midland heart

Financial Statements.

2020/21

www.midlandheartgroup.org.uk

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Chair's foreword

Challenging times tell you a lot about yourself and those around you. This year has shown that Midland Heart is a strong, resilient organisation that adapts quickly to change.

The second year of our corporate plan ***Making What Matters Brilliant*** has like everything around us been defined by the Coronavirus pandemic. Throughout the year we have consistently stayed ahead of the curve acting swiftly, and before restrictions mandated, to keep our customers and colleagues as safe as possible while maintaining the services they rely on.

Due to our ability to respond so quickly, putting in place measures to maintain safety and training colleagues on how to continue to deliver services in Covid-secure ways, we have been able to maintain a higher level of service than many in our sector.

It is a source of pride that we have, even during this challenging year, maintained our £22m investment on planned improvements to our existing homes and that 99% of customers reported that we adhered to social distancing measures while completing the works at their home.

We also maintained our focus on building as many new affordable homes as we could, completing 350 new homes and agreeing to build 4,000 by 2025.

It is this industry leading performance and our organisational strength and resilience that allowed us to secure a £100m bond at our lowest ever rate, while maintaining our A1 stable rating.

This year we have also agreed a new, more ambitious carbon reduction plan that commits us to becoming a carbon neutral landlord by 2050. The plan also commits us to ensuring all of our properties are EPC D or above by the end of *Making What Matters Brilliant*, and C or above by the turn of the decade. Our plans also make the most of our current investment in technology to ensure our colleagues can spend more time with customers and less time travelling to offices to complete administrative tasks.

Finally, this year the Board agreed to extend our current corporate plan by a year to 2025, our centenary year.

John Edwards CBE
Chair, Midland Heart

Chief Executive's foreword

This year our homes have meant more to us than ever before. They became everything to us from offices and nurseries to gyms. Our customer's and colleague's safety has been at the centre of every action we have taken this year.

In a year when our external environment has been increasingly unpredictable, I am proud to say that we have continued to make the improvements to the day-to-day issues our customers have told us matter most to them.

We have continued to invest in improvements to our customers homes, further developed our customer app, created a new more user-friendly lettings portal and built 350 new affordable homes across the Midlands.

We have also worked hard to keep our re-let days low, despite the disruption we faced, so that nobody had to wait any longer than necessary to get their keys and feel settled in their new home.

We have also continued our investment in our Retirement Living offer. As our customers come together again, after a very difficult year, they will do so with new and improved services, refurbished communal areas and even better catering.

As a result, we have maintained our industry leading 90% customer satisfaction score for a second year.

> We also continued our drive to be one of the region's leading employers, continuing to recruit and remotely onboard over 260 new colleagues, promoting 70 colleagues, offering virtual wellbeing activities and investing record amounts in colleague development.

We also kept everyone of our colleagues working and delivering for our customers throughout the pandemic, saving any of our colleagues the uncertainty of being furloughed.

This year, following the summer's sad events in the USA, we have also taken time to reflect on what diversity and inclusion means for us as an organisation. This reflection has been led by colleagues in our Inclusion Networks and the outcomes have helped shape our diversity priorities for the year.

As a result, we have been named the 24th most inclusive business in the UK and maintained a colleague engagement score of over 80%.

We go into the third year of our corporate plan as an engaged and united team who has delivered for our customers in the most challenging of circumstances and has clear plans for a more sustainable future.

Glenn Harris MBE
Chief Executive, Midland Heart

Strategic Annual Review

We have completed the second year of our corporate plan *Making What Matters Brilliant* amidst the ongoing disruption of the Covid-19 pandemic, delivering a strong set of financial and operational results, which demonstrate the underlying strength and resilience of the organisation.

Our underlying financial strength has allowed us to maintain the delivery of our core operational functions whilst continuing to invest in our homes, colleagues and customers.

In November 2020, our Board took the decision to extend our corporate plan *Making What Matters Brilliant* by one year to 2025, our centenary year. The extended plan incorporates new strategic objectives that include reducing our carbon footprint, developing a smarter working environment and expanding our development programme from 3,000 in five years to 4,000 in six years by 2025.

Our fundamentals have not changed. Our focus remains:

- Being a top-class landlord;
- Building as many as social and affordable homes for rent as we can; and
- Being a great place to work and develop your career.

