean gender pay gap was 16.2%

Our mean gender pay gap was15.84% (excluding social care roles)

Due to our robust policies and pay procedures, we pay men and women, who work for us, equally for doing equivalent jobs. We have a gender pay gap for two reasons; there are more women working in social care positions which have lower levels of pay, and more men in leadership positions with higher levels of pay. Our pay gap has been directly impacted by the repatriation of extra care schemes, which were previously run by another provider; the net impact on our workforce was the transfer in of 426 people, all bar 30 of which were females. Whilst not an excuse, this in part explains why we have a higher concentration of women in lower paid roles. These two issues in the gender balance of our workforce reflects the wider societal norms across the UK.

Our gender pay gap is not where we want it to be and we have a clear plan to close the gap. This will not happen overnight but we are clear on what we need to achieve over the coming years to see our gender pay gap reduced.

We are investing in the development of women across a number of business areas in order to increase the number in the upper quartile, ensuring a gender balance in shortlists, which is representative of the internal feeder pool. We are also benchmarking and reviewing our family friendly policy as a means of increasing access for part-time workers or those who may require more flexibility in how they can work.

All of our gender pay reports can be found online at midland heart.org.uk

Case Study

Partnering with Cranfield University

We launched our leadership development programme in partnership with the prestigious Cranfield University to ensure we take our leaders to the next level in their development journeys and support the delivery of the corporate plan. By investing in our colleagues we are seeking to raise performance levels, which will help us to further collaboration between teams and externally, as well as set a culture where we excel collectively.

A total of 38 leaders, including directors, have now completed the first of four modules, focusing on effective influencing and negotiation. This cuts across *Making What Matters Brilliant* and is a key element to help ensure we drive value for money (VFM) across the business. We have already used the techniques to negotiate more favourable pricing and delivered better contractual terms with a range of suppliers.

The programme continues with three further modules and will be complete in early 2021.

Employee involvement and consultation

Our people are central to the success of *Making What Matters Brilliant*. Our people strategy aims to achieve competitive advantage by recruiting, rewarding, developing and retaining the best talent. Put simply, we aim to be one of the best employers across our geography.

We inform and consult with our people through our Partners who, along with our Executive Board, make up our Partnership Council. The Council meets regularly throughout the year to discuss key business issues, delivery of *Making What Matters Brilliant* and people related matters. Partners also periodically attend meetings of the Executive team.

The Partners keep staff fully informed through our engagement and internal communications strategy and use a range of methods to share information with our people and gain their feedback. This includes regular briefings, Question Time with Exec sessions, roadshows, staff conferences and surveys to gain full and open feedback. This approach enables employees to openly question senior management about how we run our business, and actively encourages ideas and feedback from our colleagues.

This year our engagement survey told us 80% of our colleagues are happy working here. This is our best engagement score and clearly indicates our commitment to ensuring we recruit, develop and grow our talent; making sure we give our people a voice on the things that matter to them.

Case Study

Safe and Strong

The central focus of *Making What Matters Brilliant* is to make sure our customers and colleagues are as safe as possible when in their home and at work.

Fire safety is key to making sure we are all safe in our homes. However outside of fire alarm testing, many people's knowledge of fire safety is lower than it should be, and safety messages often get lost as our lives become increasingly busy.

Last year we launched an industry-leading pilot to assess how we can make fire safety information more accessible and engaging.

The pilot started with a telephone survey of customers across our general needs, older persons and supported living accommodation to benchmark their current understanding of key fire safety information, such as what they should do in a fire, where fire extinguishers are located and how they should be used, as well as understanding the common causes of fire.

Once this benchmark was established, we sent the same fire safety information to customers, varying how the information was delivered.

The pilot found that different tones and images could increase our customers' knowledge of fire safety by over 11%. A second pilot will start in summer 2020 before a best practice communications package is rolled out towards the end of the year.

Safe and Strong

This theme is about us remaining financially strong and maintaining our focus on safety. Spending money wisely and investing in things that matter to our customers.

Keeping our focus on safety

Providing safe homes to our customers, and safe places to work for our employees, by achieving full (or 100%) compliance with building and health and safety statutory and regulatory standards is paramount. This means that we need to plan ahead to reflect learning emerging from the Grenfell inquiry and associated reviews on building safety and adopt relevant recommendations as best practice.

Key highlights:

- We continue to have a strong track record in building safety, including inspections and services
- We have sought to further strengthen and invest in our building safety through developing 2D site plans on key safety components. This has started with our higher risk buildings, for example, those above 11 metres high
- By the end of 2020/21 we will have established our property digital record
- We have reached over 95% compliance levels for mandatory training for colleagues on Building and Health & Safety, ensuring competency in their roles
- We have been proactively engaging customers on safety issues and have provided a clear route to raise concerns on any unresolved building safety matters. This demonstrates how customer concerns about unresolved building safety issues have been addressed, including speed of response
- We have developed a new building safety communications strategy and this is now being rolled out across sites. This followed a pilot across four sites focusing initially on new and clearer fire safety information
- We continue to receive assured advice on fire safety matters through enjoying primary authority partnership status with West Midlands Fire Service

Being financially strong

Our aim by 2024 is to achieve an operating surplus of at least 30% (excluding sales) and meeting our own financial golden rules in respect of interest cover, gearing and liquidity. We want to have a strong set of VFM metrics, including our cost-per-unit being in the lower quartile in the social housing sector.

We have very strong financial credentials to deliver against the investment needs of the corporate plan, these being:

- Our continued strong financial performance and our Moody's rating of A1 Stable is the best in the sector. This sets us up well as we prepare to raise new finance
- Our robust levels of liquidity, c£238m of cash and undrawn facilities, which are immediately available
- A new banking partner that we've successfully introduced, with a revolving credit facility of £60m arranged and fully secured with SMBC

As we increase the number of new homes that are being delivered and invest in our existing property portfolio and colleagues, we want to secure well priced long-term funding of circa £250m to support the ongoing delivery of the corporate plan.

Our Financial Golden Rules

We have the following golden rules that we monitor across our business plan based on banking covenants and treasury policy.

Interest cover must be
>150%

Liquidity at least
18 months
cash availability for committed development projects

Gearing must be
<70%

Value for Money

Value for money is etched throughout our corporate plan, reflecting the VFM standard which came into force in April 2018 and the VFM metrics.

Strong VFM governance

As a not-for-profit organisation we aim to deliver social gain to our customers and their communities. Our governance surrounding VFM remains consistent and strong. This is driven by our Board who recognise how integral VFM is to the delivery of our corporate direction.

We have three key VFM drivers, our corporate plan, continuous improvement and regulation. Our three VFM pillars are:

- Strong governance, scrutiny and performance management
- Clear measures, evidence and comparisons, including understanding of costs and outcomes
- Ensuring we maximise the return on assets

These are underpinned by a strong VFM culture where information is transparently available and accessible to stakeholders. In order to deliver social value we need to be financially sound and make the most of our resources to deliver the services that our customers need. We also need to provide assurance to our lenders and funders.

Regulatory VFM metrics

		Forecast		
	2018/19 per RSH	2019/20	2020/21	2021/22
Reinvestment	4.6%	6.6%	9.1%	8.5%
New supply delivered (SHL)	1.2%	1.6%	1.5%	3.2%
New supply delivered (non SHL)	0.26%	0.34%	0.00%	0.00%
Gearing	30.1%	28.1%	30.1%	31.9%
EBITDA MRI interest cover	283%	268%	274%	256%
Headline CPU	£3,085	£3,325	£3,482	£3,616
Operating margin (SHL)	36.9%	33.9%	32.3%	32.0%
Operating margin (overall)	30.9%	30.5%	30.7%	29.7%
ROCE	4.8%	5.1%	3.7%	3.7%

Upper quartile   Median quartiles

The below table shows the VFM metrics by quartile (source: 2019 from the Regulator)

	Reinvestment	New Supply (Social)	New Supply (Non-Social)	Gearing	EBITDA MRI Interest Rate Cover	Headline Social Housing Cost per unit	Operating Margin (SHL)	Operating Margin (Overall)	ROCE
Lower quartile	4.2%	0.6%	0.00%	33.6%	139%	3.18	25.5%	20.0%	3.0%
Median	6.2%	1.5%	0.00%	43.4%	184%	3.69	32.1%	25.8%	3.8%
Upper quartile	8.7%	2.5%	0.13%	53.9%	238%	4.69	37.1%	30.8%	4.7%

Reinvestment has gone up due to increased investment in our new and existing homes and is expected to broadly continue.

New supply delivered has gone up reflecting an increased development programme, this will increase further in future years.

Non social housing delivered went up due to the completion of a 95 unit market rent scheme. No new units of this type are expected to be built in the ensuing years as we focus on social and affordable rent.

Gearing has reduced in the year reflecting strong cash flows and operating receipts from our VRtB sales but is anticipated to rise thereafter as more debt is taken to service our growth aspirations.

EBITDA MRI interest cover remains strong but is expected to fall slightly given more investments in our people, systems and stock, and conservative assumptions on interest rates going forward.

Headline CPU has gone up reflecting our continued investment in services, and building safety.

Operating margin (SHL and overall) has a downward trend reflecting increased investment to deliver our corporate strategy.

ROCE increased in the year due to surpluses from the VRtB sales programme. This is expected to reduce going forward as new build tends to provide a lower return than existing stock.

How do we compare to others?

We continue to lead and develop a new performance improvement and benchmarking model for the sector with Vantage Business Solutions. A key aim is to analyse the performance of the largest c150 providers on an annual basis through publicly available information, in particular, from financial accounts.

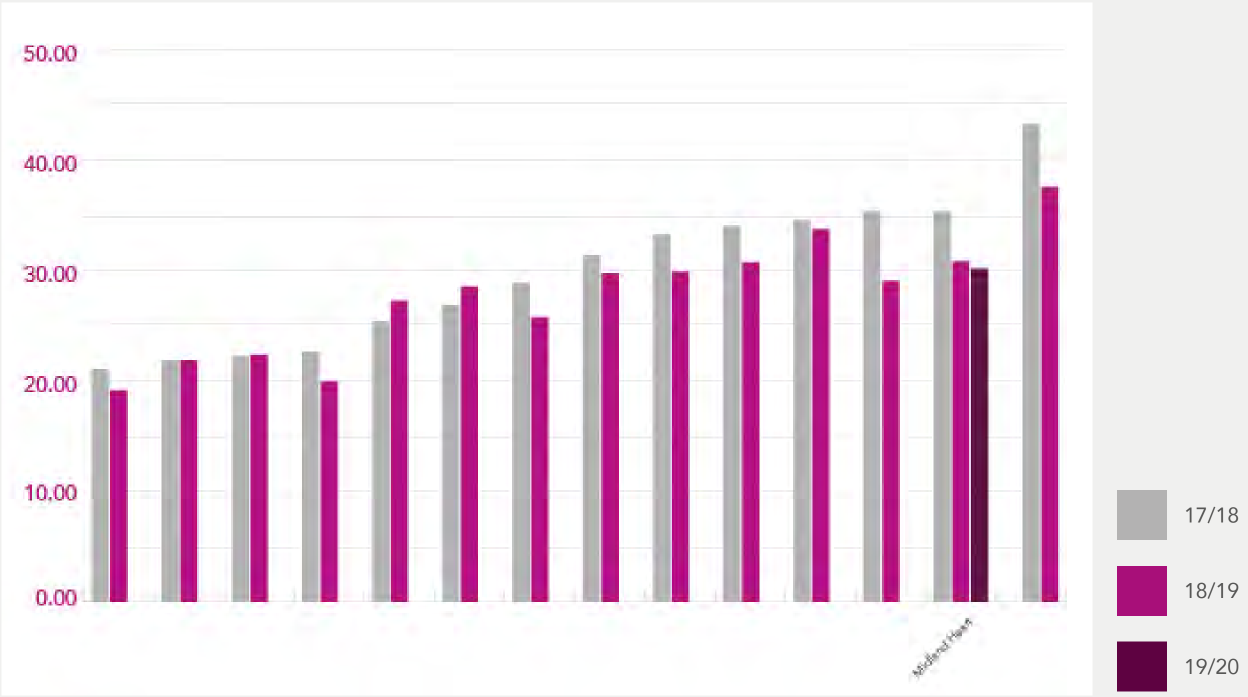
As in previous years, we continue to compare ourselves to a core number of housing and care providers. We select organisations in all geographies, which represent some of the largest and most efficient Registered Providers, as well as including those that largely have strong governance and viability ratings. We also include a number that are mixed providers like us, which have notable care and support operations, as well as those that have an in-house maintenance team (DLO). We shall be seeking to refresh this in 2020/21 given our divestment from care activities.

Our benchmarking group consists of:

- Accord HA
- Orbit Group
- Paragon Asra Housing
- Waterloo Housing Group
- Riverside
- WM Housing (Citizen)
- East Midlands Housing Group
- Home Group
- Housing and Care 21
- Bromford Group
- Notting Hill

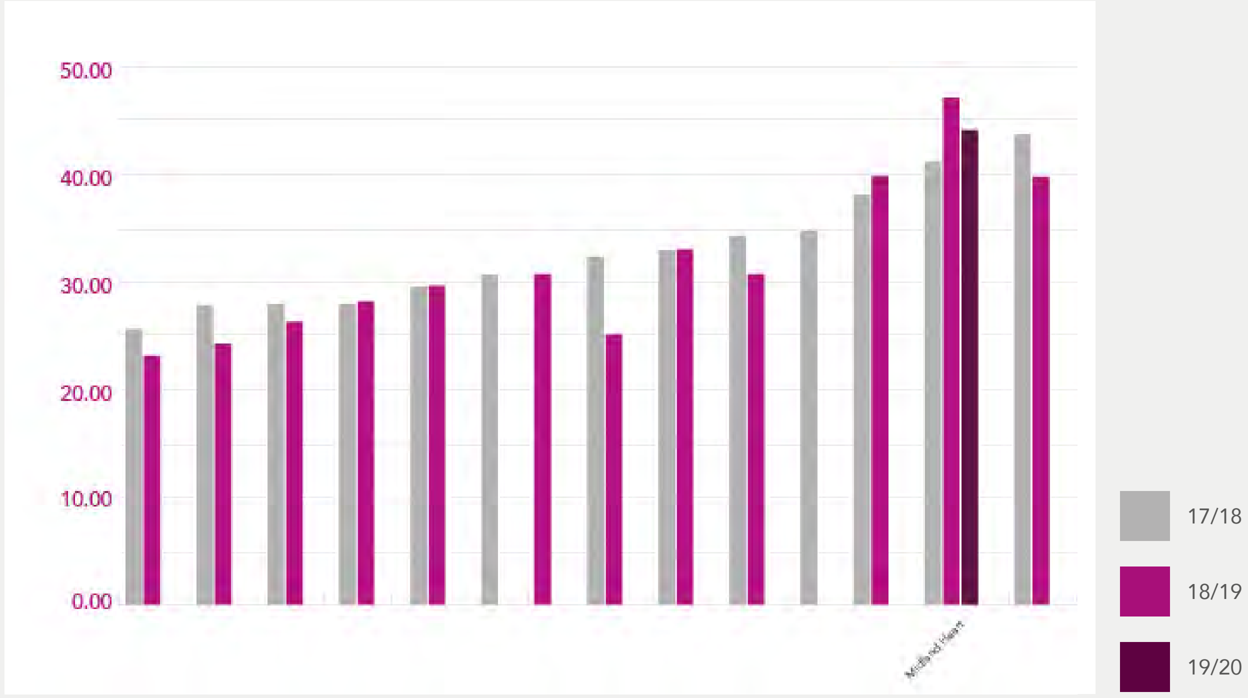
The results for our core metrics are detailed in the graphs below.

Operating Margin – overall (%)



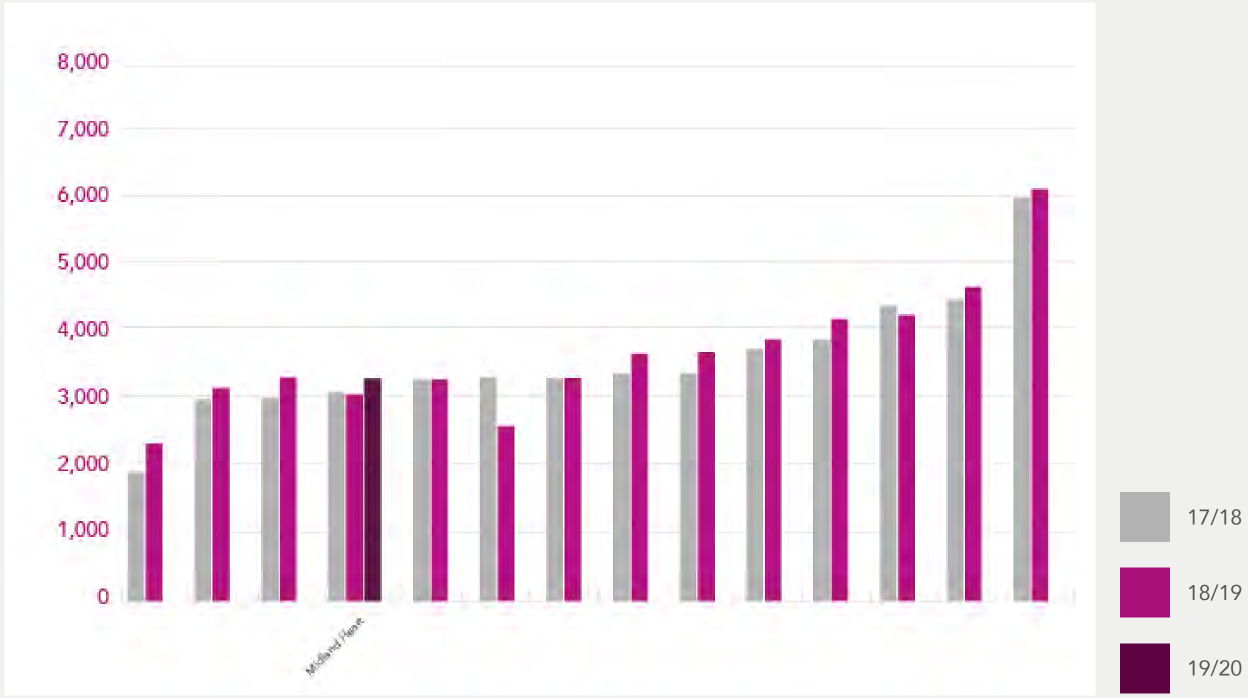
EBITDA MRI Interest Rate Cover – overall (%)

This is an indicator of liquidity and investment capacity (excluding sales). It is the only real measure which includes interest costs. We perform very strongly on this measure.



Headline Cost-per-unit (£)

Our performance on cost-per-unit is consistently very good, especially as a mixed provider (including care and support). This reflects the strong VFM agenda that we have set out.



Our Corporate Plan

Creating a green strategy

Over the course of the last year we have turned our attention to developing a green and sustainability strategy, which is due to launch later this year. Our strategy will provide a step change in our environmental credentials and seek to fundamentally understand the impact our operations have on the environment and what measures we can take to reduce our impact, both in an economic and sustainable manner. The strategy will seek to set out how we can meet green and sustainable targets over a series of time horizons to coincide with the Government's sustainable agenda at a national, regional and local level.

We have done much over the last few years in these areas through our work to build new homes to high environmental standards, reduce the waste in our offices and increase our use of renewable energy. However, we believe now is the time to set ourselves new, more ambitious goals.

We are assessing our current carbon footprint and are planning our approach towards setting ambitious but realistic targets and the means in which we can deliver them. Our green and sustainability strategy will see us work to reduce our carbon footprint across every part of the organisation including how we procure goods and services, how we deliver our housing operations, the way our colleagues work and improving the energy performance of our homes.

The success of our green and sustainability strategy, like that of any other organisation, is reliant on the enthusiasm and discipline of our colleagues. We will all need to change the way we work to deliver on the scale of improvements we want to make. To ensure that colleagues and other stakeholders are committed to supporting this strategy, we will embark on a consultation programme, talking to them about what they want to see improved, their ideas on how to make things better and why they want to make these improvements.

During the summer ahead, we will discuss our final targets, investment plans and improvements we will make with staff and officially launch our new strategy in autumn 2020.