Providing new high-quality homes and places

2,270 new homes already completed or on site

4,000 new homes between 2019 & 2025

350 new homes built

Delivering customer-led services

90% customer satisfaction

91% repairs satisfaction

10,187 customers using the customer app

Investing in our homes and communities

£22m investment in our homes

Sector leading **building safety compliance**

People focused

80% colleague engagement

Ranked **24th** on the **Top 50 Inclusive Employers** listing across all sectors

Keeping our finances strong

33.8% operating margin

Retained our **A1 stable rating** from Moody's, the highest in the sector

Operating and Financial Highlights

Financial Performance	2021	2020
Turnover (£m)	195.7	200.9
Operating surplus (£m)	66.1	86.4
Operating margin (%)	33.8	43.0
Surplus for the year (£m)	38.1	63.8
Interest cover (%)	246	411
Balance Sheet		
Housing properties (net of depreciation) (£m)	1,615.9	1,556.9
Gearing (%)	44	41
Operational indicators		
Total housing stock	33,792	33,611
Customer satisfaction (%)	89.3	90
Current tenant arrears (%)	4.54	4.46
Average re-let time (days)	20.5	20.1
% Routine repairs on time	94.5	95.4

Statement of comprehensive income

- Turnover of £195.7m shows a decrease of £5.2m over the previous year. This is as a result of a decrease in first tranche shared ownership sales, no further outright sales following the completion of our successful Wolsey Island development and the continuation of our planned exit of our care provision across a number of schemes. Turnover benefitted from growth in new units, as well as rent increases across the majority of the housing portfolio of CPI +1%.
- Operating surplus has decreased by £20.3m to £66.1m largely as a result of the completion of the Voluntary Right to Buy (VRtB) Midland's pilot resulting on lower sales surpluses. The benefit from the revaluation of our market rent properties partly offset this. This represents an operating margin of 33.8%. This, together with increased expenditure on maintenance, was one of the main drivers in the reduction of our operating margin. These pressures are likely to increase in coming years as we invest in decarbonisation.

	Turnover		Operating surplus	
	2021	2020	2021	2020
	£m	£m	£m	£m
Social housing lettings	177.2	174.1	57.8	59.0
First tranche shared ownership	9.7	11.5	1.4	1.9
Outright sales	-	2.4	-	(0.1)
Care contracts and other income	5.0	9.5	0.4	(0.5)
Disposal of fixed assets	-	-	3.8	24.8
Other social housing	2.1	2.1	(0.1)	0.2
Market rent	1.7	1.3	2.8	1.1
Total	195.7	200.9	66.1	86.4

Social housing is the core of the business. Rent restrictions ended last year allowing rent increases to return to CPI +1% levels. This, coupled with our portfolio of new developments, saw our turnover increase overall. Operating surpluses decreased in line with investment made in the second year of our corporate plan by investing in homes, enhancing building safety and inspections regimes and delivering a higher service level to our customers. This was achieved against the backdrop of the Covid-19 pandemic by continuing to deliver urgent repairs in this time.

Care contracts and other income saw a decrease in turnover by £4.5m as we continued to see the impact of our planned exit from all our care contracts on our Retirement Living portfolio whilst keeping the underlying rental assets. This strategic decision has removed losses previously seen in this area.

First tranche sales continued to do well with strong demand. Turnover and surpluses were impacted by a marginal decrease in the average first tranche percentage being purchased.

Surplus on disposal of fixed assets were lower primarily as the final 7 properties on the VRtB pilot were sold. Staircasing and single unit disposals remained strong.

No further outright sales were made this year as the remaining units of stock were sold last year.

Market rent operating surpluses increased to £2.8m via a full complement of new development units being on stream. Additionally the portfolio benefitted from a £1.8m revaluation gain on its investment properties.

One off interest costs on the early repayment of high cost contractual debt was £7.5m in the year. Excluding this, interest costs of £21.2m are £2.0m lower than last year on a like for like basis due to tight management, whilst securing £100m of bond finance at a rate of 1.831%.

Statement of financial position

The gross cost of housing properties has increased by £80.4m to £1.9bn over the year. This is a result of expenditure of £87.1m on new homes and a further £14.2m invested in improvements to existing properties. Properties with a cost value of £9.6m were disposed of during the year.

Social Housing Grant (SHG) has increased by £8.0m to £714.9m due to a net increase of grants receivable on new developments.

Debtors decreased from £14.0m to £10.5m due to a decrease of £2.6m on prepayments and other debtors, and £0.9m in rent arrears.

Cash at bank and in hand increased to £108.0m (2020 : £91.2m). This reflects strong operating cashflows and a successful bond issue which has covered sustained investment in development spend and the early repayment of high cost debt. 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 increased £2.6m to £55.2m due to accruals and deferred income, being offset by a reduction in housing loans.

Creditors over a year increased by £39.6m to £1,359.6m due to the net increase in housing loans resultant of the bond issue and repayment of higher interest bearing debt.