Delivering social value

Our work to provide high quality housing and support services is underpinned by our continued commitment to deliver social value. We work with a number of local partners across our region to create opportunities or bring about mutually beneficial outcomes, both for those organisations and our customers. As part of their organisational corporate social responsibility, partner organisations are often able to support us by donating their knowledge, time, energy and resources across a variety of activities, depending on their skillset, and put something back into their local community.

This work brings real benefits for us and creates some great opportunities for our customers and the communities in which we operate.

There have been many ways in which we have received support in the past year and together we have demonstrated wide-ranging social and environmental value. For example:

- Our Social Enterprise Value, the ratio of our general needs rent to market rent is c62%. This represents inherent social value in providing sub-market rents that customers are more likely to afford
- We provided over 182,000 meals through our retirement living catering service and delivered more than 12,000 lifestyle activities to our elderly customers
- 1,867 customer referrals received for our Money Advice Team. Of those customers seen, 99% sustained their tenancy
- £ 2.482m in income maximisation for customers – increasing income and reducing debt liability. We obtained Universal Credit awards of £419k and £56k in Discretionary Housing Payment (DHP) for tenants struggling to meet their rent shortfall due to financial hardship and the effects of welfare reforms
- An additional, £272k claimed in Housing Benefit and £52k in attendance allowances were obtained for customers aged 65 and over
- We trained 85 staff members on welfare reform and benefits
- £1,560 worth of Tesco/Asda vouchers issued to customers in financial hardship, 46 customers received emergency fuel top ups, 99 food bank vouchers issued and 50 travel tickets issued to enable customers to attend appointments

Treasury Management

Loan facilities

Our policy is to develop long-term relationships with lending institutions and investors that understand the business and are able to meet its funding and changing business requirements. The Group's main financial covenants are in respect of gearing, interest and asset cover. These have been agreed with all the relationship banks and are monitored on a regular basis including stress testing at our Finance and New Business Committee.

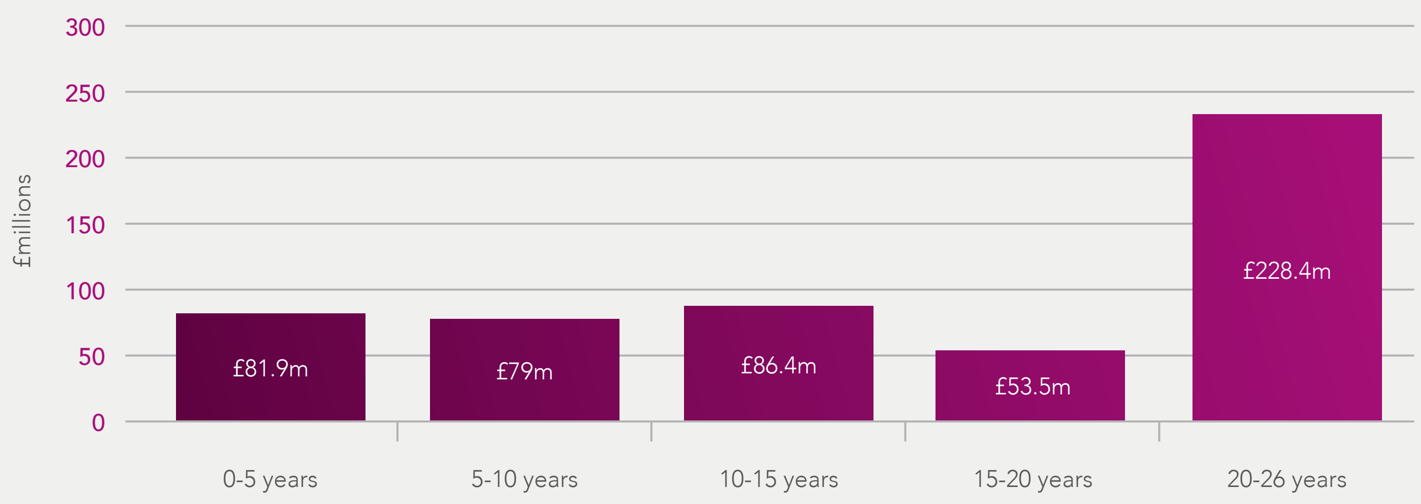
Our liquidity policy states there should be sufficient cash and fully secured loan facilities to cover 18 months' net committed development, excluding any sales receipts from outright sale/shared ownership properties. During the year we took out additional revolving credit facilities such that at 31 March 2020, Midland Heart had c£238m of available liquidity; comprising £147m available in undrawn fully secured facilities and c£91m in cash. This is an excellent foundation to fund future development and stock acquisition opportunities, as well as to ensure a robust liquidity position during the COVID-19 outbreak.

During the year, despite growing our development programme, we did not increase our debt levels as the programme was supported by strong underlying cash surpluses, government grants and sales receipts; particularly from our VRtB programme. These capital receipts will be used to deliver new homes to replace those lost under the VRtB programme. We anticipate that they will be fully used to deliver new build housing over the next three years.

The maturities of our loans due for repayment are as follows £'000:

	2020	2019
Within one year	12,673	13,147
Between one and two years	11,972	12,325
Between two and five years	57,512	46,036
After five years	447,054	458,195
	529,211	**529,703**

Debt repayments



Over 84% of our debt matures in over five years' time.

Midland Heart has diversified its funder base, so there is now an almost equal split in our portfolio between bank and capital market funding. As at 31 March 2020, 51% of our debt came from the capital markets and 49% from banks and building societies.

Financial instruments

Midland Heart is financed by a combination of retained reserves, long-term loan facilities and grants from the Government. The Group has a formal Treasury Management Policy that is approved by the Board. This policy seeks to address funding and liquidity risk and ensure covenant compliance; it states which types of financial instrument can be authorised for use, covering both borrowings and investments. In addition, the policy identifies the maximum value of financial instruments and with whom they may be agreed.

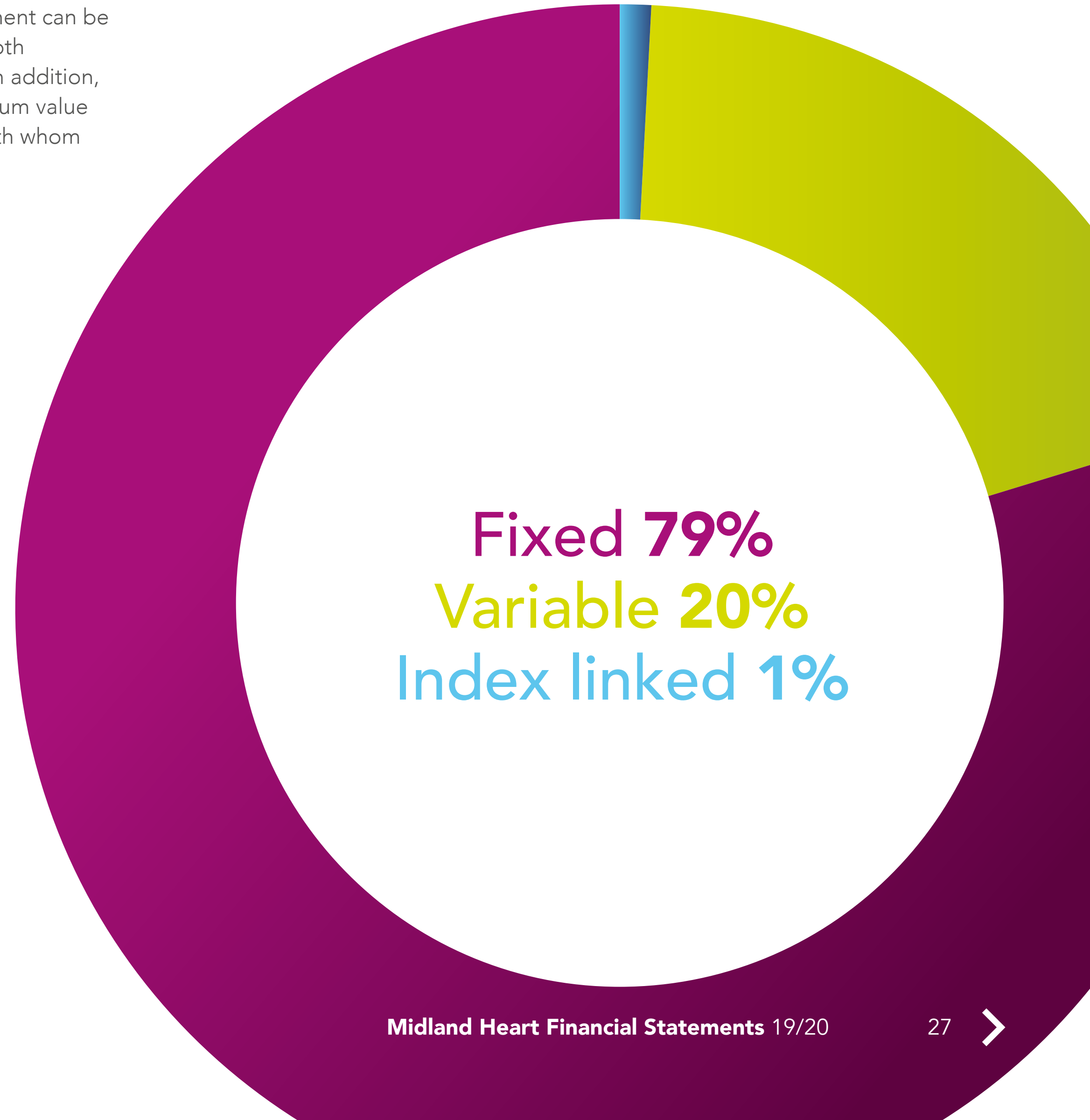
We use embedded instruments (such as fixed rate bank loans and bond issues) and standalone interest rate swaps to reduce the impact to Midland Heart of increases in interest rates. They are only used to hedge existing variable rate debt liabilities and are prohibited from being used for speculative purposes. As a result of using swaps, we set aside property collateral and utilise credit thresholds to cover any net future anticipated payments due by us. As at 31 March 2020, this amounted to just over £79.4m and all counterparties' exposure was fully covered by property collateral and credit thresholds.

We monitor our exposure daily and stress test it. Currently we calculate that if interest rates were to fall by a further 100bps, we would not have to provide cash collateral to support any of our swap transactions.

As at 31 March 2020 our debt portfolio was 79% Fixed, 20% Variable and 1% Inflation Linked.

We do not have any non-sterling or exchange rate exposures.

In recognition of our credit strength and strong financial management, we enjoy a strong investment grade A1 rating with a stable outlook from Moody's Investors Services.



Risk Management

Our operating environment

During the year, we delivered significant changes to how we operate our retirement and supported living services, including the divestment of care provision. This has significantly altered our risk profile as we are no longer delivering high risk heavily regulated activities, such as administering medicine. We are no longer a Care Quality Commission (CQC) registered provider.

This simplification allows us to focus even more so on core landlord services. We have remained focused on building safety, ensuring that we employ staff and contractors who have expert knowledge of our statutory requirements. Our Health and Safety team also strengthened its internal programme of assurance over our building safety controls to enhance our second line of defence.

Looking ahead to 2020/21

At the end of the financial year, we have faced an unprecedented event in the form of the COVID-19 outbreak, which has cast uncertainty across 2020/21. **Our key challenges for the year ahead are:**

- Keeping our customers and colleagues safe in a challenging environment, delivering essential services
- Maintaining our compliance with statutory building safety requirements
- Responding to economic recession and future government policy, potentially impacting our customers' ability to pay rent and future rent increases

We have modelled and stress tested our business plan, ensuring that we are able to absorb any potential adverse impacts in this uncertain time. Our refreshed business continuity procedures and rehearsals of significant disruptive events during the year prepared us to tackle the challenges arising from government restrictions.

Our new homes programme focuses on social and affordable rent with some shared ownership. We do not have a current outright sale programme hence any sales exposure is based on shared ownership sales.

We have decided to enhance our risk management process by reviewing risks monthly during the pandemic, splitting our risks into lockdown (those impacting from government restrictions), recovery (those impacting as we deal with the backlog), and legacy (longer term risks as a result of the pandemic, such as economic recession). This will ensure we can effectively mitigate risks as soon as they arise in a fast changing environment.

Keeping risk management running through our business

The Board and Audit and Risk Committee recognise the importance of sound risk management to the achievement of our corporate plan. Our risk management process aims to identify risks before they materialise, ensuring we can put mitigating controls in place and focus our assurance activities.

Our Executive Board has overall responsibility for risk management and the system of internal control within the business. The Audit and Risk Committee reviews the systems in place to identify and manage risk, and receives reports from the internal auditors, advising on the effectiveness of our internal control systems in managing risk. The Group uses an enterprise-wide risk management (ERM) framework in order to support the identification and management of risk.

ERM enables us to identify, measure and manage the entire range of business opportunities and risks.

Under the ERM framework, each functional area of the business regularly reports on its major risks and how these are being managed or eliminated.

Having considered our functional and project risk registers, the risks arising from our new corporate plan and external views on the sector's risks (e.g. the Regulator, Homes England and Moody's), we have identified our key corporate risks which will be actively managed and monitored by the Board.

Our risk management process seeks to identify the key risk factors that may have a material impact on the group and to manage them appropriately. The risk factors cover financial, operational and reputational risk.

They include:

Health and Safety
Asset Quality
Cyber Attack
Resourcing
Development
Building Safety
Government
Bond Finance
Policy

Risk factor	Management actions to mitigate risk
Financial	
Adverse impact on financial plan of government policy, including the impact of a reduction in grant and potential rent cut	• Scrutiny of business plans budgets by Executive and Board • Gearing peaks at 49.8%, 299% lowest interest cover and £238m liquidity • Stress tests include rents no increase from 2021, which do not cause a breach of covenants with the appropriate mitigations, put in place. Recovery plans are in place if triggers were to materialise • Record surplus to ride out future waves with A1 credit rating
Inability to secure bond finance to fund corporate plan objectives	• Robust cash flow management with prudent liquidity rules • Clear parameters on size of development programme • Current strong financial performance with c£238m in cash and facilities and c£6.5k of unencumbered security
Increase in price of loans due to discontinuance of LIBOR, adversely impacting surplus	• Loan agreements reviewed by legal advisers to fully understand our position • Regular ongoing communication with banks to assess their approach • Pricing advice provided by Traderisks
People	
Adverse operational performance due to not having the right people, behaviours, capacity and/or capability	• Our resourcing requirements mapped against the corporate plan objectives • Action plans in place for known skills and capacity issues • Our business critical roles identified and monitored • Talent framework created to develop high performers, including the Leadership Academy • Wider talent management and succession planning framework launched and first talent pool identified
Assets	
Inability to maintain/improve asset quality	• Strategic Asset Management Group oversight and value based judgements • 30 year asset investment plan including agreed replacement cycles for key property components • Medium term strategic disposal strategy of poor performing and more complex specialised stock
Health and Safety	
Causing serious harm or neglect to a customer, supplier or third party	• Safeguarding and operational policies and procedures in place with all relevant staff inducted and trained • Routine weekly and monthly checks undertaken by fully trained operational staff • Safeguarding Board in place monitoring policy implementation and performance • Contractor health and safety systems checked at procurement and contract monitoring stages
Non-compliance with Building Safety laws, regulations and best practice in existing and new build properties	• Dedicated teams and budgets to manage Building Safety Compliance • Systems in place to identify, control, monitor and report on all areas of building safety risk and performance • Competent and qualified contractors procured to provide specialist services • New build handover process with Building Safety and Development Team
Development	
Failure to build homes that meet demand at the required rate and quality	• Unlike other registered providers, we do not rely on sales for financial viability. The core of our business is rented accommodation • Development project management processes and procedures ensure sound project governance, with project status reported to Board • Development Quality Manager oversees new builds to reduce the number of defects resulting in rework
Technology	
Midland Heart suffers a data breach due to a cyber-attack	• IT policies, procedures and training, including IT Security e-learning • Annual Penetration Test and Digital Application testing anti-virus software, firewalls, email and web filtering

Corporate governance

We are committed to the principles of good corporate governance and achieving high standards of business integrity, ethics and professionalism in everything we do. Our code of conduct sets out the values we expect of ourselves and will uphold when at work, from frontline colleagues to Board and committee members.

To provide our stakeholders with assurance, the Board has adopted the National Housing Federation's (NHF) code of governance to measure our governance practices.

The NHF's code contains a broad range of governance measures for the Board to assess itself against, including:

- Constitution and composition of the Board
- Essential functions of the Board and Chair
- Board skills, renewal and review
- Conduct of the Board and committee business
- The Chief Executive
- Audit and risk
- Conduct, probity and openness

The Board has recently reviewed its compliance with the code and confirms it complies with all of the provisions with suitable measures in place.

In addition, we successfully achieved the Governance Institute Quality Mark for governance excellence in November 2019.

The Board of Directors

The Board has responsibility for the overall management and performance of the Group, its overall strategy and planning, including strategic objectives, financial viability, internal controls and risk management. The Board has delegated day-to-day management of the Group to the Executive team, and also delegates specific governance responsibilities to a number of committees of the Board, as detailed in their terms of reference.

As at 31 March 2020, there were 11 Board members, of whom eight are Non-executives and three are Executive members. Since 31 March 2020, one of our Executive members has resigned, and the membership stands at seven Non-executives and two Executive members, as shown at the beginning of this report.

Recruitment to the Board takes place as required to maintain orderly succession and an appropriate mix of skills and experience. Induction and development programmes are provided to all Board members.

Collectively, Board members bring a wide range of experience and expertise to the governing of Midland Heart. Executive directors attend all Board meetings and members are provided with appropriate papers and information in advance of all meetings.

On 31 March 2020, the Board had five committees, a pensions sub-group and operates one property owning subsidiary, Cygnet Property Management plc.

Audit and Risk Committee

The committee, chaired by Julian Healey, is responsible for six key areas which are:

- Monitoring the integrity and effectiveness of financial reporting and external audit
- Agreeing and monitoring the delivery of the Group's internal audit programme
- Monitoring the effectiveness of the Group's risk management and internal control systems
- Overseeing the effective implementation of the Group's health and safety policy
- Oversight of the compliance with whistle blowing and fraud policies and procedures
- Compliance with regulatory standards and the National Housing Federation's code of governance

In addition to exercising oversight of these areas, the committee also considers items related to information governance and general data protection regulation (GDPR), business resilience, and reviews the governance and control framework (Midland Heart's standing orders).

At the March 2020 meeting, the committee considered the external auditor's (KPMG) audit plan and strategy for the consolidated financial statements of Midland Heart Limited and subsidiaries for the year ending 31 March 2020. The committee heard the external auditor's assessment of the significant risks relevant to Midland Heart's operations, notably development assumptions and judgements, valuation of financial instruments, revenue recognition and management override of controls. They also heard about other areas of focus and sought assurances as to how these would be addressed during the audit process.

The committee also assessed the effectiveness of the external audit process at the same meeting by receiving details of the seniority and experience of the engagement team, as well as details of the auditor's audit quality framework.

The committee received assurances on how the external auditor's objectivity and independence is safeguarded in the provision of non-audit services. The committee was advised at the March 2020 meeting by the external auditor, that in 2019/20, the ratio of non-audit fees (£36k) to audit fees (£88k) was 0.4:1. The external auditor assured the committee that they did not consider the total non-audit fees created a self-interest threat since the absolute level of fees is not significant to the external audit firm (KPMG) as a whole.

Finance and New Business Committee

The Finance and New Business Committee (FNBC), chaired by Chris West, is responsible for overseeing the finances of the Group, agreeing treasury strategy and controls and approving new loan facilities and interest rate risk management arrangements up to a defined value.

It is also responsible for appraising and approving new business opportunities with a capital value up to £15m.

FNBC had a busy year in 2019/20, overseeing Midland Heart's annual financial cycle, and ensuring that it has the resources it needs to deliver ongoing services to customers and its ambitious development programme. There has been a particular focus on robust business planning into the future, as we consider our long term funding requirements.

Some of the areas considered by the committee during the year were:

- Plans to optimise treasury arrangements to reduce risks and costs
- Delivery plans for investment in planned maintenance of our stock
- Oversight of our income collection operations, including monitoring the level of rent arrears and overseeing changes in welfare benefits, including Universal Credit
- Checking covenant compliance
- Detailed review of long-term financial plan, including assessing adequacy and comprehensiveness of stress testing and associated mitigation plans
- Overseeing delivery of our development programme and targets and ensuring funding is in place for this build
- Review of capital appraisal parameters for new build projects
- Approving specific new build schemes, up to £15m capital value
- Considering certain finance and new build aspects of the new corporate plan

Midland Heart continues to be in a very strong financial position, comfortably meeting its golden rules on gearing, interest cover and liquidity. 2019/20 has seen a record surplus, and the development programme making excellent progress. 570 new homes were completed towards the target of 3,000 by 2023/24, which we are now well on the way to delivering. At the same time, we are also increasing our investment in the quality of the homes we already have.

We are well placed to withstand the challenges of COVID-19 and move forward in delivering our corporate plan and long-term objectives.

Remuneration and Executive Selection Committee

The Remuneration and Executive Selection Committee is chaired by Martin Tiplady OBE and considers all matters about pay and remuneration and oversees the development of effective human resources and employment policies.

During the course of the year the committee has:

- Analysed and approved changes to the Executive Management structure and team and ensured that an effective people strategy was in place to support the organisation in its response to *Making What Matters Brilliant.*
- Carried out a thorough benchmarking of senior salaries and approved a revised reward strategy
- Considered revised plans for the annual pay award and altered previous arrangements and introduced a new single pay award. Additionally, it contemplated the effects of a gender pay gap and put in place initiatives to deal with this as well as the impact of other diversity issues
- Approved arrangements for the development of a new leadership development programme, revised organisational development plans and staff absenteeism and sickness and also took decisions regarding pension arrangements both for the current and future years
- Reviewed progress made to achieve the people strategy and also carried out an evaluation of Service First and the impact of the risk register insofar that employment and people risks existed

This year saw the appointment to the committee of an independent member and welcomed Caroline Waters OBE, Deputy Chair of the Commission for Equalities and Human Rights and former Director of People and Policy for British Telecom PLC.

Pensions sub-group

This sub-group has delegated authority from the Remuneration and Executive Selection Committee to consider and make recommendations to that committee on the major pension issues and risks facing us and our future pension strategy. It receives independent advice from a firm of pension actuaries.

Nominations Committee

The Nominations Committee is chaired by John Edwards CBE.

The committee's main responsibilities are; Board and committees succession planning and recommending new appointees to the Board; recommending what the remuneration should be for Non-executive Directors and for the members of Board and committees; and carrying out the annual appraisal of the Chair and approves the approach towards, and considers the outputs from, the annual appraisal process for Board and committees of Midland Heart. As well as this, the committee is responsible for assessing and reporting on overall governance effectiveness.

Some of the areas considered by the committee during the year were:

- Approval of plans for, and the outputs from, Board, committee and Chair appraisal
- Board and committee succession planning
- Annual pay review for Board and committees
- A review of the feedback and results from the external governance review and monitoring the implementation of the recommended actions.

Operations Committee

The Operations Committee is chaired by Carole Mills and oversees the effectiveness of our customer engagement and customer scrutiny, ensuring they provide positive outcomes for our customers. The committee also develops and approves our customer facing policies.

Following last year's review and refocus of the committee's agendas and forward plan, the Operations Committee has created more time and space for colleagues to debate, discuss and recommend a wide range of key activities and policies impacting on our customers, whilst maintaining our important overview of performance and delivery.

In particular, the committee has examined options and made proposals to optimise the visibility of the customer voice at Board. These include requiring Board reports to inherently demonstrate how customer views and feedback have been used to formulate policy and recommendations, a new customer dashboard and for Board member induction to encompass detailed coverage of customer related issues and trends.

The committee has explored, critiqued and helped to shape a number of important programmes and initiatives, particularly the:

- Allocations policy, including an equality impact assessment
- Asset strategy
- Balanced and sustainable communities project

- Investment in homes and stock condition
- First class repairs scheme

There has been good oversight of the various strands of customer scrutiny work and the committee also looked at the impact of Universal Credit, safeguarding arrangements and the transfer of care staff and responsibilities to other organisations.

At each meeting, the committee considers and challenges a suite of governance and performance reports, which set out the current position and trends on operations' KPIs, the risk register, rent collection, building compliance (including fire safety), customer satisfaction and complaints and the management accounts.

Committee members remain very engaged and contribute hugely to our work. We will be saying farewell and many thanks to two of our colleagues who are standing down from this committee in 2020/21 - Thomas O'Flaherty and Deb Smith after having completed their six year terms.

Cygnet Property Management plc

Cygnet oversees the acquisition and management of a small portfolio of properties for market rent. As a non-charitable operating subsidiary of the Midland Heart group, Cygnet has its own discrete funding arrangements (currently with Handelsbanken), separate from those used by Midland Heart, and operates through a separate legal entity. It is chaired by Chris West.

This year saw the portfolio increase significantly as 95 new properties for market rent were completed and let at Wolsey Island, Leicester.

Executive team

The Board of Midland Heart delegates the day-to-day operation of the business to the Executive team, chaired by the Chief Executive.

Customer involvement

Customer feedback is invaluable to enabling us to understand the experiences our customers have using our services and helps us make improvements to meet our aim of being a leading provider of social housing.

This year we listened to our customer's voice through a combination of 13,056 transactional surveys and 604 face-to-face interviews to learn what is important to our customers, where we are doing things right and where there is room for any improvement.

In line with the tenant involvement and empowerment standard requirements set by the Regulator for Social Housing to ensure we are transparent to both our customers and the wider sector, we work with customers to shape services and hold our Board to account. We held over 178 different strategic meetings and engagements as part of our scrutiny framework. **These activities have had a direct impact on some of the key elements of *Making What Matters Brilliant*, which include:**

- Safe and Strong: We engaged with over 140 customers in four schemes to review the impact of different approaches to communicating fire safety information to customers
- Service First: Utilising almost 800 customer interventions and feedback helped our customer scrutiny panel to identify and develop increased availability of support for customers with Universal Credit and to strengthen our capability to support customers to self-serve
- Right First Time: 8,000 pieces of customer insight were reviewed to identify and help us to develop better reporting and oversight of repair recalls

We have also worked hard to keep all our customers informed of changes we have had to make in response to the COVID-19 pandemic, and the measures we have taken to protect them and our staff.

Our website and social media channels have been regularly updated with information about these changes and the support available to customers. We have also produced a weekly newsletter with useful information for all retirement living customers. In addition, to provide further support to our customers and to maintain transparency throughout the pandemic, our key external stakeholders including councillors, MPs and the Mayor of the West Midlands, Andy Street, have been sent a detailed brief about our response and invited to ask any questions they may have.

Statement on internal control

The Board is the ultimate governing body of the Group and is committed to the highest standards of business ethics and conduct and seeks to maintain these standards across the whole business.

The Board has overall responsibility for ensuring systems of internal control are established and maintained, and they focus on the significant risks that threaten the Group's ability to meet its strategic objectives. Such systems can only provide reasonable assurance against material financial misstatement or loss.

In reviewing the systems of internal control we have in operation, the Board takes assurance from the following practices or elements of our control framework:

Control system	Contribution
Governance arrangements	Provides regular and significant oversight of and scrutiny over the business and its performance.
Terms of reference for the audit and risk committee	Provides for a detailed system of scrutiny and checks the effectiveness of management processes and the overall system of internal control, using both internal and external sources of assurance.
Governance and control framework	Detailed scheme of delegation for all parts of the business, including financial delegation.
Whistleblowing/anti-fraud measures	Whistleblowing and anti-fraud policies are approved by the Board and their effectiveness monitored by Audit and Risk Committee.
Policy, strategy and procedure sign off and ongoing review process	Leads to strategies, policies and procedures which are designed to comply with the law and are and remain fit for purpose. This includes the governance and control framework which sets out the levels of financial delegation from the Board to management.
Performance information - non-financial (e.g. key performance indicators)	Regularly reporting on operational performance at Board, committees, Executive team and divisional levels allowing for review of performance and prompt action to be taken where performance is below target levels. This includes monitoring of delivery against targets included in our *Making What Matters Brilliant* corporate plan.
Performance information – financial (e.g. management accounts and budget reports)	Regularly reporting financial performance information at Board, committees, Executive team and divisional levels together with a forecast of financial performance to year end. This allows any deviation from agreed budgets or failure to meet financial KPIs (or any future risk of this occurring) to be quickly identified, and any necessary remedial measures to be agreed. This includes monitoring of delivery against targets included in our corporate plan.
Treasury management	A group-wide treasury management function monitors compliance with our obligations to lenders (including in relation to performance against our financial and non-financial covenants) and external treasury risk factors, whilst also proactively taking steps to improve the efficiency, and reduce the risk of our loan book. It also ensures we have sufficient cash to meet our short term commitments and access to loan facilities sufficient to finance our long term plans and commitments. It reports regularly to the Finance and New Business Committee, which in turn reports to the Board.
Appraisal of investment decisions	All housing new build investment decisions and other major commitments are subject to appraisal and approval by the relevant governance forum depending on the value of the transaction. All transactions with a capital value in excess of £5m are approved by a forum with a majority of Non-executives.
Internal audit	These are carried out in an audit programme focusing on the areas of highest risk within the business as well as some key controls which are subjected to a continuous audit process. This is an outsourced service which in 2019/20 was delivered by our advisers, PwC. The internal audit programme is determined by the audit and risk committee annually by reference to a rolling three year programme which aims to ensure all key risk areas are audited at least every three years. Audit reports then identify any control weaknesses or areas for improvement and require management to implement corrective actions in relation to those areas of weakness/improvement.
Quality assurance reports	These look at specific areas of operational risk in our customer services, and the outcome of these reviews are reported to and considered at Executive team and Audit and Risk Committee.
Regulatory standards compliance	An annual report provides evidence of compliance against the RSH regulatory standards which is reviewed by the Board and enables the Chair, on behalf of the Board, to certify compliance against the regulatory standards.
Health and safety risk monitoring	A Health and Safety Committee meets regularly to monitor the extent to which we meet our health and safety responsibilities. Reporting of health and safety key performance indicators and review of risks and controls occurs at each meeting of Executive team, Audit and Risk Committee and the Board to determine if health and safety risks are being adequately managed.

Assurance is also derived as to there being an adequate system of internal control from:

- The internal auditors who expressed this opinion in the 2019/20 internal audit annual report
- The external auditors who gave an unqualified opinion on the 2019/20 financial statements
- Financial controls that have shown themselves to be effective through the delivery of on-budget financial performance in 2019/20
- A group-wide risk management function, which seeks to proactively manage risk so as to avoid any serious damage or impact to the Group, its customers or its assets. This includes a formal requirement to report on risk and how this will be mitigated in relation to new business and major development initiatives
- The ongoing monitoring and scrutiny of our assurance framework by both the Executive team and the Audit and Risk Committee

The key elements of the assurance framework are detailed in this list:

- Internal audit
- External audit
- Care Quality Commission (CQC) annual inspection programme of care services
- Supporting people inspections by local authorities of our supported housing
- Homes England (formerly the Homes and Communities Agency) annual audit of development programme performance
- External funder reviews and annual financial/ governance reviews by credit rating agency, Moody's
- Internal quality assurance frameworks
- Health and safety risk assessments and audit inspection outcomes
- Regular compliance checks and reporting to Board of inspection outcomes in relation to fire risk, hot water, asbestos, gas safety, legionella and electrical testing
- Business continuity planning and disaster recovery planning and externally led testing of these plans
- Fraud reports, including annual fraud report to the housing regulator, the Regulator of Social Housing
- Ad hoc audit reviews
- Whistleblowing reports
- Regulator of Social Housing regulatory judgement (last updated November 2019)
- Experienced and suitably qualified staff take responsibility for important business functions
- Annual appraisals are carried out for all staff to assess their performance
- Budgets are prepared which allow the Board and the Executive team to monitor the achievement of financial objectives throughout the year. Monthly management accounts are prepared and distributed promptly providing relevant, reliable and up-to-date financial information and commentary which allows significant variances from budget or from key performance indicators to be quickly understood and corrective actions put in place

On behalf of the Board, the Audit and Risk Committee has reviewed and obtained advice from the external auditors on the effectiveness of the system of internal control for the year ended 31 March 2020. No significant weaknesses were found in the internal controls as at the date of signing that resulted in material losses, contingencies or uncertainties that require disclosure in the financial statements or in the auditors' report on the financial statements.

Regulator of Social Housing regulatory standards compliance

Registered providers are required by the Regulator of Social Housing (RSH) to assess their compliance with the RSH's governance and financial viability standard. The Board has considered our compliance with these standards and in line with the requirements of the RSH hereby certifies that we comply with such standards.

During the year, a stability check was carried out on us by the RSH. This resulted in a positive outcome with the regulator confirming our regulatory judgement as G1/V1, the highest possible rating.

Voluntary right to buy agreement

The Board previously approved a resolution to enter into a voluntary agreement with the Government to implement the VRtB policy. The Midlands' VRtB pilot commenced in summer 2018 and was scheduled to end in March 2020. Due to the pandemic, the ongoing VRtB applications received prior to the closure date are permitted to be carried over to the next financial year to take into account the impact of the lockdown. Subject to those remaining applications completing, around 270 properties will have been sold as a result of the VRtB pilot. Additional properties to be developed as part of our new build programme will replace these properties, fully utilising the capital receipts generated from sale.

Mergers and partnerships

The Board previously decided to adopt the National Housing Federation's merger code. This is a voluntary code that sets out 10 core principles of conduct which act as a framework for boards to follow in relation to the various stages involved in evaluating and making decisions on opportunities for mergers, group structures and partnerships.

The Board believes that this will benefit our customers and stakeholders in that it will:

- Enable Board ownership of such matters
- Support good and objective decision making
- Embed principles of transparency and accountability

The following set of key principles will act as a guide for our approach towards mergers and partnerships:

- Our express wish is to grow the organisation and provide greater capacity to do more
- A merger or partnership with a fellow housing association is the principal means by which this corporate objective can be met
- We see ourselves as being a consolidator in the market place, rather than being consolidated
- We would however ensure that any merger or partnership activity is in the best interest of our current and future beneficiaries
- We will not enter into any merger or partnership activity which would represent poor value for money for us
- We cherish our unitary structure and believe it to be the most efficient

means to deliver our services. Whilst merger or partnership activity may alter our structure in the short term, we would return to a unitary structure over time

- We believe that merger and partnership activity is most likely to arise with fellow housing associations within the greater Midlands area

We will evaluate potential partners for this activity using the following criteria:

- Strategic fit – do we have a set of common objectives, purpose and mission?
- Financial fit – does the sum of our parts make us financially stronger and allow us to build more housing?
- Geographic fit – does it make us more relevant and influential in our chosen geographies?
- Cultural fit – do we share the same values?
- People fit – do we have the right senior staff from the changed organisation to lead the business?

Directors' Report

The Board of Directors present their report, together with the audited financial statements for the year ended 31 March 2020.

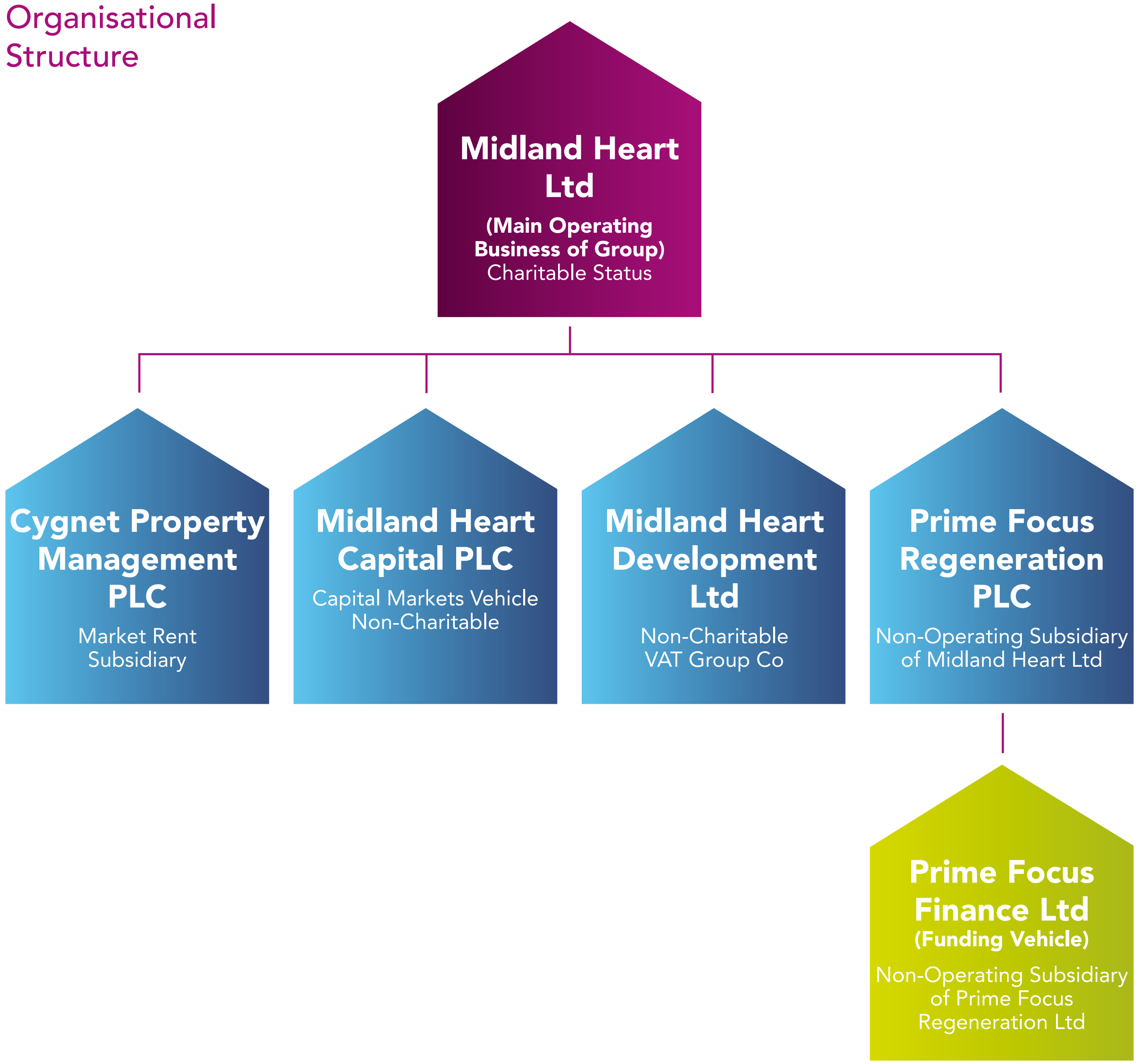
Principal activities

The principal activities of the Group are the provision of housing and support and care services. The Group's principal area of operation is across the Midlands.

Legal entity structure

We have set out below the legal entity structure within the Group for which Midland Heart Limited is both the parent and the main operating business.

Organisational Structure



A review of our operational and financial performance for the year ended 31 March 2020 can be found in the strategic review from page 6.

Income and surplus for the year

The Group's activities generated turnover for the period of £200.9m (2019 - £219.3m) on which a surplus of £86.4m (2019 - £77.1m) was achieved. On 31 March 2020, revenue reserves totalled £416m (2019 - £328m).

Legal proceedings

From time to time, Midland Heart and its subsidiaries may be involved in legal proceedings incidental to its operations. The outcome of such proceedings, either individually or in aggregate, is not expected to have a material effect upon the results of our operations or financial position.

Financial instruments

Information on the Group's use of financial instruments, financial risk management objectives and activities and exposure to credit, liquidity and market risks is provided in the treasury management section.

Equality, diversity and inclusion

Equality, diversity and inclusion have always been at the very centre of who we are, ensuring that the homes we develop and the services we provide are accessible to all and appeal to local communities. We're committed to ensuring our workforce at all levels represents the communities within which we operate and that we engender a sense of belonging where everyone, no matter who you are, can succeed with us.

To support the delivery of Making What Matters Brilliant, and embed a sense of belonging across all areas of the business our diversity and inclusion plan aims to:

- Improve customer accessibility
- Deliver brilliant customer service
- Reduce our gender pay gap
- Be recognised as a leading, inclusive and rewarding employer that people aspire to work for

In order to deliver on these aims we have:

- Established four inclusion networks (gender, disability, race and LGBT+) using the insights from these to improve how we operate and develop a sense of belonging. Each network is sponsored and championed by an Executive Director
- Increased the number of inclusion events, resulting in a greater level of proactive engagement from colleagues
- Seen an increase of 35% in the number of colleagues disclosing diversity data. The data will provide better insights into notable trends and help develop/shape tangible actions
- Seen 11 BAME frontline colleagues successfully complete our aspiring managers program and progress into their first managerial roles

This year, our engagement survey told us 80% of our colleagues are happy working for us. This is a great indication of the progress we have made to date. However, we know we have more to do and we are committed to continually improve, by delivering on our diversity and inclusion plans.