Our immediate operating environment

From April 2021, the operating environment remains challenging as the country emerges from the economic and social impact of the Covid-19 pandemic. Alongside this recovery, key challenges exist in the following areas;

- Further defining our green strategy and its funding needs.
- Continued focus on new development projects and investment in building safety.
- Embedding a carbon reduction culture in our staff, systems, processes and our supply chain.

Our liquidity position and financial strength means that we are confident in meeting these challenges in the best position possible.

Our Corporate Plan

Making What Matters Brilliant **2019-2025**

We completed the second year of ***Making What Matters Brilliant*** in 2020/21, our plan to make record investments in the services we offer customers, our properties and our colleagues' careers.

For each section, we have set out below our key deliverables, outcomes, future plans and how value for money is intrinsically embedded into our work, measures, targets and plans. As agreed by our Board in November 2020, low carbon objectives have been embedded within each of the five sections.

Investing in homes

Providing safe, secure and well-maintained homes that customers choose to live in sits at the heart of what we do.

We've increased our investment plan to £120m over the six-years of our corporate plan, spending over £22m on improvements to our customers' homes in 2020/21 alone. This will help us to retain sustained levels of demand and ensure void loss is kept below our 1% target.

Measure	2019/20	2020/21	2024/25 Targets
Property investment spend	£19m	£22.2m	£120m over 6 years
Void loss %	1.31%	1.17%	1.00%
Re-let days	20.1 days	20.5 days	16.5 days
Carbon reduction - new measure			To move all properties to a minimum of Band D by 2025

Our key highlights

- We continued to maintain **customer satisfaction** throughout the disruption of the pandemic, achieving c90% for a second consecutive year.
- We carried out **planned works as scheduled**, despite the pandemic interrupting supply chains and restricting a lot of working practices.
- We **spent £1.2m** in 2020/21 on six Retirement Living schemes, refreshing communal areas with a new, more modern design for our customers to enjoy.
- The launch of our **Property Digital Record** will enhance our strategic planning for asset investment whilst meeting a key recommendation on building safety from the Hackitt review.
- We have done much to simplify our asset base through dealing with poor performing stock. We've done this by **appraising the options** for refurbishment, development or sale and specialist provision through our work with partner agencies and on our Supported Living portfolio.
- Our Board has agreed a **£2.6m replacement programme** to replace our CCTV system over the next three years, including a central monitoring control room.

Reginald Mitchell Court refurbishment

Case study

As part of our investment programme, we refurbished a number of our Retirement Living schemes, one being Reginald Mitchell Court.

The refurbishment of this scheme has had a hugely positive impact on the residents and on their relationship with us. The investment works have helped residents feel that they are valued and listened to. We have actively worked to solve a number of previous issues and most importantly build trust. The day the new furniture was delivered was a particular highlight – residents were so excited to see it being unpacked. The shift in mood at the scheme was palpable.

The post-works customer feedback showed a significant increase in their satisfaction. 81% of customers surveyed said they found the communal areas bright and welcoming, compared to 19% before we undertook the works. One resident described the scheme as 'homely and comfortable'; another said it was 'gorgeous' and they 'loved it'. 80% of customers said the refurbishment had made them feel proud that Reginald Mitchell was their home, an increase of 54%.

Residents now have a permanent Retirement Living Officer who they're forming strong bonds with. For them, the investment works are a fresh start, and ushers in positive change at the scheme. Covid-19 restrictions have prevented them fully enjoying the refurbishment over the past few months, so they are delighted that they'll be able to use the communal lounge soon.

Service First

We don't want to just meet our customers' expectations, we want to exceed them, giving our customers a first class, responsive service.

Responsiveness of service delivery is the key measure of our performance against our Service First objectives. We can improve our response time by working collaboratively across teams to devise proactive solutions and deal with issues before our customers report them to us.

We continue with our work on our balanced and sustainable communities investment programme where we aim to turn some of our weaker schemes and neighbourhoods into places that customers want to live and can build a life. We have identified general needs schemes where interventions can help sustain tenancies and invest in things that matter to customers, such as lighting and security.