Modern slavery act

We are committed to achieving greater clarity and understanding of our supply chains in order to seek out and deal with any evidence of slavery and human trafficking. We recognise that no supply chain can be considered entirely free from the potential for slavery or human trafficking to occur and we are endeavouring to take further steps to understand high risk areas, communicate our approach and take positive action where appropriate. Our full statement on modern slavery and human trafficking can be found on our website.

Health and safety

Health and safety continues to be our number one priority. We provide safe homes for our customers and safe places to work for our colleagues. For us, health and safety is never a tick box exercise.

Our corporate plan puts customer and colleague safety at its centre. Responding to events outside of our business we are committed to ensure concerns about safety can be raised as quickly and seamlessly as possible. We make sure that we respond to any concerns connected to safety; we are open and transparent about what needs to be improved and how that will be done.

To monitor health and safety, the Safe and Strong group and its sub-committees are well bedded in providing a platform for two-way communication throughout the organisation, involving representatives across the business. The addition of the Building Safety Concerns' process has allowed us to monitor issues arising, which could impact the safety of our buildings.

Our continued work in response to the Grenfell Tower fire is ensuring that we are amongst the leaders in our industry to proactively manage the health and safety of our customers and colleagues.

In the final weeks of this financial year, we responded quickly and effectively to the COVID-19 pandemic and teams throughout the organisation worked tirelessly to ensure clear procedures and guidelines were immediately put in place to keep our customers and colleagues safe. The situation was continuously monitored closely to enable us to react quickly and effectively to ensure government guidelines were followed at all times.

Investment for the future

We are committed to investing in our properties and the communities in which we serve. During the year we invested £19.0m (2019: £17.2m) on planned improvements and major repairs to our properties. Our asset management strategy also provides for the disposal of a number of properties which sit outside of our core operational area. Proceeds from these properties are used to fund development of properties within our core area.

Policy on payment to suppliers

We are committed to paying suppliers in line with the payment terms agreed with those suppliers.

Auditors

KPMG LLP are auditors to the Group and have indicated their willingness to continue in office.

The resolutions for their re-appointment and to authorise the directors to determine their remuneration will be proposed at the AGM on 24 September 2020. The auditors' fees for audit and non-audit work are disclosed in note 9 to the financial statements.

Going concern

The Board has considered those areas that could give rise to significant financial exposure and is satisfied that no material or significant exposures exist other than those reflected in these financial statements and that Midland Heart Limited and the Group have adequate resources to continue its operations for the foreseeable future.

We have conducted extensive stress and multi-variate testing on our business plan. On the basis of this and available mitigations, we conclude that we have a strong and resilient financial foundation. This position is supported by high levels of cash and undrawn facilities.

We have a strong capital position with high levels of favourable financing facilities and of cash holdings.

No significant concerns have been noted and for this reason the going concern basis has been adopted in preparing the financial statements.

Statement of Board's responsibilities in respect of the Board's report and the financial statements

The Board is responsible for preparing the Board's Report and the financial statements in accordance with applicable law and regulations.

Co-operative and Community Benefit Society law requires the Board to prepare financial statements for each financial year. Under those regulations the Board have elected to prepare the financial statements in accordance with UK Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

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

In preparing these financial statements, the Board is required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable and prudent
- State whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements
- Assess the group and the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern
- Use the going concern basis of accounting unless it either intends to liquidate the group or the association or to cease operations, or has no realistic alternative but to do so

The Board is responsible for keeping proper books of account that disclose, with reasonable accuracy, at any time the financial position of the association and enable them to ensure that its 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 2019. It is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the association and to prevent and detect fraud and other irregularities.

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

Statement as to disclosure of information to auditors

The directors who held office at the date of approval of these financial statements confirm that, as far as they are each aware, there is no relevant audit information of which the company's auditors are unaware. Each director has taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

By order of the Board

Sarah Scott
Company Secretary
23 July 2020

John Edwards CBE
Chair
23 July 2020

Board and Executive Overview

Board of Directors – appointments and resignations

Name	Title	Position	Appointed	Resigned
John Edwards CBE	Non-executive Member	Chair of the Board	14/05/14	
Glenn Harris MBE	Chief Executive Officer	Executive Member	29/09/17	
Julian Healey	Non-executive Member	Chair of Audit and Risk Committee	23/09/13	
Kathy McAteer	Non-executive Member		23/09/13	
David Taylor	Executive Director of Operations and Board Member	Executive Member	29/09/17	
Martin Tiplady OBE	Senior Independent Director	Chair of Remuneration and Executive Selection Committee	29/09/14	
Carole Mills	Non-executive Member	Chair of Operations Committee	29/09/17	
Chris West	Non-executive Member	Chair of Finance and New Business Committee	29/09/17	
Anna Simpson		Executive Member	01/05/19	09/04/20
Darren Humphreys	Non-executive Member		01/05/19	
Llewellyn Graham	Co-optee		01/05/19	

Member attendance – 1 April 2019 to 31 March 2020

Board Member	Main Board	Finance and New Business Committee	Audit & Risk	Operations Committee	Remuneration and Executive Selection Committee	Board strategy event in May	Board planning day in November
Total Number of Meetings	6	6	5	6	3	1	1
John Edwards CBE	5/6				3/3	✓	✓
Martin Tiplady OBE	6/6				3/3	✓	✓
Chris West	6/6	6/6	5/5			×	✓
Julian Healey	6/6	6/6	5/5			✓	✓
Kathy McArtee	6/6			5/6	3/3	✓	✓
Carole Mills	6/6		5/5	6/6		✓	✓
Glenn Harris MBE	6/6	5/6				✓	✓
David Taylor	6/6			5/6		✓	✓
Anna Simpson	6/6	6/6					
Darren Humphreys	4/6	6/6				✓	✓
Llewellyn Graham (co-optee)	5/6			3/6			

Board and Non-executive Members

John Edwards CBE

Chair, Non-executive Member

John, a trained quantity surveyor, has been our Chair since May 2014. His career includes working for major construction companies in the Midlands and North West. He was subsequently a project manager, operations director and then Chief Executive for the Rural Development Commission.

In 1999, John joined Advantage West Midlands (AWM). He was appointed Chief Executive in 2000 and led AWM to be independently validated as a high performing 4-star organisation. John stood down in 2008.

John then took on a number of Non-executive and advisory roles in the private and public sector. He was Chair of the Dudley Group of Hospitals, an NHS Foundation Trust in the Black Country, for four years until December 2014.

He stood down at the end of 2019 as Principal Fellow and strategic advisor to WMG, a department of the University of Warwick, where he sat on the Programme Board for the National Automotive Innovation Centre (NAIC), a partnership between WMG, Jaguar Land Rover and Tata Motors European Technology Centre. John has also chaired a gateway review into major construction projects at the University of Oxford. John was awarded a CBE for services to the regional economy and has received Honorary Doctorates from Aston, Birmingham, Warwick and Wolverhampton universities. He was named Midlands Property Personality of the Year in 2008.

Carole Mills

Non-executive Member

Carole joined our Board in September 2017. She is a member of the Audit and Risk Committee and chairs our Operations Committee, where she's led work on optimising the customer voice in our options appraisal and decision making.

Having started her career in the private financial services sector, she has almost 40 years' experience in the public sector in both the NHS and local government; with 18 of those at Chief Officer level. Carole has particular interest in housing, mental health, equalities and social issues.

A Fellow of the Chartered Institute of Public Finance & Accountancy and former Chief Finance Officer, she has a strong track record in corporate governance, financial strategy and organisational transformation.

She's held the role of CEO in three significant unitary authorities, most recently at Derby City Council and is currently also a Non-executive Director at University Hospitals Coventry & Warwickshire NHS Trust. Carole has experience as a charity trustee, school governor and board member in several other organisations

Chris West

Non-executive Member

Chris has been a member of our Board since September 2017. He is also highly experienced as a Non-executive Director in the private sector.

As a qualified accountant (CIPFA), finance has been at the heart of his roles, but he has managed a very wide range of services and organisations. He has a track record in delivering strategic change, transforming and modernising to create organisations that are robust, sustainable and capable of delivering their long term objectives in the current climate.

Chris moved on from his long-term role as Executive Director of Resources at Coventry City Council in 2017 and is pursuing a portfolio of consultancy and Board roles.

Kathy McAteer

Non-executive Member

Kathy joined our Board in September 2013. She has over 40 years' experience of social care and health, having previously worked as a Director of Adult Social Services within local government and as an executive director with an NHS Care Trust.

Subsequently, she has also provided consultancy support for a number of councils and voluntary organisations and has had experience of chairing adult safeguarding boards, adult serious case reviews and domestic homicide reviews.

Kathy's experience has been predominantly in the integration of health and social care services, both as a commissioner and a provider of services, and she has particular expertise in the fields of learning disability services and adult safeguarding. Kathy has recently completed her six year term of office as a Non-executive Director at Black Country Partnership NHS Foundation Trust.

Julian Healey

Non-executive Member

Julian is a chartered surveyor with over 40 years' experience of asset and property management and has been a member of our Board since September 2013. He is also the Chair of our Audit and Risk Committee.

He was head of the asset and property management division in one of the UK's national surveying practices for over 20 years and subsequently as Operations Director. He is currently the CEO of The Association of Property and Fixed Charge Receivers (Nara) and has worked closely with a wide range of stakeholders in the arena of property finance.

He is also an arbitrator specialising in landlord and tenant matters, an accredited expert witness and a member of the Insolvency Practitioners' Association Regulation & Conduct Committee.

Martin Tiplady OBE

Senior Independent Director

Martin is the Senior Independent Director of Midland Heart. He joined the Board in September 2014 and is the Managing Director of Chameleon People Solutions Ltd, a HR and management consultancy.

He was previously the Director of Human Resources of The Metropolitan Police until his retirement from that position in 2011. Before this, he was Director of Human Resources with The Berkeley Group PLC, Westminster Health Care Holdings PLC and The Housing Corporation. Martin is a Companion of the Chartered Institute of Personnel and Development and was previously their Vice President.

Martin was named by the Daily Telegraph as Personnel Director of the Year and, in 2019, as one of the most significant individuals in human resources today. He received an OBE for his services to policing and human resources in The Queen's Birthday Honours 2010 and is a sought-after speaker and commentator on employment, organisational development, diversity and HR matters.

Board and Non-Executive Members

Darren Humphreys

Non-executive Member

Darren started his career as a surveyor with Bryant Homes and has spent more than three decades working in the construction and housing industries.

In May 2019, he was appointed Chief Executive of Rectory Homes Ltd, and prior to this he held a number of senior positions in leading retirement community developers McCarthy & Stone. He also spent eight years as managing director of CALA Homes (Midlands) Ltd, being responsible for running the company's Midlands region with a particular focus on growing the land bank and three years prior as Managing Director of various regions with David Wilson Homes Ltd.

Darren has significant strategic and leadership experience, having contributed to boards from an executive perspective in large, complex organisations, including during periods of corporate restructuring and change. He has also recently completed a Post Graduate Diploma in Strategic Leadership with Warwick Business School at the Shard and is currently studying Microeconomics with University of Oxford.

Llewellyn Graham

Co-optee

Llewellyn has worked for more than 30 years in the voluntary, social housing and not-for-profit sectors, with a particular focus on serving multicultural communities. He is Chief Executive Officer of Nehemiah United Churches Housing Association, a community-based provider which supplies homes and culturally sensitive services to 4,000 customers from African Caribbean, Asian, Irish and European communities. He has served as Non-executive Director for several housing associations and not-for-profit organisations including Sanctuary, Trident, and a previous term here at Midland Heart.

Working with people has been a long-term passion for Llewellyn, who began his career as a social worker and for the past 21 years has held the role of senior pastor and area bishop for the Church of God of Prophecy.

Glenn Harris MBE

Chief Executive Officer and Board Member

Glenn has been Chief Executive of Midland Heart since March 2018. Prior to this he was our Executive Director of Corporate Services, responsible for strategy, finance, HR and IT.

Supported by the Executive team Glenn oversaw delivery of the final year of our *Fit for the Future* corporate plan and the development of our future strategy. Glenn is focused on us becoming a truly outstanding landlord and one of the country's leading developers of affordable homes.

Glenn joined us following a career spanning seven years at East Midlands Development Agency, where he spent five years as Executive Director of Corporate Services, followed by two years as Deputy Chief Executive. Prior to that, he was Deputy Chief Executive at NHS Logistics, supplying over £1bn of consumable goods to all NHS Trusts across England.

Baljinder Kang

Executive Director of Corporate Resources

Bal, who joined us in 2014, has nearly 25 years of generalist people management experience gained across the private, NHS, charitable and not-for-profit sectors. Since 2014, she has transformed our HR function and gained responsibility for the full breadth of the people agenda including health and safety, facilities management, corporate affairs and technology and transformation.

A Fellow of the Chartered Institute of Personnel & Development (CIPD) and named as one of HR Magazine's most influential HR practitioners in the not-for-profit sector for the past three consecutive years, Bal led the team to winning the 2017 CIPD award for Best Reward Initiative. Bal was promoted to our Executive team in May 2018.

Joe Reeves

Executive Director of Finance and Growth

Joe joined us in July 2013 following 15 years at PwC working in both public sector audit and advisory, and corporate finance infrastructure and government teams, having qualified as a Chartered Public Finance Accountant (CIPFA) in 2000.

Previously, Joe was our Executive Director of Strategy and Growth. He was appointed as Executive Director of Finance and Growth in April 2020. Joe is responsible for our housing development strategy, commercial projects, strategic planning, audit and risk, finance, treasury, procurement and external affairs functions.

As a Director at PwC, he acted as lead commercial advisor on major economic and social infrastructure public private partnership projects for Government across the UK with a combined value of £1.5bn.

David Taylor

Executive Director of Operations and Board Member

David joined us in 2009 as Head of Housing and became a member of the Executive team in 2015. He has strategic responsibility for all of our frontline services, which includes repairs, property investment, customer services and housing management. He is a member of the Chartered Institute of Housing and has over 20 years of experience working in the sector.

David's career started in housing management at Leicester City Council, but his experience now spans most areas of the housing sector including resident and community engagement, homelessness, supporting people commissioning and asset management.

Independent Auditor's Report

Opinion

We have audited the financial statements of Midland Heart Limited ("the association") for the year ended 31 March 2020 which comprise the Group Statement of Comprehensive Income, Association Statement of Comprehensive Income, Group Statement of Financial Position, Association Statement of Financial Position, Group Cash Flow Statement, Group and Association Statement of Movement in Reserves and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- Give a true and fair view, in accordance with UK accounting standards, FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, of the state of affairs of the group and the association as at 31 March 2020 and of its income and expenditure for the year then ended
- Comply with the requirements of the Co-operative and Community Benefit Societies Act 2014
- Have been properly prepared in accordance with the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2019

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group and the association in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The association's Board has prepared the financial statements on the going concern basis as they do not intend to liquidate the group or the association or to cease their operations, and as they have concluded that the group and the association's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Board's conclusions, we considered the inherent risks to the group's business model, including the impact of Brexit, and analysed how those risks might affect the group and association's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the association will continue in operation.

Other information

The association's Board is responsible for the other information, which comprises the Strategic Review, Operating and Financial Review, Corporate Plan, Risk Management, Treasury Management and Corporate Governance report, the Statement on Internal Control and the Directors' Report. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

Matters on which we are required to report by exception

Under the Co-operative and Community Benefit Societies Act 2014, we are required to report to you if, in our opinion:

- The association has not kept proper books of account
- The association has not maintained a satisfactory system of control over transactions
- The financial statements are not in agreement with the association's books of account
- We have not received all the information and explanations we need for our audit

We have nothing to report in these respects.

Board's responsibilities

As more fully explained in their statement set out on page 39, the association's Board is responsible for the preparation of financial statements which give a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to liquidate the group or the association or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the association in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014 and section 128 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to the association those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the association as a body, for our audit work, for this report, or for the opinions we have formed.

Harry Mears, for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Financial Statements
2019/20

Midland Heart Limited
Year ended 31 March 2020

Group Statement of Comprehensive Income

	Note	2020	2019
		£'000	£'000
Turnover	3	200,934	219,277
Operating expenditure	3	(139,701)	(151,498)
Surplus on disposal of property, plant and equipment	6	24,829	8,781
Surplus on revaluation of investment properties	11	304	500
Operating Surplus	**3**	**86,366**	**77,060**
Interest receivable	7	656	1,019
Interest and financing costs	8,25	(23,173)	(24,611)
Surplus before Tax	**9**	**63,849**	**53,468**
Taxation	10	(86)	(586)
Surplus for the year		**63,763**	**52,882**
Other comprehensive income			
Movement in fair value of cash flow hedged financial instruments	24	(10,946)	(1,869)
SHPS opening balance adjustment on initial recognition	25	-	(14,567)
Actuarial gain/(loss) on defined benefit scheme	25	24,414	(10,203)
Total comprehensive income for the year		**77,231**	**26,243**

The results for both years are wholly attributable to continuing activities.

These financial statements were approved by the Board of Directors on 23 July 2020 and signed on its behalf by:

Member	Member	Member
John Edwards, CBE	**Julian Healey**	**Glenn Harris, MBE**

Association Statement of Comprehensive Income

	Note	2020	2019
		£'000	£'000
Turnover	3	200,083	219,011
Operating costs	3	(139,197)	(151,031)
Surplus on disposal of property, plant and equipment	6	24,809	8,771
Operating Surplus	**3**	**85,695**	**76,751**
Interest receivable	7	656	1,018
Interest and financing costs	8,25	(22,868)	(24,401)
Gift Aid receivable		95	175
Surplus before Tax	**9**	**63,578**	**53,543**
Taxation	10	(2)	(552)
Surplus for the year		**63,576**	**52,991**
Other comprehensive income			
Movement in fair value of cash flow hedged financial instruments	24	(10,946)	(1,869)
SHPS opening balance adjustment on initial recognition	25	-	(14,567)
Actuarial gain/(loss) on defined benefit scheme	25	24,414	(10,203)
Total comprehensive income for the year		**77,044**	**26,352**

The results for both years are wholly attributable to continuing activities.

These financial statements were approved by the Board of Directors on 23 July 2020 and signed on its behalf by:

Member	Member	Member
John Edwards, CBE	**Julian Healey**	**Glenn Harris, MBE**

Financials

Group Statement of Financial Position

	Note	2020	2019
Fixed Assets		**£'000**	**£'000**
Tangible Assets:			
Housing properties	12	1,556,943	1,506,068
Investment properties	11	25,325	23,337
Other Fixed Assets	13	31,023	28,468
Homebuy loans receivable	14	100	112
Fixed Asset investments	15	2,144	2,451
Total Fixed Assets		**1,615,535**	**1,560,436**
Current Assets			
Debtors	17	13,974	12,895
Properties for sale and work in progress	18	5,432	5,422
Cash and cash equivalents	19	91,211	75,598
		110,617	**93,915**
Creditors: Amounts falling due within one year	20	(52,607)	(54,657)
Net Current Assets		**58,010**	**39,258**
Total Assets less Current Liabilities		**1,673,545**	**1,599,694**
Creditors: Amounts falling due after more than one year	21	(1,319,950)	(1,295,584)
Pension – defined benefit liability	25a	(17,209)	(44,955)
Total Net Assets		**336,386**	**259,155**
Reserves			
Revenue reserves		415,868	327,691
Cash flow hedge reserve		(79,482)	(68,536)
Total Reserves		**336,386**	**259,155**

The results for both years are wholly attributable to continuing activities.

These financial statements were approved by the Board of Directors on 23 July 2020 and signed on its behalf by:

Member — **John Edwards, CBE**

Member — **Julian Healey**

Member — **Glenn Harris, MBE**

Association Statement of Financial Position

	Note	2020	2019
Fixed Assets		**£'000**	**£'000**
Tangible Assets:			
Housing properties	12	1,562,148	1,510,749
Other Fixed Assets	13	22,920	20,282
Homebuy loans receivable	14	100	112
Investments	15	2,144	2,451
Investments in subsidiaries	16	6,067	6,067
Total Fixed Assets		**1,593,379**	**1,539,661**
Current Assets			
Debtors	17	14,162	13,770
Stock and Work in Progress	18	5,432	5,422
Cash and cash equivalents	19	90,434	74,594
		110,028	**93,786**
Creditors: Amounts falling due within one year	20	(58,258)	(60,894)
Net Current Assets		**51,770**	**32,892**
Total Assets less Current Liabilities		**1,645,149**	**1,572,553**
Creditors: Amounts falling due after more than one year	21	(1,297,592)	(1,274,294)
Pension – defined benefit liability	25a	(17,209)	(44,955)
Total Net Assets		**330,348**	**253,304**
Reserves			
Revenue reserves		409,830	321,840
Cash flow hedge reserve		(79,482)	(68,536)
Total Reserves		**330,348**	**253,304**

The results for both years are wholly attributable to continuing activities.

These financial statements were approved by the Board of Directors on 23 July 2020 and signed on its behalf by:

Member — **John Edwards, CBE**

Member — **Julian Healey**

Member — **Glenn Harris, MBE**

Group Cash Flow Statement

	Note	2020 £'000	2019 £'000
Cash flows from Operating Activities			
Operating Surplus		86,366	77,060
Adjustments for:			
Depreciation & Impairment charges		27,839	26,833
Amortisation of grant		(8,106)	(8,140)
Surplus on disposal of property, plant and equipment		(24,829)	(8,781)
Surplus on revaluation of investment properties		(304)	(500)
Interest received		656	1,019
Interest and financing costs (including capitalised interest)		(25,118)	(26,403)
Increase in debtors		(1,105)	(1,762)
Increase in stock		(2,322)	(3,240)
Decrease in creditors		(4,757)	(58,077)
(Decrease)/Increase in pension defined benefit liability		(4,325)	44,955
Tax paid		(326)	(376)
Net Cash flow from Operating Activities		**43,669**	**42,588**
Cash Flows from Investing Activities			
Acquisition and construction of housing properties		(101,051)	(71,820)
Social Housing Grant received		21,341	5,129
Sales of housing properties		59,053	50,389
Net decrease in investments and loans to other associations		207	383
Purchase of other tangible fixed assets		(6,088)	(2,402)
Sales of other tangible fixed assets		-	-
Decrease in short term deposits		-	-
Net Cash flow from Investing Activities		**(26,538)**	**(18,321)**
Cash Flows from Financing Activities			
Loan advances received		11,730	3,795
Loan principal repayments		(13,248)	(32,005)
Net Cash flow from Financing Activities		**(1,518)**	**(28,210)**
Net Increase/(Decrease) in cash & cash equivalents	**34**	**15,613**	**(3,943)**
Cash and cash equivalents at the start of the year		75,598	79,541
Cash and cash equivalents at the end of the year		**91,211**	**75,598**

Statement of Movements in Reserves

Group	**Income and Expenditure Reserves**	**Cash Flow Hedge Reserve £'000**	**Total Reserves £'000**
At 1st April 2018	299,579	(66,667)	232,912
Surplus for the Year	52,882	-	52,882
Movement in cash flow hedge	-	(1,869)	(1,869)
Movement in defined benefit pension obligations	(24,770)	-	(24,770)
At 31 March 2019	327,691	(68,536)	259,155
Surplus for the Year	63,763	-	63,763
Movement in cash flow hedge	-	(10,946)	(10,946)
Movement in defined benefit pension obligations	24,414	-	24,414
At 31 March 2020	**415,868**	**(79,482)**	**336,386**

Association	**Income and Expenditure Reserves**	**Cash Flow Hedge Reserve £'000**	**Total Reserves £'000**
At 1st April 2018	293,619	(66,667)	226,952
Surplus for the Year	52,991	-	52,991
Movement in cash flow hedge	-	(1,869)	(1,869)
Movement in defined benefit pension obligations	(24,770)	-	(24,770)
At 31 March 2019	321,840	(68,536)	253,304
Surplus for the Year	63,576	-	63,576
Movement in cash flow hedge	-	(10,946)	(10,946)
Movement in defined benefit pension obligations	24,414	-	24,414
At 31 March 2020	**409,830**	**(79,482)**	**330,348**

Notes to the Financial Statements
(forming part of the financial statements)

1. Legal Status

Midland Heart Limited is a Registered Society limited by shares registered under the Co-operative and Community Benefit Societies Act 2014 (Registration number 30069R) and with the Regulator of Social Housing (Registration number L4466). Midland Heart Limited is a public benefit entity.

The registered office is 20 Bath Row, Birmingham, B15 1LZ.

Details of the group entities are set out in Note 31.

2. Accounting policies

2a. Basis of Accounting

The financial statements of the Group (Midland Heart Ltd and its group entities) are prepared in accordance with Financial Reporting Standard 102 – The applicable financial reporting standard in the UK and Republic of Ireland (FRS102) and the Statement of Recommended Practice: Accounting 2019 and comply with the Accounting Direction for Private Registered Providers of Social Housing 2019, the Co-operative and Community Benefit Societies Act 2014 and the Housing Regeneration Act 2008.

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

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

Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements:

Tangible fixed assets

Other than investment properties, tangible fixed assets are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation, 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.

Impairment

The estimated net realisable value of properties developed for outright/shared ownership sales and work in progress has been reviewed in light of COVID-19. An estimate based on a 10% reduction in net sales proceeds has been applied to the stock under review. This resulted in an impairment provision of £364k. If there was a 5% reduction the impairment would be reduced to £225k.

Bad debts

The recoverability of rental and trade debtors is assessed based on the likelihood of collection, on a portfolio basis for rental debtors and an individual basis for sales debtors.

Revaluation of investment properties

The Group carries its investment property at fair value, with changes in fair value being recognised in the Statement of Comprehensive Income. The Group engaged independent valuation specialists to determine fair value at 31 March 2020. The valuer used a valuation technique based on a discounted cash flow model. The determined fair value of the investment property is most sensitive to the estimated yield as well as the long term vacancy rate. The key assumptions used to determine the fair value of investment property are further explained in note 11.

Pension and other post-employment benefits

The cost of defined benefit pension plans and other post-employment benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases.

The Group participates in a defined benefit plan as set out below

Social Housing Pension Scheme

SHPS is a multi-employer scheme which provides benefits to non-associated employers. The scheme is classified as a defined benefit scheme. For financial years ending on or before 28 February 2019, it was not possible for the Group to obtain sufficient information to account for the liability on a full FRS 102 valuation basis so it was accounted for as a defined contribution scheme where the net present value of the deficit contributions were recognised in the accounts as creditors falling within and more than one year.

As a result of additional information, SHPS are now able to split the pension liability by employer which has resulted in the scheme liability being accounted for adopting a full FRS 102 valuation for financial years on or after 31 March 2019. Further details are given in note 25.

Impairment of non-financial assets

Reviews for impairment of housing properties are carried out when a trigger has occurred and any impairment loss in a cash generating unit is recognised by a charge to the Statement of Comprehensive Income. Impairment is recognised where the carrying value of a cash generating unit exceeds the estimated recoverable amount. A cash generating unit is normally a group of properties at scheme level whose cash income can be separately identified.

2b. Basis of consolidation

The consolidated financial statements incorporate the results of Midland Heart Limited and all of its subsidiary undertakings as at 31 March 2020 using the acquisition or merger method of accounting, as required. Where the acquisition method is used, the results of subsidiary undertakings are included from the date of acquisition, being the date the Group obtains control.

2c. Measurement convention

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

2d. Going concern

The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The Group prepares a 30 year business plan which is updated and approved on an annual basis. The most recent business plan was approved in June 2020 by the Board. As well as considering the impact of a number of scenarios on the business plan, the Board also adopted a stress testing framework against the base plan. The stress testing impacts were measured against loan covenants and peak borrowing levels compared to agreed facilities, with potential mitigating actions identified to reduce expenditure. Following the outbreak of COVID-19 the Group has undertaken a series of further scenario testing including severe but plausible downsides in the worst case assessment.

The Board, after reviewing the group and company budgets for 2020/21 and the group's medium term financial position as detailed in the 30-year business plan including changes arising from the COVID-19 pandemic, is of the opinion that, taking account of severe but plausible downsides, the Group and company have adequate resources to continue in business for the foreseeable future. In order to reach this conclusion, the Board have considered through multi-variant stress testing:

- The property market – budget and business plan scenarios have taken account of delays in handovers, lower numbers of property sales, reductions in sales values and potential conversion of market sale to social homes
- Maintenance costs – budget and business plan scenarios have been modelled to take account of cost increases and delays in maintenance expenditure, with major works being phased into future years
- Rent and service charge receivable – arrears and bad debts have been increased to allow for customer difficulties in making payments and budget and business plan scenarios to take account of potential future reductions in rents
- Liquidity – current available cash and unutilised loan facilities of c£238m which gives significant headroom for committed spend and other forecast cash flows that arise
- The group's ability to withstand other adverse scenarios such as higher interest rates and number of void properties

The Board believe the Group and company has sufficient funding in place and expect the Group to be in compliance with its debt covenants even in severe but plausible downside scenarios.

Consequently, the Directors are confident that the Group and Association will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

2e. Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

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

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases.

Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease.

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

2f. Housing Properties

Tangible housing fixed assets principally available for rent are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes the cost of acquiring land and buildings (including applicable stamp duty), construction costs, directly attributable development and administration costs, interest at the average cost of borrowing for the development period, and expenditure incurred in respect of improvements which comprise the modernisation and extension of existing properties.

Directly attributable development costs are the labour costs arising from acquisition or construction, and the incremental costs that would have been avoided only if the property had not been constructed or acquired.

Housing properties in the course of construction are stated at cost and are not depreciated. They are transferred into housing properties held for letting at practical completion.

Shared ownership properties are split between fixed and current assets, with the element relating to the expected first tranche sale being treated as a current asset. Any surplus made on the sale of the first tranche is treated as turnover in the Statement of Comprehensive Income in accordance with the treatment in SORP 2014. Second and subsequent tranche surpluses or deficits are shown on a net basis before operating surplus has been determined.

Depreciation

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.

Depreciation is charged to the Statement of Comprehensive Income on a straight-line basis over the estimated useful lives of each component. Land is not depreciated.

The estimated useful lives are as follows:

- Structure 100 years
- Boilers 15 years
- Windows and doors 30 years
- Roofs 75 years
- Kitchens 20 years
- Bathrooms 30 years
- Heating 30 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

Properties held on leases (and associated components) are depreciated over the shorter of the length of the lease, or their estimated useful life.

Non-component works to existing properties

The amount of expenditure incurred which relates to an improvement, which is defined as an increase in the net rental stream or the life of a property, has been capitalised. Expenditure incurred on other major repairs, cyclical and day-to-day repairs to housing properties is charged to the Statement of Comprehensive Income in the period in which it is incurred.

Interest capitalised

Interest on borrowings is capitalised to housing properties during the course of construction up to the date of completion of each scheme. The interest capitalised is either on borrowings specifically taken to finance a scheme or on net borrowings to the extent that they are deemed to be financing a scheme. This treatment applies irrespective of the original purpose for which the loan was raised. For the period ending 31 March 2020, interest has been capitalised at an average rate of 4.25% (2019: 4.5%) that reflects the weighted average effective interest rate on the Group's borrowings required to finance housing property developments.

2g. Other tangible fixed assets

Other tangible assets include those assets with an individual value in excess of £500.

Depreciation is provided evenly on the cost of other tangible fixed assets to write them down to their estimated residual values over their expected useful lives. No depreciation is provided on freehold land. The principal annual rates used for other assets are:

Freehold office buildings	50 years
Furniture and equipment	3 to 28 years (dependent on whether item is service chargeable)
Motor vehicles	4 years
Computers and software	3 or 6 years

2h. Investments

Investments in subsidiaries are measured at cost less accumulated impairment. Where merger relief is applicable, the cost of the investment in a subsidiary undertaking is measured at the nominal value of the shares issued together with the fair value of any additional consideration paid.

Investments in unlisted company shares, which have been classified as fixed asset investments as the Group intends to hold them on a continuing basis, are re-measured to market value at each balance sheet date. Gains and losses on re-measurement are recognised in Statement of Comprehensive Income for the period.

Current asset investments

Current asset investments include cash and cash equivalents invested for periods of more than 24 hours. They are recognised initially at cost and subsequently at amortised cost.

2i. Social Housing and other government grants

Where developments have been financed wholly or partly by social housing and other grants, 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 (not land), under the accruals model. SHG received for items of cost written off in the Statement of Comprehensive Income and included as part of Turnover.

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

SHG must be recycled by the Group under certain conditions, if a property is sold, or if another relevant event takes place. In these cases, the SHG can be used for projects approved by the Homes and Communities Agency and Greater London Authority. However, SHG may have to be repaid if certain conditions are not met. If grant is not required to be recycled or repaid, any unamortised grant is recognised as Turnover. In certain circumstances, SHG may be repayable, and, in that event, is a subordinated unsecured repayable debt.

Non-monetary government grant

On disposal assets for which non-monetary government grants are held as liabilities in the Statement of Financial Position, the unamortised amount in creditors is derecognised and recognised as income in the Statement of Comprehensive Income.

Recycling of Capital Grant

Where Social Housing Grant is recycled, as described above, the SHG is credited to a fund which appears as a creditor until used to fund the acquisition of new properties, where recycled grant is known to be repayable it is shown as a creditor within one year.

Disposal Proceeds Fund (DPF)

This fund is now closed and the creditor is carried forward until it is used to fund the acquisition of new social housing.

Properties developed for outright sale

Shared ownership first tranche sales and completed properties for outright sale are disclosed as a current asset, stated at the lower of cost and net realisable value. Cost comprises materials, direct labour costs and other direct overheads. Net realisable value is based on the estimated sales price after allowing for all further costs of completion and disposal.

2j. 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.

2k. Supported Housing Managed by Agencies

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

Where the Group holds the support contract with the Supporting People Administering Authority and carries the financial risk, all of the project's income and expenditure is included in the Group's Statement of Comprehensive Income. Where the agency holds the support contract with the Supporting People Administering Authority and carries the financial risk, the Statement of Comprehensive Income includes only that income and expenditure which relates solely to the Group.

2l. Cash and cash equivalents

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

2m. Business combinations

Business combinations are accounted for using the purchase method as at the acquisition date, which is the date on which control is transferred to the company.

2n. Investment property

Investment property includes commercial and other properties not held for the social benefit of the Group. Investment property is measured at cost on initial recognition, which includes purchase cost and any directly attributable expenditure, and subsequently at fair value at the reporting date. Fair value is determined annually by external valuers and derived from the current market rents and investment property yields for comparable real estate, adjusted if necessary for any difference in the nature, location or condition of the specific asset. No depreciation is provided. Changes in fair value are recognised in the Statement of Comprehensive income.

2o. Impairment

Financial assets (including trade and other debtors)

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

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

Non-financial assets

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount or service potential (depreciated replacement cost).

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

2p. Employee benefits

The Group participates in the Social Housing Pension Scheme, a multi-employer defined benefit final salary scheme managed by The Pensions Trust. Contributions are based on pension costs across the various participating associations taken as a whole. The assets of the scheme are invested and managed separately from those of the Group in an independently administered fund.

A full actuarial valuation for the scheme, which was carried out with an effective date of 30 September 2017, showed a substantial deficit; to eliminate this funding shortfall, the trustees and the participating employers have agreed that additional contributions will be paid, in combination from all employers. Further details are given in Note 25 to the financial statements.

The difference between the value of defined benefit pension scheme assets and the defined benefit pension scheme liabilities is recorded on the Statement of Financial Position as a defined pension liability.

Defined benefit pension scheme assets are measured at fair value using the market value of the assets of the scheme applied to the Group's percentage share of the total funding liabilities of the scheme. Defined benefit pension scheme liabilities are measured by calculating the liability for the appropriate members linked to the Group. The liabilities for orphan members (members with no remaining sponsorship employer for historical reasons) has been allocated to each employer's share of the overall liabilities.

Expenses, representing the cost to SHPS of running the scheme, is included in operating costs. Net interest cost is calculated by applying the discount rate used for the scheme liabilities to the net obligation.

Changes in the defined benefit obligation that arise from:

- Differences between the return on scheme assets and interest income included in the Statement of Comprehensive Income
- Actuarial gains and losses from experience adjustments
- Changes in demographic or financial assumptions are classified as remeasurements, charged or credited to other comprehensive income in the period in which they arise

The defined benefit scheme was closed to new members in October 2010. A defined contribution scheme is in place to new members. Employer contributions to this scheme are charged to the Statement of Comprehensive Income as they are incurred.

The disclosures in these financial statements follow the requirements of Section 28 of FRS 102 in relation to multi-employer funded schemes in which the Group has a participating interest.

Termination benefits

Termination benefits are recognised as an expense when the company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the company has made an offer of voluntary redundancy, it is probably that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

2q. Provisions

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

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

2r. Turnover

Turnover represents rental and service charge income receivable (net of void losses), fees receivable, proceeds from first tranche sales of low-cost home ownership and from properties developed for open market sales, grants from local authorities and amortisation of Social Housing Grant (SHG) from Homes England under the accrual model.

Rental income is recognised on the execution of tenancy agreements. Proceeds on sales are recognised on practical completions. Other income is recognised as receivable on the delivery of services provided.

2s. Service charges

Service charge income and costs are recognised on an accruals basis. The Group operates both fixed and variable service charges on a scheme by scheme basis in full consultation with residents. Where variable service charges are used the charges will include an allowance for the surplus or deficit from prior years, with the surplus being returned to residents by a reduced charge and a deficit being recovered by a higher charge. Until these are returned or recovered they are held as creditors or debtors in the Statement of Financial Position.

Where periodic expenditure is required a provision may be built up over the years, in consultation with the residents; until these costs are incurred this liability is held in the Statement of Financial Position within long term creditors.

2t. Expenses

Cost of sales

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

Operating leases

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

Finance lease

The interest element of rental obligations is charged to the Statement of Comprehensive Income over the period of the lease in proportion to the balance of capital repayments outstanding. Contingent rents are charged as expenses in the periods in which they are incurred.

Repairs and Maintenance

Due to the number of properties held and the establishment of regular programmes of repair and maintenance, the Group does not make provision for future works but charges actual costs incurred to the Statement of Comprehensive Income in the year in which they are incurred.

Interest receivable and Interest payable

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities, loan fees, and finance leases recognised in income and expenditure using the effective interest method and unwinding of the discount on provisions that are recognised in the Statement of Comprehensive Income (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of Housing Properties that take a substantial time to be prepared for use are capitalised up to the date of practical completion of the scheme based on the average rate paid on borrowings.

Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable are recognised in income and expenditure as they accrue. Dividend income is recognised in the Statement of Comprehensive Income on the date the company's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

Taxation

Current tax is recognised for the amount of income tax payable in respect of the taxable surplus for the current or past reporting periods using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred taxation

Deferred tax is recognised in respect of all timing differences at the reporting date, except as otherwise indicated.

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

Deferred tax liabilities are presented within provisions for liabilities and deferred tax assets within debtors. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities.

Value Added Tax

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

2u. Related Party Transactions

The Association is exempt from the requirement of Financial Reporting Standard 102 to disclose transactions between Group undertakings as all companies are controlled and managed by Governing Bodies and an Executive Board appointed by the Board of Management of the Parent Company.

2v. Financial Instruments

Midland Heart accounts for its financial instruments under FRS 102.

Financial instruments which meet the criteria of a basic financial instrument as defined in Section 11 of FRS102 are accounted for under an amortised cost model. These include loans whereby there are two-way breakage clauses. These are regarded as basic as their purpose is to minimise breakage costs where the rates are in our favour and not to act as an option for investment purposes. To do so would contradict our treasury management policy.

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

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

Non-basic financial instruments include all non-basic instruments and derivatives such as swaps and are accounted for under section 12 of FRS102 and measured at fair value through the Statement of Comprehensive Income unless hedge accounting is applied.

All financial assets or liabilities at fair value are calculated using measurements based on inputs that are observable for the asset either directly or indirectly from quoted prices. Loans and Bonds are valued at amortised cost and market values for the stand alone swaps are obtained by discounting the cash flows at the prevailing swap curve. All other assets and liabilities are shown at historical book value.

Midland Heart's variable rate debt is partly covered by interest rate hedges using standalone interest rate swaps and in accordance with FRS 102, hedge accounting has been applied to all standalone swaps.