Measure	2019/20	2020/21	2024/25 Target
Customer satisfaction	90%	89%	85-90%
Repairs satisfaction	91%	91%	92%
Routine repairs completed on time	95%	95%	96%
First time fix- new measure			92%

Our key highlights

- We spent c£1m in 2020/21 on **30 planned general needs intervention schemes** to create safer and more secure environments for our customers, supporting more sustainable tenancies. This takes the total to 46 schemes. Our aim is to reduce anti-social behaviour, promote balanced communities through the letting process, and invest in the building to make it safe, secure and attractive to customers.
- Getting repairs right is the most important driver of **customer satisfaction**. We have consistently hit over 90% over consecutive years for repairs satisfaction. We are moving to fully insource day-to-day repairs after a value for money assessment over our current contracts.
- We have acquired a new **East Midlands Hub** to complement our Booth Street depot, increasing our geographical reach and marking a real strategic presence in the East Midlands.
- We have **10,187 customers using our customer app**, primarily to check rent balances and making payments as well as 40,878 registered on our new lettings portal which launched in February 2019. This shows a continued sustained demand for our properties. We are on track to deliver repairs online for customers by the end of 2021.
- We continued with our rollout of '**Connect360**', our colleague app. Frontline workers can now easily view property and tenancy information as well as upload photos. This will mean we can focus on proactively dealing with customer issues and core landlord services whilst out on patch in our customers' homes.
- We rolled out our **first-class repairs model** across all in-house areas. This model includes flexible appointments, ensuring we get things right the first time, and has improved follow-on arrangements and recalls.
- Our **new lifestyle model** was launched within Retirement Living to promote wellbeing and support independent living for longer as well as maintaining activities as much as possible throughout the pandemic.

Intervention Scheme, Scotts House

Case study

Scotts House was a young persons' scheme, often a customer's first tenancy. There were serious anti-social behaviour issues and a concentration of customers with complex needs, such as mental health and substance misuse. The accommodation was unattractive and communal areas were in a poor state, meaning that it was a last choice of housing for many people.

We interviewed our customers living at the scheme to understand their views and concerns before creating a plan of action. Our customers consistently complained of anti-social behaviour and criminal activity, drug dealing in particular. We worked closely with Staffordshire Police to identify and obtain closure orders against those customers causing nuisance.

We invested £74,000 in the scheme, including refreshed communal areas, an automated gating system, and improvements to the door entry and CCTV systems.

The reputation of the building had affected the desirability of Scotts House in the local area. We introduced a local letting plan to redress the balance of customers, enabling us to allocate voids through Homes Direct or our website rather than local authority nominations.

Customers have told us that they are pleased with the new look of the scheme, which makes it feel cleaner and safer. We have seen a significant drop in communal repairs costs due to the reduction in vandalism, and there were no anti-social or safeguarding cases at the scheme at 31 March 2021.

Supporting Retirement Living customers during the pandemic

Case study

As the government restrictions closed down society, we were aware of how isolating this would be for our Retirement Living customers. Many are at high risk of Covid-19 so we needed to ensure their safety but understood that a level of socialisation was important as well. Our colleagues at schemes worked tirelessly to provide a brilliant service whilst maintaining our customers' safety.

Together we:

- Created newsletters and had calls with our customers so that they were fully aware of the safety measures, as well as checking on their wellbeing.
- Had 'daily waves' around the gardens that featured special guests, including many local MPs.
- Created activities for the corridors, landings and balconies so that customers could celebrate events such as VE day, Chinese New Year and Mother's Day.
- Created a range of activities for January's Wellbeing Month and used National Reflection Day to bury time capsules that captured what it was like to live through the pandemic.

Customers are now looking forward to communal areas reopening in line with the Government's roadmap so they can meet their friends in the restaurant and get pampered in the beauty salons.

Customer voice

Case study

We have high levels of customer satisfaction, because we always listen to our customers' feedback to continually improve our services. Below are some highlights of how the customer voice has helped shape our approach.

- Our customers wanted to know more about our response to gas, electric and security concerns. We worked with them to understand the preferred methods of communication and have used this to shape our Building Safety strategy.
- Supported Living customers told us that having access to the internet is a barrier for applying for jobs, benefits and long-term accommodation. We have fed this into our network replacement project to provide them with WiFi access in 2021/22.
- We wanted to improve our fire safety information and communication so we engaged over 140 customers in a pilot to review different approaches. This insight has informed our new approach, including the introduction of resident fire safety meetings, new posters and mail shots.
- We wanted to understand whether we had an inclusive culture that catered to the needs of BAME customers in Retirement Living. Customers told us that we did cater to their needs but highlighted areas where we could do more. We are now working on increasing our diversity data, implementing inclusion plans and engaging with external BAME businesses.

Growth and Partnerships

We are committed to building as many affordable homes as we can, recognising the acute shortage across the country and the part we can play in this national challenge. Through our new Housing Delivery Strategy, we have set our ambition to build 4,000 new homes between 2019 and 2025, that will include replacing homes though using the proceeds from the Government's voluntary right to buy pilot.

Measure	2019/20	2020/21	2024/25 Target
New homes built	570	350	4,000

In 2020/21 we delivered:

193 homes for affordable rent, 40 for social rent and 117 for shared ownership.