Hedging

Interest rate swaps relate to fixing variable rate interest and are therefore designated as cash flow hedges.

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable transaction, which could affect income or expenditure. They are measured at fair value at each reporting date. Gains and losses on cash flow hedges which are highly effective are recognised in Other Comprehensive Income and accumulated in the cash flow hedge reserve. Any ineffective portion of a gain or loss on cash flow hedges is recognised in the Statement of Comprehensive Income.

In order to apply hedge accounting, an economic relationship must exist between the hedged item and the hedging instrument. The Group must formally designate and document the hedging relationship at inception so that the risk being hedged, the hedged item and the hedging instrument are clearly identified, and the risk management objective and for undertaking the hedge. It is also required to determine and document the causes of hedge ineffectiveness.

In a cash flow hedge, if the hedged future cash flows are no longer expected to occur, the amount that has been accumulated in the cash flow hedge reserve is reclassified from the cash flow hedge reserve to the Statement of Comprehensive Income immediately.

All of the Groups stand-alone swaps satisfy the above criteria and the group has chosen to test the effectiveness of its hedges annually.

Impairment

Financial assets are assessed at each reporting date to determine whether there is any objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence of impairment, an impairment loss is recognised in the Statement of Comprehensive Income immediately.

The following financial instruments are assessed individually for impairment:

(a) All equity instruments regardless of significance

(b) Other financial assets that are individually significant

Other financial instruments are assessed for impairment either individually or grouped on the basis of similar credit risk characteristics.

2w. Segmental Reporting

Segmental reporting is presented in the consolidated financial statements in respect of the Group's business segments, which are the primary basis of of segmental reporting. The business segmental reporting is disclosed across notes 3a to 3d, and reflects the Group's management and internal reporting structure.

Segmental results include items directly attributable to the segment as well as those that can be allocated on a reasonable basis. As the Group has no material activities outside the UK, segmental reporting is not required by geographical region. The chief operating decision-makers (CODM) have been identified as the Group's Executive Board. The CODM review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments as general needs housing, supported housing, residential care homes and shared ownership accomodation. This is appropriate on the basis of the similiarity of services provided, the nature of the risks associated and the nature of the regulatory environment in which the Group operates. The CODM assess the performance of the operating segments in a manner consistent with that in the financial statements.

3a. Group Turnover, Operating Costs, Operating Expenditure and Operating Surplus

	2020					2019
	Turnover	**Operating costs**	**Surplus on disposals**	**Surplus on investment properties**	**Operating Surplus/ (Deficit)**	**Operating Surplus/ (Deficit)**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Social Housing Lettings	**174,065**	**115,049**	**-**	**-**	**59,016**	**63,743**
Other Social Housing Activities:						
Community regeneration activities	-	-	-	-	-	1
Development services and costs not capitalised	-	59	-	-	(59)	(37)
1st tranche shared ownership sales	11,552	9,691	-	-	1,861	1,756
Other income	2,134	1,854	-	-	280	622
Total	**13,686**	**11,604**	**-**	**-**	**2,082**	**2,342**
Activities other than Social Housing Lettings:						
Properties developed for outright sale	2,374	2,479	-	-	(105)	2,905
Charges for support services	7,730	9,174	-	-	(1,444)	(2,434)
Market rent lettings	1,280	504	-	-	776	494
Student lettings	270	92	-	-	178	169
Commercial	983	517	-	-	466	560
Leased to other bodies	546	282		-	264	-
Disposal of property, plant and equipment	-	-	24,829	-	24,829	8.781
Revaluation of investment properties	-	-	-	304	304	500
Total	**13,183**	**13,048**	**24,829**	**304**	**25,268**	**10,975**
Total from Social and Non-Housing Activities	**200,934**	**139,701**	**24,829**	**304**	**86,366**	**77,060**

3b. Group Turnover, Operating Costs and Operating Surplus (continued)

Particulars of turnover and operating expenditure from Social Housing Lettings

	2020					2019
	General Needs Housing	**Supported Housing**	**Residential Care Homes**	**Shared Ownership Accommodation**	**Total**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Rent receivable net of identifiable service charges, net of voids	112,229	19,356	-	5,270	136,885	136,569
Service charge income	6,571	16,559	-	1,186	24,316	23,279
Amortised Government Grants (Accrual model)	6,090	1,641	21	244	7,996	8,097
Net Rental Income	**124,890**	**37,556**	**21**	**6,700**	**169,167**	**167,945**
Other income	1,007	2,879	333	679	4,898	4,951
Turnover from Social Housing Lettings	**125,897**	**40,435**	**354**	**7,379**	**174,065**	**172,896**
Management	17,518	10,122	48	1,526	29,214	29,698
Service charge costs	7,864	16,489	80	1,101	25,534	22,998
Routine maintenance	19,445	3,337	66	83	22,931	21,443
Planned maintenance	5,280	1,179	16	7	6,482	5,757
Major repairs expenditure	2,934	2,082	65	11	5,092	4,077
Impairment of housing properties	-	307	-	57	364	-
Depreciation of housing properties	19,009	3,892	95	723	23,719	23,289
Bad debts	1,425	300	-	(12)	1,713	1,891
Operating Costs on Social Housing Lettings	**73,475**	**37,708**	**370**	**3,496**	**115,049**	**109,153**
Operating Surplus on Social Housing Lettings	**52,422**	**2,727**	**(16)**	**3,883**	**59,016**	**63,743**
Void losses	(895)	(1,048)	-	(57)	(2,000)	(1,945)

3c. Association Turnover, Operating Costs, Operating Expenditure and Operating Surplus

	2020				2019
	Turnover	Operating Costs	Surplus on disposals	Operating Surplus/ (Deficit)	Operating Surplus/ (Deficit)
	£'000	£'000	£'000	£'000	£'000
Social Housing Lettings	**174,233**	**115,049**	**-**	**59,184**	**63,911**
Other Social Housing Activities:					
Community regeneration activities	-	-	-	-	1
Development services and costs not capitalised	429	59	-	370	658
1st tranche shared ownership sales	11,552	9,691	-	1,861	1,756
Other income	1,966	1,854	-	112	454
Total	**13,947**	**11,604**	**-**	**2,343**	**2,869**
Activities other than Social Housing Lettings:					
Properties developed for outright sale	2,374	2,479	-	(105)	2,905
Charges for Support Services	7,730	9,174	-	(1,444)	(2,434)
Student lettings	270	92	-	178	169
Commercial	983	517	-	466	560
Leased to other bodies	546	282	-	264	-
Disposal of property, plant and equipment	-	-	24,809	24, 809	8,771
Total	**11,903**	**12,544**	**24,809**	**24,168**	**9,971**
Total from Social and Non-Housing Activities	**200,083**	**139,197**	**24,809**	**85,695**	**76,751**

3d. Association Turnover, Operating Costs and Operating Surplus (continued)

	2020					2019
	General Needs Housing	Supported Housing	Residential Care Homes	Shared Ownership Accommodation	Total	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Rent receivable net of identifiable service charges, net of voids	112,229	19,356	-	5,270	136,855	136,569
Service charge income	6,571	16,559	-	1,186	24,316	23,279
Amortised Government Grants (Accrual model)	6,090	1,641	21	244	7,996	8,097
Net Rental Income	**124,890**	**37,556**	**21**	**6,700**	**169,167**	**167,945**
Other income	1,175	2,879	333	679	5,066	5,119
Turnover from Social Housing Lettings	**126,065**	**40,435**	**354**	**7,379**	**174,233**	**173,064**
Management	17,518	10,122	48	1,526	29,214	29,698
Service charge costs	7,864	16,489	80	1,101	25,534	22,998
Routine maintenance	19,445	3,337	66	83	22,931	21,443
Planned maintenance	5,280	1,179	16	7	6,482	5,757
Major repairs expenditure	2,934	2,082	65	11	5,092	4,077
Impairment of housing properties	-	307	-	57	364	-
Depreciation of housing properties	19,009	3,892	95	723	23,719	23,289
Bad debts	1,425	300	-	(12)	1,713	1,891
Operating Costs on Social Housing Lettings	**73,475**	**37,708**	**370**	**3,496**	**115,049**	**109,153**
Operating Surplus on Social Housing Lettings	**52,590**	**2,727**	**(16)**	**3,883**	**59,184**	**63,991**
Void losses	(895)	(1,048)	-	(57)	(2,000)	(1,945)

4. Directors' Emoluments

	2020	2019
	£'000	£'000
Aggregate Emoluments payable to Directors (including pension contributions and benefits in kind)	**949**	**938**
Emoluments (excluding pension contributions) payable to the Chief Executive who was also the highest paid Director	**263**	**248**

Pension contributions for the Chief Executive were paid as a supplement to his salary.

There were 4 Directors in the Group's pension scheme described in note 25 (2019: 4). Two other directors (including the Chief Executive) received contributions paid as a supplement to their salary, which are included in taxable benefits.

For the purposes of this note, Directors are defined as members of the Board of Management and the Executive Board.

Included in the above are the emoluments in respect of the Directors' services in connection with the affairs of subsidiary undertakings.

The members of the Executive Board were remunerated as follows:

Director	Position	Date of Appointment	Date of Resignation	Salaries	Taxable benefits	Pensions & Equivalent	Total 2020	Total 2019
				£'000	£'000	£'000	£'000	£'000
Glenn Harris	Chief Executive Officer	29/03/2018		235	13	15	263	248
Anna Simpson	Executive Director of Finance and Resources	13/11/2018	09/04/2020	156	9	10	175	65
David Taylor	Executive Director of Operations	15/04/2015		164	9	13	186	179
Joe Reeves	Executive Director of Finance and Growth	08/07/2013		157	9	10	176	171
Baljinder Kang	Executive Director of Corporate Resources	01/06/2018		132	9	8	149	119

The aggregate amount of Directors' Pensions recognised within these financial statements for the year ended 31 March 2020 is £41k (2019: £33k).

The aggregate compensation for loss of office of key management personnel was £93k (2019: £156k). The post of Executive Director of Finance & Resources was made redundant, and compensation for loss of office of £93k has been accrued in these financial statements and was paid after the year end.

4. Directors' Emoluments (continued)

Members of the Board of Management, subsidiary Boards and Committees have been remunerated as follows:

		2020	2019
		£'000	£'000
John Edwards		27	25
Julian Healey		12	11
Martin Tiplady		12	11
Carole Mills		12	11
Chris West		12	11
Kathleen McAteer		10	9
Darren Humphreys	Appointed 01/05/2019	9	-
Llewellyn Graham	Appointed 01/05/2019	9	-
Mina Parmar	Resigned 08/11/2018	-	6
James Lockyer		2	3
Michael Blenkinsop		2	2
Abigale Leigh Bromfield		2	2
Trevor Caffull		2	2
Dasos Christou		2	2
Paul Doona	Resigned 31/03/2019	-	2
Paul Field		2	2
Thomas Forty		2	2
Thomas O'Flaherty		2	2
Trevor Routledge		2	2
Keith Sexton	Resigned 31/03/2019	-	2
Debra Smith		2	2
Trevor Stanley		2	2
Zaheda Vaid		1	2
Rebecca Zurek		2	2
Nicola Bartley	Appointed 01/04/2019	2	-
Caroline Waters	Appointed 01/03/2019	2	-
		132	**115**

5. Employee Information

	Group		Association	
	2020	2019	2020	2019
	Number	Number	Number	Number
Asset Management	180	183	180	183
Central Services	164	156	164	156
Development	16	16	16	16
Operations	801	996	801	996
Average number of employees expressed as full time equivalents	**1,161**	**1,351**	**1,161**	**1,351**

A Full Time Equivalent employee is classified as working a fully contracted 35 hour week.

Staff Costs (for the above persons).

	Group		Association	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Wages & Salaries	35,150	37,805	35,150	37,805
Social Security Costs	3,425	3,526	3,425	3,526
Other Pension Costs	1,315	1,327	1,315	1,327
	39,890	**42,658**	**39,890**	**42,658**

The pension cost charge represents contributions payable to the pension fund.

Salary banding for all employees earning over £60,000 (including salaries, performance related pay, benefits in kind, compensation for loss of office, and pension contributions):

Salary Range	2020	2019
	Number	Number
£310,000 to £320,000	-	1**
£270,000 to £310,000	-	-
£260,000 to £270,000	2*	-
£250,000 to £260,000	-	-
£240,000 to £250,000	-	1
£190,000 to £240,000	-	-
£180,000 to £190,000	1	-
£170,000 to £180,000	1	2
£150,000 to £170,000	-	-
£140,000 to £150,000	1	-
£130,000 to £140,000	1	1
£120,000 to £130,000	-	1
£110,000 to £120,000	1	-
£100,000 to £110,000	3	4
£90,000 to £100,000	5	5
£80,000 to £90,000	3	3
£70,000 to £80,000	13	4
£60,000 to £70,000	25	18
	56	**40**

* This includes a combination of salary paid during 19-20 and compensation for loss of office accrued for 20-21 (refer to note 4) for one employee.

** This was a combination of salary paid during 18-19 and compensation for loss of office paid in 19-20.

6a. Surplus on Sale of Fixed Assets – Group

	2020			2019		
	Proceeds	Cost of Sales	Surplus	Proceeds	Cost of Sales	Surplus
	£'000	£'000	£'000	£'000	£'000	£'000
Staircasing on Shared Ownership	5,199	3,204	1,995	6,561	3,907	2,654
Other Property Sales	40,538	17,704	22,834	13,948	7,821	6,127
	45,737	**20,908**	**24,829**	**20,509**	**11,728**	**8,781**

6b. Surplus on Sale of Fixed Assets - Association

	2020			2019		
	Proceeds	Cost of Sales	Surplus	Proceeds	Cost of Sales	Surplus
	£'000	£'000	£'000	£'000	£'000	£'000
Staircasing on Shared Ownership	5,199	3,204	1,995	6,561	3,907	2,654
Other Property Sales	40,518	17,704	22,814	13,840	7,723	6,117
	45,717	**20,908**	**24,809**	**20,401**	**11,630**	**8,771**

7. Interest receivable and similar income

	Group		Association	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Interest receivable on financial assets measured at amortised cost:				
Interest on investments	480	438	480	437
Equity Investment realisation	176	581	176	581
Total interest receivable and similar income	**656**	**1,019**	**656**	**1,018**

8. Interest and Financing costs

	Group		Association	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Interest payable on financial liabilities measured at amortised cost:				
Housing loans	15,019	16,343	14,671	16,107
Discounted bonds	1,502	1,456	1,502	1,456
Interest on finance leases	622	622	622	622
Notional interest on Recycled Capital Grant Fund	77	30	77	30
Interest on derivatives treated as fair value hedging instruments:	**17,220**	**18,451**	**16,872**	**18,215**
Interest payable on loan swap arrangements	5,998	6,048	5,998	6,048
Interest capitalised	(2,036)	(1,682)	(1,930)	(1,551)
Loan fees	998	873	935	768
Interest paid on early repayment of loan	-	-	-	-
Unwinding of discount on Social Housing Pension Scheme liability	-	-	-	-
Change to measurement of net finance cost on Social Housing Pension Scheme liability	993	921	993	921
Total interest and financing costs	**23,173**	**24,611**	**22,868**	**24,401**

Interest was capitalised at an average rate of 4.25% (2019: 4.5%).

9. Surplus before Taxation is stated after charging:

	Group		Association	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Depreciation of housing property fixed assets	24,069	23,526	24,069	23,526
Depreciation of non-housing property fixed assets	3,406	3,307	3,206	3,110
Auditors' remuneration - Audit fees				
- Group fees	88	85	88	85
- Other Group services	36	36	36	36
Payments under Operating Leases				
- Plant	548	507	548	507
- Office	35	28	35	28

10. Taxation on Surplus on Ordinary Activities

a) Analysis of charge in the period - Group	2020	2019
	£'000	£'000
United Kingdom Corporation Tax on surplus of the period	62	577
Adjustments in respect of prior years	(2)	-
	60	**577**
Deferred tax	26	9
	86	**586**

a) Analysis of charge in the period - Association	2020	2019
	£'000	£'000
United Kingdom Corporation Tax on surplus of the period	-	552
Adjustments in respect of prior years	2	-
	2	**552**
Deferred tax	-	-
	2	**552**

10. Taxation on Surplus on Ordinary Activities (continued)

Factors affecting the tax charge for the year

The Corporation Tax charge is lower (2019: lower) than that resulting from applying the standard rate of Corporation Tax of 19% (2019: 19%) to the surplus before taxation.

The differences are explained below:

	Group		Association	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Surplus on ordinary activities before tax	63,849	53,468	63,578	53,543
Tax payable at 19% (2019: 19%) thereon	12,131	10,159	12,080	10,173
Expenses not deductible for tax purposes	-	-	-	-
Income not taxable for tax purposes	(58)	(120)	-	-
Amounts charged/(credited) directly to equity or otherwise transferred	-	-	-	-
Current tax charged/(credited) directly to equity	-	-	-	-
Fixed Asset differences	(4)	4	-	-
Prior period adjustments - current tax	(2)	-	2	-
Prior period adjustments - deferred tax	(1)	-	-	-
Capital gains/(losses)	-	-	-	-
Adjust closing deferred tax to average rate	-	2	-	-
Adjust opening deferred tax to average rate	-	(3)	-	-
Exemption due to charitable status	(12,080)	(9,621)	(12,080)	(9,621)
Deferred tax not recognised	100	165	-	-
Total tax charge	**86**	**586**	**2**	**552**

11. Investment Properties held for letting: Group

	Work in Progress £'000	Market Rent Properties £'000	2020 £'000	2019 £'000
Valuation:				
At 1 April	9,045	14,292	23,337	18,400
Additions during the year	1,678	12	1,690	4,530
Transfers on completion	(10,712)	10,712	-	-
Disposals during the year	-	(6)	(6)	(93)
Gain in valuation	-	304	304	500
At 31 March	**11**	**25,314**	**25,325**	**23,337**

Investment properties are valued annually by Savills who are professionally qualified external valuers.

The valuation exercise was carried out in February 2020 with a valuation date of 31 March 2020. Basis of valuation is Market Value, subject to tenancies (MV-ST).

In applying the Royal Institute of Chartered Surveyors (RICS) Valuation Global Standards 2020 ('Red Book'), the valuer has declared a 'material valuation uncertainty' in the valuation report. This is on the basis of uncertainties in markets caused by COVID-19. At the time of the valuation, the coronavirus pandemic was impacting financial markets and market activity meaning that the valuers were faced with an unprecedented set of circumstances on which to base a judgment. The Material Valuation Uncertainty clause was used as a higher degree of caution was attached to the valuation than normal. The values in the report have been used to inform the measurement of property assets at valuation in these financial statements. With the valuer having declared this material valuation uncertainty, the valuer has continued to exercise professional judgement in providing the valuation and this remains the best information available to the Association.

In valuing the properties the following significant assumptions were used:

The valuation of properties and portfolios subject to Assured and Secure tenancies is carried out with direct reference to comparable evidence, gleaned from the sales of similar tenanted portfolios and individual units, sold subject to Protected Tenancies and on Assured Shorthold Tenancies. There is an established body of evidence from portfolios traded on the open market to which we can refer. The purchasers of residential investments are usually private investors or firms who acquire vacant units and let on Assured Shorthold tenancies ("AST").

Investors tend to base their bid on their ability to "trade out" individual units at Market Value assuming vacant possession over time. In locations where there is a limited market or where a property is difficult to trade, owing to style or market conditions, investors will base their bid on rental return compared to capital cost.

The discount to Market Value, vacant possession (MV-VP) ranges from 10% for prime property to 50% where market conditions are more difficult. Typical rates are around a 20% to 30% discount to MV-VP for properties subject to AST tenancies.

The yield applied to net income varies from 5% or less for prime property, to 7% or more for poorer locations. This equates to a yield on gross income (after deductions for management, maintenance & voids) of between 7% and 10%.

The discount and yield applied to Assured and Secure Tenancies is adjusted to reflect the additional security of tenure such tenants benefit from.

Despite the uncertainty clause, the Board are comfortable with the valuation as properties are residential and let on market and assured rents. Valuation based on rental yields, confirmed no significant voids or significant rental arrears and in most instances there has been a rental uplift post valuation in April 2020.

12a. Housing Properties - Group

	Housing Properties Held for Lettings £'000	Housing Properties in the Course of Construction £'000	Shared Ownership Housing Properties £'000	Shared Ownership Housing Properties in the Course of Construction £'000	Total £'000
Cost:					
At 1 April 2019	1,628,764	43,411	89,148	15,396	1,776,719
Additions	1	59,180	-	27,709	86,890
Improvements	13,886	-	-	-	13,886
Interest capitalised	-	1,234	-	752	1,986
Transferred on completion	47,919	(47,919)	6,721	(6,721)	-
Change of tenure	(1,121)	-	1,121	-	-
Reversal of impairment	11	-	-	-	11
Transfer to current assets	(644)	(1,609)	-	(8,457)	(10,710)
Transfer from current assets	77	-	-	-	77
Disposals	(21,398)	-	(3,173)	-	(24,571)
				-	
At 31 March 2020	**1,667,495**	**54,297**	**93,817**	**28,679**	**1,844,288**
Depreciation and impairment					
At 1 April 2019	261,430	-	9,221	-	270,651
Charge for the year	23,324	-	745	-	24,069
Change of tenure	(67)	-	67	-	-
Transfer to current assets	(28)	-		-	(28)
Eliminated on disposal	(6,966)	-	(381)	-	(7,347)
At 31 March 2020	**277,693**	**-**	**9,652**	**-**	**287,345**
Net Book Value					
At 31 March 2020	**1,389,802**	**54,297**	**84,165**	**28,679**	**1,556,943**
At 31 March 2019	1,367,334	43,411	79,927	15,396	1,506,068

12b. Housing Properties - Association

	Housing Properties Held for Lettings	Housing Properties in the Course of Construction	Shared Ownership Housing Properties	Shared Ownership Housing Properties in the Course of Construction	Total
	£'000	£'000	£'000	£'000	£'000
Cost:					
At 1 April 2019	1,632,513	44,343	89,148	15,396	1,781,400
Additions	1	59,704	-	27,709	87,414
Improvements	13,886	-	-	-	13,886
Interest capitalised	-	1,234	-	752	1,986
Transferred on completion	47,919	(47,919)	6,721	(6,721)	-
Change of tenure	(1,121)	-	1,121	-	-
Reversal of impairment	11	-	-	-	11
Transfer to current assets	(644)	(1,609)	-	(8,457)	(10,710)
Transfer from current assets	77	-	-	-	77
Disposals	(21,398)	-	(3,173)	-	(24,571)
At 31 March 2020	**1,671,244**	**55,753**	**93,817**	**28,679**	**1,849,493**
Depreciation and impairment					
At 1 April 2019	261,430	-	9,221	-	270,651
Charge for the year	23,324	-	745	-	24,069
Change of tenure	(67)	-	67	-	-
Transfer to current assets	(28)	-	-	-	(28)
Eliminated on disposal	(6,966)	-	(381)	-	(7,347)
At 31 March 2020	**277,693**	**-**	**9,652**	**-**	**287,345**
Net Book Value					
At 31 March 2020	**1,393,551**	**55,753**	**84,165**	**28,679**	**1,562,148**
At 31 March 2019	1,371,083	43,343	79,927	15,396	1,510,749

12c. Housing Properties

Expenditure on works to existing properties

	Group		Association	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Components capitalised	13,886	13,157	13,886	13,157
Amounts charged to the Income and Expenditure account	5,092	4,077	5,092	4,077
	18,978	**17,234**	**18,978**	**17,234**

Completed housing properties book value, net of depreciation and impairment

	Group		Association	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Freehold land and buildings	1,369,876	1,373,913	1,373,625	1,377,662
Leasehold land and buildings	104,091	73,348	104,091	73,348
Total Net Book Value	**1,473,967**	**1,447,261**	**1,477,716**	**1,451,010**

13a. Other Tangible Fixed Assets - Group

	Office Premises	Furniture & Equipment	Total
	£'000	£'000	£'000
Cost:			
At 1 April 2019	11,786	34,603	46,389
Additions	444	5,644	6,088
Disposals	-	(361)	(361)
At 31 March 2020	**12,230**	**39,886**	**52,116**
Depreciation:			
At 1 April 2019	2,490	15,431	17,921
Charge for the year	210	3,196	3,406
Eliminated on disposal	-	(234)	(234)
At 31 March 2020	**2,700**	**18,393**	**21,093**
Net Book Value			
At 31 March 2020	**9,530**	**21,493**	**31,023**
At 31 March 2019	9,296	19,172	28,468

13b. Other Tangible Fixed Assets - Association

	Office Premises	Furniture & Equipment	Total
	£'000	£'000	£'000
Cost:			
At 1 April 2019	1,376	34,359	35,735
Additions	444	5,527	5,971
Disposals	-	(361)	(361)
At 31 March 2020	**1,820**	**39,525**	**41,345**
Depreciation:			
At 1 April 2019	205	15,248	15,453
Charge for the year	42	3,164	3,206
Eliminated on disposal	-	(234)	(234)
At 31 March 2020	**247**	**18,178**	**18,425**
Net Book Value			
At 31 March 2020	**1,573**	**21,347**	**22,920**
At 31 March 2019	1,171	19,111	20,282

14. Homebuy Loans – Group and Association

	2020	2019
	£'000	£'000
As at 1 April	112	132
Loans redeemed in the year	(12)	(20)
	100	**112**

The Social Homebuy initiative is a scheme whereby Midland Heart Limited acts as a conduit between Homes England and tenants wishing to partake in shared ownership.

15. Fixed Asset Investments - Group and Association

	2020 £'000	2019 £'000
Investments - Mutuals	2,124	2,431
Investments - Other	20	20
	2,144	**2,451**

The investment in mutuals represents equity loans from Midland Heart Limited to individual Fully Mutual Housing Associations. These are repayable on the sale of the property.

The Social Homebuy initiative is a scheme whereby Midland Heart Limited acts as a conduit between Homes England and tenants wishing to partake in shared ownership.

16. Investment in Subsidiaries - Association

	£'000
Investment at 1 April 2019	6,067
Investment at 31 March 2020	**6,067**

The investment in subsidiaries represents shares in Group undertakings as described in Note 31.

17. Debtors

	Group		Association	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Gross rent and service charge arrears	15,108	14,318	15,084	14,302
Less: provision for bad and doubtful debts	(8,608)	(8,176)	(8,599)	(8,164)
Net rent arrears	**6,500**	**6,142**	**6,485**	**6,138**
Social Housing Grant receivable	-	-	-	-
Amounts due from Group undertakings	-	-	175	919
Prepayments and other debtors	7,474	6,740	7,469	6,713
Corporation tax	-	-	33	-
Deferred tax asset	-	13	-	-
	13,974	**12,895**	**14,162**	**13,770**

18. Properties for sale and Work in Progress - Group and Association

	2020 £'000	2019 £'000
Stock and work in progress	1,807	2,600
Schemes developed for shared ownership disposal	3,625	2,822
	5,432	**5,422**

Expected sale proceeds have been estimated to reduce by 10% due to the impact of the COVID-19 pandemic. As a result a write down of £364k has been included within the Statement of Comprehensive Income.

19. Cash and Cash Equivalents

	Group		Association	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Bank Accounts	91,175	75,566	90,398	74,562
Cash in hand	36	32	36	32
Total Cash and Cash Equivalents	**91,211**	**75,598**	**90,434**	**74,594**

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition.

20. Creditors: Amounts falling due within one year

	Group 2020 £'000	Group 2019 £'000	Association 2020 £'000	Association 2019 £'000
Housing loans (Note 21a)	12,501	13,008	6,516	7,401
Rents received in advance	3,922	3,900	3,910	3,889
Obligations due under finance leases (Note 21a)	172	139	172	139
Trade creditors	1,191	470	1,191	470
Amounts due to Group undertakings	-	-	14,528	15,754
Recycled Capital Grant and Disposals Proceeds Fund (Note 22)	2,043	4,667	2,043	4,667
Other taxation and social security costs	2,363	1,638	2,386	1,654
Corporation tax	6	273	-	287
Deferred tax provision	13	-	-	-
Accruals and deferred income	22,266	22,399	19,382	18,470
Deferred social housing grant	8,106	8,140	8,106	8,140
Social Housing Pension Scheme Liability (Note 25b)	24	23	24	23
	52,607	**54,657**	**58,258**	**60,894**

Amounts due to group undertakings for the Association include interest bearing loans due to group undertakings of £5,526k (2019: £5,263k). All other amounts due to group undertakings are non-interest bearing.

Liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of ninety days was £2,405k (2019: £1,671k).

Social Housing Pension Scheme liabilities are now presented separately on the Statement of Financial Position. The Growth Plan liabilities remain presented within Creditors.

21a. Creditors: Amounts falling due after more than one year

	Group 2020 £'000	Group 2019 £'000	Association 2020 £'000	Association 2019 £'000
Housing loans	499,419	499,764	207,929	204,020
Discounted bonds	13,503	13,038	13,503	13,038
Obligations due under finance leases	3,615	3,754	3,615	3,754
Premium on bond issues	12,648	13,174	4,303	4,481
Loan and bond arrangement fees	(5,737)	(5,372)	(3,459)	(2,949)
Amounts due to Group undertaking	-	-	275,199	280,724
Homebuy grant: deferred income	100	112	100	112
Deferred social housing grant	698,790	694,625	698,790	694,625
Derivative financial instruments designated as hedges of variable interest rate risk (note 24)	79,482	68,536	79,482	68,536
Social Housing Pension Scheme Liability (Note 25b)	91	116	91	116
	1,301,911	1,287,787	1,279,553	1,266,457
Recycled Capital Grant and Disposal Proceeds Fund	18,039	7,837	18,039	7,837
	1,319,950	**1,295,584**	**1,297,592**	**1,274,294**

Social Housing Pension Scheme liabilities are now presented separately on the Statement of Financial Position. The Growth Plan liabilities remain presented within Creditors.

21a. Creditors: Amounts falling due after more than one year (continued)

Housing Loans:

Housing loans are secured by specific or floating charges on the Group's housing properties and are repayable at varying maturity dates with interest at both fixed and variable rates. The analysis for Association relates to bodies external to MH Group.

	Group		Association	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
By instalments:				
In one year or less	12,501	13,008	6,516	7,401
Between one and two years	11,833	12,186	5,572	6,201
Between two and five years	35,051	35,069	14,470	15,402
In five years or more	237,275	249,210	134,906	139,666
	296,660	**309,473**	**161,464**	**168,670**

	Group		Association	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Lump Sum Repayments:				
In one year or less	-	-	-	-
Between one and two years	-	-	-	-
Between two and five years	22,044	10,550	9,764	-
In five years or more	206,720	205,787	56,720	55,789
	228,764	**216,337**	**66,484**	**55,789**

Finance lease liabilities:

	Group		Association	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Total of future minimum lease payments:				
In one year or less	172	139	172	139
Between one and two years	139	139	139	139
Between two and five years	417	417	417	417
In five years or more	3,059	3,198	3,059	3,198
	3,787	**3,893**	**3,787**	**3,893**

21a. Creditors: Amounts falling due after more than one year (continued)

Fixed rate financial liabilities bear a weighted average interest rate of 5.71% and are fixed for a weighted average period of 20 years. Including swaps the average weighted interest rate is 4.91%.

Interest rates on fixed rate borrowings range between 2.89% and 8.63%.

Floating rate financial liabilities bear interest at rates based on LIBOR and are fixed for periods of up to 12 months.

The interest rate profile to the groups' debt at 31 March 2020 was:

	Variable rate	Fixed rate	Total
	£'000	£'000	£'000
Instalment loans	251,896	48,552	300,447
Non-instalment loans	37,280	191,483	228,763
	289,176	**240,035**	**529,211**

As at 31 March 2020, 51% (£270,410k) of the above debt came from the capital markets and 49% (£258,800k) from banks and building societies.

21b. Creditors

Discounted Bonds:

	Group		Association	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Amount Advanced:				
5% Debenture Stock 2027	9,000	9,000	9,000	9,000
In issue at 31 March	9,000	9,000	9,000	9,000
Loan discount amortised	4,503	4,038	4,503	4,038
Net Value at 31 March	**13,503**	**13,038**	**13,503**	**13,038**

The 5% Debenture Stock 2027 have an interest yield of 10.786% and represent funds raised from The Housing Finance Corporation Limited ('THFC') and are for designated housing schemes which have been approved by THFC.

The loans are secured by a fixed charge over the properties purchased with the loans and a fixed charge on any designated account.

Discount unwound/unamortised on discounted bonds was £5,581k (2019: £6,046k).

21c. Cumulative Social Housing Grant (Displayed regardless of age)

	Group		Association	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Opening Balance of SHG received/receivable	702,765	711,143	702,765	711,143
SHG received during the year	21,341	5,128	21,341	5,128
SHG recycled	(11,109)	(6,422)	(11,109)	(6,422)
Amortisation write back on sale of fixed assets	2,005	1,056	2,005	1,056
Cumulative total of Social Housing Grant received or receivable	715,002	710,905	715,002	710,905
Less grant amortised in the year	(8,106)	(8,140)	(8,106)	(8,140)
Amount held as deferred	**706,896**	**702,765**	**706,896**	**702,765**
Amounts to be released within one year (Note 20)	8,106	8,140	8,106	8,140
Amounts to be released in more than one year (Note 21)	698,790	694,625	698,790	694,625
	706,896	**702,765**	**706,896**	**702,765**
Social Housing Grant under UKGAAP				
Opening SHG	831,459	832,752	831,459	832,752
SHG received net of recycling	10,232	(1,293)	10,232	(1,293)
Less investment property	-	-	-	-
Less eliminated on disposal	-	-	-	-
	10,232	(1,293)	10,232	(1,293)
Closing SHG	**841,691**	**831,459**	**841,691**	**831,459**

22. Recycled Capital Grant and Disposal Proceeds Funds (including amounts due in less than one year)

Group and Association

	RCGF	DPF	Total
	£'000	£'000	£'000
Balance at 1 April 2019	**12,317**	**187**	**12,504**
Grants recycled	10,128	-	**10,128**
Interest accrued	76	1	**77**
Allocated to new build developments	(2,439)	(188)	**(2,627)**
Balance at 31 March 2020	**20,082**	**-**	**20,082**

Withdrawals from the Recycled Capital Grant and Disposal Proceeds Funds were used for the purchase and development of new housing schemes for letting.

23. Financial Instruments

The carrying amounts of the financial assets and liabilities include:

	Group		Association	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Liabilities measured at amortised cost				
Loans	532,334	561,122	518,519	553,255
Finance Leases	3,787	4,045	3,787	4,045

Financial liabilities measured at amortised cost comprise convertible loan stock, irredeemable preference shares, bank loans and overdrafts, trade creditors and other creditors.

Derivative financial instruments designated as hedges of variable interest rate risk comprise interest rate swaps.
Financial liabilities measured at fair value through income and expenditure comprise £nil.

24a. Financial Instruments: Hedge Accounting

Paragraph 11.39 of FRS 102 states that “entities that have only basic financial instruments (and therefore do not apply section 12), and have not chosen to designate financial instruments as at fair value through profit and loss will not need to provide such disclosures.” Embedded swaps are accounted for as part of the underlying host contract (i.e. the loan) and are therefore basic financial instruments. As such, no disclosures are required.

Midland Heart has entered into £185m standalone interest rate swap contracts to fix the rates of £185m of its borrowing portfolio until various dates up to 2038.

The negative fair value of these swap contracts as at 31 March 2020 was £79.5m (2019 £68.5m). The measurement basis for these swaps is at fair value through profit and loss, determined by calculating the net present value of the future cashflows of the swaps discounted using an appropriate mid-market swap curve as at 31 March 2020.

The total change in fair value during the year ended 31 March 2020 of £10.95m (2019: £1.87m) was recognised in the statement of comprehensive income.

In accordance with chapter 12 of FRS 102, hedge accounting has been applied to the following swap contracts:

The group uses hedge accounting for the following cash flow hedges:

	Group		Association	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Barclays Swap £20m 4.815% 2038	14,855	12,213	14,855	12,213
Barclays Swap £30m 5.01% 2037	22,095	18,493	22,095	18,493
Barclays ex-European Cancellable Swap with Double Up £10m 4.24% 2031	8,498	7,268	8,498	7,268
Credit Suisse Swap £10m 1.405% 2020	-	70	-	70
Credit Suisse Swap £40m 1.19% 2020	-	191	-	191
Credit Suisse Swap £40m 2.345% 2020	423	956	423	956
Lloyds Swap £25m 0.817% 2022	119	-	119	-
Lloyds Swap £50m 5.432% 2034 (ex-Bermudan)	33,492	29,345	33,492	29,345
Fair values of financial instruments designated as hedging instruments	**79,482**	**68,536**	**79,482**	**68,536**

24a. Financial Instruments: Hedge Accounting (continued)

The following table indicates the periods in which the cash flows associated with cash flow hedging instruments are expected to occur as required by FRS 102.29(a) for the cash flow hedge accounting models.

2020	Carrying amount	Expected cash flows	1 year or less	1 to <2years	2 to <5years	5 years and over
	£'000	£'000	£'000	£'000	£'000	
Interest rate swaps:						
Hedged items cash-flows (liabilities)	185,000	12,679	996	683	2,246	8,754

2019	Carrying amount	Expected cash flows	1 year or less	1 to <2years	2 to <5years	5 years and over
	£'000	£'000	£'000	£'000	£'000	
Interest rate swaps:						
Hedged items cash-flows (liabilities)	210,000	29,991	2,259	1,505	4,746	21,481

The carrying amount of the hedged item cashflows is equal to the notional principal amount hedged, which is held at amortised cost under FRS 102.

24b. Financial Instruments: Hedges

	Barclays Swap £20m 4.815% 2038	Barclays Swap £30m 5.01% 2037	Barclays ex-European Swap with Double Up £10m 4.24% 2031	Credit Suisse Swap £10m 1.405% 2020
Description of the hedge	The objective of the hedge is to mitigate the variability of the cash flows stemming from the floating rate interest payments related to the Lloyds £75m Fl Loan 2043 loan, a floating rate loan entered into by Midland Heart against unfavourable movements in the 1 Month LIBOR rate.	The objective of the hedge is to mitigate the variability of the cash flows stemming from the floating rate interest payments related to the Lloyds £75m Fl Loan 2043 loan, a floating rate loan entered into by Midland Heart against unfavourable movements in the 1 Month LIBOR rate.	The objective of the hedge is to mitigate the variability of the cash flows stemming from the floating rate interest payments related to the Nationwide £130m Fl Loan 2036 loan, a floating rate loan entered into by Midland Heart against unfavourable movements in the 1 Month LIBOR rate.	The objective of the hedge is to protect the variability of the cash flows stemming from the floating rate coupon payments related to a debt instrument issued by the entity against unfavourable movements in the LIBOR 6-month rate.
Description of the financial instruments designated as hedging instruments	The interest rate swap, Barclays Swap £20m 4.815% 2038. The counterparty to the swap is Lloyds and the credit risk associated with this counterparty is considered to be low. The credit risk is reflected in the Credit Valuation Adjustment amount to the risk free fair value of the derivative instrument.	The interest rate swap, Barclays Swap £30m 5.01% 2037. The counterparty to the swap is Lloyds and the credit risk associated with this counterparty is considered to be low. The credit risk is reflected in the Credit Valuation Adjustment amount to the risk free fair value of the derivative instrument.	The interest rate swap, Barclays ex-European Cancellable Swap with Double Up £10m 4.24% 2031. The counterparty to the swap is Nationwide and the credit risk associated with this counterparty is considered to be low. The credit risk is reflected in the Credit Valuation Adjustment amount to the risk free fair value of the derivative instrument.	The interest rate swap, Credit Suisse Swap £10m 1.405% 2020. The counterparty to the swap is EIB GBP and the credit risk associated with this counterparty is considered to be low. The credit risk is reflected in the Credit Valuation Adjustment amount to the risk free fair value of the derivative instrument.
Nature of the risks being hedged including a description of the hedged item	The variability of cash flows stemming from the interest payments of the Lloyds £75m Fl Loan 2043 due to movements in the 1 Month LIBOR rate.	The variability of cash flows stemming from the interest payments of the Lloyds £75m Fl Loan 2043 due to movements in the 1 Month LIBOR rate.	The variability of cash flows stemming from the interest payments of the Nationwide £130m Fl Loan 2036 loan due to movements in the 1 Month LIBOR rate.	The variability of cash flows stemming from the interest payments of the EIB £10m 2031 Fl Loan due to movements in the 6 Month LIBOR rate.
Fair values of financial instruments designated as hedging instruments £'000	14,855	22,095	8,498	-

Credit Suisse Swap £40m 1.19% 2020	Credit Suisse Swap £40m 2.345% 2020	Lloyds Swap £25m 0.817% 2022	Lloyds Swap £50m 5.432% 2034 (ex-Bermudan)	
The objective of the hedge is to protect the variability of the cash flows stemming from the floating rate coupon payments related to a debt instrument issued by the entity against unfavourable movements in the LIBOR 1-month rate.	The objective of the hedge is to mitigate the variability of the cash flows stemming from the floating rate interest payments related to the Nationwide £130m Fl Loan 2036 loan, a floating rate loan entered into by Midland Heart against unfavourable movements in the 1 Month LIBOR rate.	The objective of the hedge is to mitigate the variability of the cash flows stemming from the floating rate interest payments related to the THFC/EIB 2048 Bond, a floating rate bond entered into by Midland Heart against unfavourable movements in the 6 Month LIBOR rate.	The objective of the hedge is to mitigate the variability of the cash flows stemming from the floating rate interest payments related to the Nationwide £130m Fl Loan 2036 loan, a floating rate loan entered into by Midland Heart against unfavourable movements in the 1 Month LIBOR rate.	The objective of the hedge is to mitigate the variability of the cash flows stemming from the floating rate interest payments related to the Lloyds £75m Fl Loan 2043 loan, a floating rate loan entered into by Midland Heart against unfavourable movements in the 1 Month LIBOR rate.
TThe interest rate swap, Credit Suisse Swap £40m 1.19% 2020. The counterparties to the swap are Lloyds, AIB, Dexia, THFC and Nationwide GBP and the credit risk associated with this counterparty is considered to be low. The credit risk is reflected in the Credit Valuation Adjustment amount to the risk free fair value of the derivative instrument.	The interest rate swap, Credit Suisse Swap £40m 2.345% 2020. The counterparty to the swap is Nationwide and the credit risk associated with this counterparty is considered to be low. The credit risk is reflected in the Credit Valuation Adjustment amount to the risk free fair value of the derivative instrument.	The interest rate swap, Lloyds Swap £25m 0.817% 2022. The counterparty to the swap is Lloyds and the credit risk associated with this counterparty is considered to be low. The credit risk is reflected in the Credit Valuation Adjustment amount to the risk free fair value of the derivative instrument.	The interest rate swap, Lloyds Swap £50m 5.432% 2034 (ex-Bermudan). The counterparty to the swap is Nationwide and the credit risk associated with this counterparty is considered to be low. The credit risk is reflected in the Credit Valuation Adjustment amount to the risk free fair value of the derivative instrument.	The interest rate swap, Lloyds Swap £50m 5.432% 2034 (ex-Bermudan). The counterparty to the swap is Lloyds and the credit risk associated with this counterparty is considered to be low. The credit risk is reflected in the Credit Valuation Adjustment amount to the risk free fair value of the derivative instrument.
The variability of cash flows stemming from the interest payments of the Lloyds, AIB, Dexia, THFC and Nationwide loans due to movements in the 1 Month LIBOR rate.	The variability of cash flows stemming from the interest payments of the Nationwide £130m Fl Loan 2036 due to movements in the 1 Month LIBOR rate.	The variability of cash flows stemming from the interest payments of the THFC/EIB 2048 Bond due to movements in the 6 Month LIBOR rate.	The variability of cash flows stemming from the interest payments of the Nationwide £130m Fl Loan 2036 due to movements in the 1 Month LIBOR rate.	The variability of cash flows stemming from the interest payments of the Lloyds £75m Fl Loan 2043 due to movements in the 1 Month LIBOR rate.
-	423	119	33,492	

25a. Social Housing Pension Scheme (SHPS)

The association participates in the Social Housing Pension Scheme (the Scheme), a multi-employer scheme which provides benefits to some 500 non-associated employers. The Scheme is a defined benefit scheme in the UK.

The Scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and Technical Actuarial Standards issued by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.

The last triennial valuation of the scheme for funding purposes was carried out as at 30 September 2017. This valuation revealed a deficit of £1,522m. A Recovery Plan has been put in place with the aim of removing this deficit by 30 September 2026.

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

For financial years ending on or before 28 February 2019, it was not possible for the Group to obtain sufficient information to account for the liability on a full FRS 102 valuation basis so it was accounted for as a defined contribution scheme where the net present value of the deficit contributions were recognised in the accounts as creditors falling within and more than one year.

For financial years ending on or after 31 March 2019, it is possible to obtain sufficient information to enable the company to account for the Scheme as a defined benefit scheme.

For accounting purposes, a valuation of the scheme was carried out with an effective date of 30 September 2018. The liability figures from this valuation were rolled forward for accounting year-ends from 31 March 2019 to 29 February 2020 inclusive. The liabilities are compared, at the relevant accounting date, with the company's fair share of the Scheme's total assets to calculate the company's net deficit or surplus.

Similarly, an actuarial valuation of the scheme was carried out as at 30 September 2019 to inform the liabilities for accounting year ends from 31 March 2020 to 28 February 2021 inclusive.

The most recent comprehensive actuarial valuations have been used by the scheme actuaries to estimate the amounts recognised by the Group. These amounts are as follows:

Present Values of Defined Benefit Obligation, Fair Value of Assets and Defined Benefit Asset (Liability)

	31 Mar 2020	31 Mar 2019
	£'000	£'000
Fair value of plan assets	133,691	128,868
Present value of defined benefit obligation	(150,900)	(173,823)
Net defined benefit asset (liability) to be recognised	**(17,209)**	**(44,955)**

Reconciliation of Opening and Closing Balances of the Defined Benefit Obligation

	Period ended 31 Mar 2020
	£'000
Defined benefit obligation at start of period	173,823
Expenses	110
Interest expense	3,979
Actuarial gains due to scheme experience	(1,493)
Actuarial gains due to changes in demographic assumptions	(1,508)
Actuarial gains due to changes in financial assumptions	(19,989)
Benefits paid and expenses	(4,022)
Defined benefit obligation at end of period	**150,900**

Reconciliation of Opening and Closing Balances of the Fair Value Plan Assets

	Period ended 31 Mar 2020
	£'000
Fair value of plan assets at start of period	128,868
Interest income	2,988
Experience on plan assets (excluding amounts included in interest income) - gain (loss)	1,424
Contributions by the employer	4,433
Benefits paid and expenses	(4,022)
Fair value of plan assets at end of period	**133,691**

The actual return on the plan assets (including any changes in share of assets) over the period ended 31 March 2020 was £4,412,000.

Defined Benefit Costs Recognised in Statement of Comprehensive Income (SOCI)

	Period from 31 Mar 2019 to 31 Mar 2020
	£'000
Expenses	110
Net interest expense	991
Defined benefit costs recognised in Statement of Comprehensive Income (SOCI)	**1,101**

Defined Benefit Costs Recognised in Other Comprehensive Income

	Period ended 31 Mar 2020 £'000
Experience on plan assets (excluding amounts included in net interest cost) - gain	1,424
Experience gains arising on the plan liabilities - gain	1,493
Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation - gain	1,508
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation - gain	19,989
Total actuarial losses (before restriction due to some of the surplus not being recognisable) – gain	24,414
Effects of changes in the amount of surplus that is not recoverable (excluding amounts included in net interest cost) - gain (loss)	-
Total amount recognised in Other Comprehensive income - gain (loss)	**24,414**

Assets	31 Mar 2020 £'000	31 Mar 2019 £'000
Global Equity	19,553	21,684
Absolute Return	6,971	11,150
Distressed Opportunities	2,575	2,343
Credit Relative Value	3,667	2,359
Alternative Risk Premia	9,348	7,432
Fund of Hedge Funds	78	580
Emerging Markets Debt	4,048	4,446
Risk Sharing	4,515	3,892
Insurance-Linked Securities	4,106	3,696
Property	2,945	2,900
Infrastructure	9,950	6,758
Private Debt	2,694	1,729
Opportunistic Illiquid Credit	3,235	-
Corporate Bond Fund	7,623	6,013
Liquid Credit	54	-
Long Lease Property	2,313	1,896
Secured Income	5,073	4,614
Liability Driven Investment	44,371	47,129
Net Current Assets	572	247
Total Assets	**133,691**	**128,868**

None of the fair values of the assets shown above include any direct investments in the employer's own financial instruments or any property occupied by, or other assets used by, the employer.

Key Assumptions	31 Mar 2020 % per annum	31 Mar 2019 % per annum
Discount Rate	2.38	2.31
Inflation (RPI)	2.62	3.29
Inflation (CPI)	1.62	2.29
Salary Growth	2.62	3.29
Allowance for commutation of pension for cash at retirement	75% of maximum allowance	75% of maximum allowance

The mortality assumptions adopted at 31 March 2020 imply the following life expectancies:

	Life expectancy at age 65 (Years)
Male retiring in 2020	21.5
Female retiring in 2020	23.3
Male retiring in 2040	22.9
Female retiring in 2040	24.5

25b. The Pensions Trust - The Growth Plan

The association participates in the above scheme, a multi-employer scheme which provides benefits to some 950 non-associated employers. The scheme is a defined benefit scheme in the UK.

It is not possible for the company to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore it accounts for the scheme as a defined contribution scheme.

The scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and Technical Actuarial Standards issued by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.

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

A full actuarial valuation for the scheme was carried out at 30 September 2017. This actuarial valuation showed assets of £794.9m, liabilities of £926.4m and a deficit of £131.5m. To eliminate this funding shortfall, the trustees and the participating employers have agreed that additional contributions will be paid, in combination from all employers, to the scheme as follows:

Deficit contributions

From 1 April 2019 to 31 January 2025:	
£11,243,000 per annum	(payable monthly and increasing by 3% each on 1st April)

The scheme's previous valuation was carried out with an effective date of 30 September 2014. This valuation showed assets of £793.4m, liabilities of £969.9m and a deficit of £176.5m. To eliminate this funding shortfall, the Trustee has asked the participating employers to pay additional contributions to the scheme as follows:

Deficit contributions

From 1 April 2016 to 30 September 2025:	
£12,945,440 per annum	(payable monthly and increasing by 3% each on 1st April)

From 1 April 2016 to 30 September 2028:	
£54,560 per annum	(payable monthly and increasing by 3% each on 1st April)

The recovery plan contributions are allocated to each participating employer in line with their estimated share of the Series 1 and Series 2 scheme liabilities.

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

25b. The Pensions Trust - The Growth Plan (continued)

Present Values of Provision	31 Mar 2020	31 Mar 2019
	£'000	£'000
Present value of provision	114	139

Reconciliation of Opening and Closing Provisions	31 Mar 2020	31 Mar 2019
	£'000	£'000
Provision at start of period	139	187
Unwinding of the discount factor (interest expense)	1	3
Deficit contribution paid	(23)	(24)
Re-measurements - impact of any change in assumptions	(3)	1
Re-measurements - amendments to the contribution schedule	-	(28)
Provision at end of period	114	139

Income and Expenditure Impact	31 Mar 2020	31 Mar 2019
	£'000	£'000
Unwinding of the discount factor (interest expense)	1	3
Re-measurements - impact of any change in assumptions	(3)	1
Re-measurements - amendments to the contribution schedule	-	(28)
Costs recognised in income and expenditure account	(2)	(24)

The above cost is presented as follows in the Statement of Comprehensive Income:

	2020	2019
	£'000	£'000
Operating costs (pension deficit costs)	(3)	(3)
Interest and financing costs	1	2
	(2)	(1)

Assumptions	2020	2019
	% per annum	% per annum
Rate of discount	2.53	1.39

The discount rates shown above are the equivalent single discount rates which, when used to discount the future recovery plan contributions due, would give the same results as using a full AA corporate bond yield curve to discount the same recovery plan contributions.

25b. The Pensions Trust - The Growth Plan (continued)

The following schedule details the deficit contributions agreed between the company and the scheme at each year end period:

Deficit Contributions Schedule

Year ending	2020 £'000	2019 £'000
Year 1	24	23
Year 2	24	24
Year 3	25	24
Year 4	26	25
Year 5	22	26
Year 6	-	22
Year 7	-	-
Year 8	-	-
Year 9	-	-
Year 10	-	-

The company must recognise a liability measured as the present value of the contributions payable that arise from the deficit recovery agreement and the resulting expense in the income and expenditure account i.e. the unwinding of the discount rate as a finance cost in the period in which it arises.

It is these contributions that have been used to derive the company's balance sheet liability.

26. Share Capital

Midland Heart Limited is a Registered Society limited by share capital.

	2020 £
Allotted, called up and fully paid shares of £1 each:	
At end of year	40

	Number
At 1 April 2019	40
Issued	-
Cancelled	-
At 31 March 2020	**40**

No rights to dividends attach to the shares. There is also no provision for redemption or provision for a distribution on winding up. Each share has full voting rights.

27. Operating Leases - Group and Association

Total of future minimum lease payments under non-cancellable operating leases

	2020 £'000	2019 £'000
Plant - Leases which expire:		
Within one year	524	428
Between one year and two years	502	408
Between two and five years	640	824
Office premises - Leases which expire:		
Within one year	37	19
Between one year and two years	37	19
Between two and five years	73	50
After five years	-	-
	1,813	**1,748**

During the year, £583k was recognised as an expense in the profit and loss account in respect of operating leases (2019: £535k).

28. Capital Commitments - Group and Association

	Group		Association	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Capital expenditure contracted not provided for	120,842	79,758	120,842	77,395
Capital expenditure authorised by the Board of Directors but not contracted for	101,498	73,310	101,498	73,310

The expenditure represents the total bids submitted to the Homes England and other bodies.

Under Standing Orders approved by the Board, expenditure to certain levels may be authorised by appropriate officers, employees or sub-committees and such authorised expenditure is included above.

The above commitments will be funded primarily through cash and funds available for draw-down on existing loan arrangements and £20.5m (2019 £4.2m) funded by Social Housing Grant.

The above figures include the full cost of shared ownership properties contracted for.

As part of the Voluntary Right to Buy programme we have funds of £28.1m for reinvestment. This is made up of sale proceeds of £31.9m less attributable debt of £3.8m that we need to reinvest in new properties. This figure includes £7.1m of recycled grant.

29. Contingent Liabilities

There are no contingent liabilities (2019: Nil).

30. Housing Stock

	As at 1 April 2019	Units Developed	Units Sold	Other Movements	As at 31 March 2020
Social Housing					
Social rent	20,907	41	(255)	(85)	20,608
Affordable rent	2,470	305	(7)	(10)	2,758
Supported housing and housing for older people	4,520	-	(41)	(297)	4,182
Residential Care Homes	139	-	-	(24)	115
Shared ownership accommodation	2,082	121	(49)	(24)	2,130
Lease Scheme for the elderly	165	-	-	-	165
Total social housing units owned	**30,283**	**467**	**(352)**	**(440)**	**29,958**
Accommodation managed for others	1,704	-	-	(66)	1,638
Total social housing units owned and managed	**31,987**	**467**	**(352)**	**(506)**	**31,596**
Long leasehold	969	8	-	82	1,059
Garages	122	-	-	-	122
Total Social Housing	**33,078**	**475**	**(352)**	**(424)**	**32,777**
Non-Social Housing					
Market rent	115	95	-	2	212
Commercial lettings	72	-	-	43	115
Student accommodation	61	-	-	-	61
Leased to other parties	-	-	-	320	320
Total non-social housing units owned	**248**	**95**	**-**	**365**	**708**
Leasehold	128	-	-	(2)	126
Total non-social housing	**376**	**95**	**-**	**363**	**834**
GRAND TOTAL	**33,454**	**570**	**(352)**	**(61)**	**33,611**

Other movements includes properties that have changed tenure, been handed over to other managing agents or have been leased to other parties.

31. Disclosure of Group Activity

Midland Heart Limited is the Parent Company of the Group entities. It is a Registered Society registered with the Financial Conduct Authority. It is also a Registered Provider, registered with the Homes and Communities Agency. It is limited by shares and is required to produce Group accounts. Its principal activity is the provision of social housing.

Midland Heart Limited provides accounting, IT and management services to other group entities.

The members of the Midland Heart Group are as follows:

Entity	Registration	Legal basis	RSH registered	Principal Activity
Cygnet Property Management plc	Companies House	Companies Act 2006	No	Provision of housing at market rents.
Midland Heart Development Limited	Companies House	Companies Act 2006	No	Construction of properties on behalf of Midland Heart Limited.
Prime Focus Finance Limited	Financial Conduct Authority	Co-operative and Community Benefit Societies Act 2014	No	Treasury and financing services on behalf of Midland Heart Limited.
Prime Focus Regeneration Group Limited	Companies House	Companies Act 2006	Yes	Provision of premises.
Midland Heart Capital plc	Companies House	Companies Act 2006	No	Treasury and financing services on behalf of Midland Heart Limited.

Midland Heart Limited is the ultimate parent of Prime Focus Finance Limited through its 100% ownership of Prime Focus Regeneration Group Limited.

Intra Group Transactions	
Midland Heart – Cygnet Property Management plc	Midland Heart charges Cygnet for the management of its Market Rent properties.
Midland Heart – Midland Heart Development (MHDL)	A 3% charge on cost on all invoices recharged to Midland Heart is levied by MHDL. A 2.5% charge on cost on all MHDL invoices received is levied by Midland Heart to cover staff time and use of facilities.
Midland Heart - Prime Focus Regeneration Group (PFRG)	A £246k charge is levied by PFRG to Midland Heart to cover the costs of premises provided.
Midland Heart - Midland Heart Capital plc (MHC)	MHC recharges its interest and other loan administration costs to Midland Heart.
Midland Heart - Prime Focus Finance (PFF)	PFF recharges its interest and other loan administration costs to Midland Heart.

Transactions with non-regulated Group members

During the year the Association has transacted with 4 fellow group subsidiaries not regulated by the Regulator of Social Housing, Midland Heart Development Limited, Cygnet Property Management, Prime Focus Finance Limited and Midland Heart Capital plc.

Midland Heart Development Limited contructs properties for the Group. During the year the Association made payments totalling £19,673k to Midland Heart Development Limited for the construction of properties and has an outstanding creditor balance with Midland Heart Development Limited of £1,939k.

The Association charges Cygnet Property Management for the management of its Market Rent properties. During the year, Cygnet Property Management paid £163k to the Association.

Prime Focus Finance and Midland Heart Capital plc provide treasury and financing services to group members. During the year the Association paid interest costs to Prime Focus Finance Limited totalling £1,557k (2019: £1,516k) and fees of £81k (2019: £81k). The Association also paid interest costs of £7,879k (2019: £7,883k) and fees of £52k (2019:£52k). The allocation of these costs is based upon the level of debt required and secured by the housing properties held by the Association.

There has been no other cost apportionment within the Group.

32. Related Parties

Midland Heart Limited participates in the Social Housing Pension Scheme, this provides benefits to employees that choose to take part (see note 25).

33. Post Balance Sheet Events

The effects of COVID-19 has led to lower business activity than normal experienced in the first few months of the 20/21 financial year. Repair and maintenance activity has been lower with only urgent and priority works being carried out in the lockdown period.

In line with the basis of preparation and the going concern (note 2d) it is considered that there are not any adjustments required to these financial statements.

34. Notes to the Cash Flow Statement

A - Reconciliation of net cash flow to movement in net debt	2020 £'000	2019 £'000
Increase/(Decrease) in cash	15,613	(3,943)
Cash flow from increase in debt finance	1,849	28,080
Discounted bonds	(465)	(418)
	16,997	23,719
Net debt at beginning of year	(461,907)	(485,626)
Net debt at end of year	**(444,910)**	**(461,907)**

B - Analysis of changes in net debt	At 1 April 2019 £'000	Cash flows £'000	At 31 March 2020 £'000
Cash at bank and in hand	75,598	15,613	91,211
	75,598	**15,613**	**91,211**
Discounted bonds	(13,038)	(465)	(13,503)
Other loans due less than one year	(13,008)	507	(12,501)
Other loans due in more than one year	(499,764)	345	(499,419)
Finance lease	(3,893)	106	(3,787)
Premium on bond issue	(13,174)	526	(12,648)
Issue expenses	5,372	365	5,737
Net debt	**(461,907)**	**16,997**	**(444,910)**

Financials

Financial Statements 19/20

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midland heart