Our key highlights

- In November 2020 our Board agreed to **increase our delivery of new homes** from 3,000 in five years (2019-2024) to 4,000 new homes in six years (2019-2025) and in March 2021 the Board agreed our new Housing Delivery Strategy which defined the scope, scale and geography of our development plan.
- We are well over half way to achieving **4,000 new homes by 2025**, with 2,270 homes either completed or on site.
- Despite a challenging year for the construction industry, we have continued to make progress by **completing 350 new homes in 2020/21** with more than 800 new homes targeted to be completed next year.
- We have continued with our successful partnership with Countryside Properties UK PLC, a major regional developer, to **build 1,000 new homes** over a three-year period. 650 properties are in construction, with 400 in the pipeline for 2021/22.
- 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 onto the housing ladder.
- In addition, we have identified our replacements for the **voluntary Right To Buy** programme.
- We have **successfully negotiated** a stock swap that is estimated to complete in Quarter 1 2021/22. This helps reduce our overall geographical footprint and ensure we can give quality service to all our customers.

Our partnership with Countryside

Case study

Great progress has been made towards achieving our aim of building 4,000 new homes over the course of our extended corporate plan period. A large part of that has been due to the success of our partnership with Countryside Properties UK PLC.

The partnership was setup in 2019 with the aim of building 1,000 new affordable homes over a three-year period. After two years, we have over 650 homes in construction with a further 400 in the pipeline due to start in 2021.

One of the benefits of working with Countryside is that a large proportion of the construction is undertaken in their regional factory using a panelised timber frame system. This helps us to support the Government's aim of promoting Modern Methods of Construction.

People Focused

We want to be a leading employer in the Midlands, a place of true belonging where colleagues can develop and grow themselves and their careers. To achieve this, we need to be people focused.

At the start of 2020/21, it was clear that we needed to focus on the wellbeing of our colleagues during the uncertainty of the pandemic and make sure we were still there to provide the services our customers needed. We created a number of initiatives to ensure that frontline colleagues felt supported whilst facing challenging circumstances, and colleagues working remotely still felt connected. We also understood the importance of continuing our professional development programmes, so we continued to develop our colleagues even whilst working remotely.

Measure	2019/20	2020/21	2024/25 Target
Voluntary turnover	14%	9.7%	12%
Time lost due to sickness	2.8%	2%	3%
Colleague engagement	80%	80%	80%

Our key highlights

- We achieved **80% colleague engagement** score for the second year running despite the challenging working environment.
- Our **sickness absence was the lowest ever** at year-end at 2.03% (4.6 working days lost, 6.3 days 2019/20) and voluntary staff turnover was below 10% (9.7%) from 14% in 2019/20. This is in line with national and sector trends.
- We were named **24th on the Inclusive Top 50 UK Employers** for 2020/21, demonstrating our commitment to diversity and inclusion.
- We **strengthened our benefits package**, offering enhanced maternity and adoption pay levels following a benchmarking exercise.
- We created **career pathways** to provide clear development routes and enable movement across functions, supporting the retention of talented colleagues and increasing internal mobility, particularly for our high performing female and black colleagues.
- We have continued to **invest in talent** through apprenticeships, degree apprenticeships, aspiring managers and professional development. We have also continued our leadership development programme with the prestigious Cranfield University.
- We created and rolled out new in-house customer service training **'Service First'** to colleagues helping them better understand their role in our Landlord First approach that puts customers, homes and communities at the centre of everything we do.
- We brought forward and accelerated on our **Smart Working** plans, which will give colleagues the tools they need to work and collaborate effectively from wherever they are. Instead, colleagues can focus on delivering a more efficient and effective service to our customers.
- We continued to **attract new talent** throughout the pandemic, facilitating assessments and onboarding virtually. 98% of our starters were directly sourced by our recruitment team in 2020/21, ensuring that skills and behaviours matched our Service First culture.
- We fully utilised our apprenticeship levy by **upskilling 35 colleagues** across apprenticeship levels 2 to 7. In addition, our first cohort of 10 early career apprentices and 6 degree apprentices started in September 2020.

Apprenticeships

Case study

A key part of our Talent strategy is to 'grow our own' through our apprenticeship programme. Our approach focuses on roles that are difficult to fill, or in areas of high turnover, with selection based on key behaviours rather than technical skill. Since its inception in 2017, we have utilised 100% of the Levy to develop talent at the start of their careers.

We recruit apprentices into established roles and currently have 15 apprentices ranging from Level 2 Customer Service Officers through to Apprenticeship Level 4 Accountants and Apprenticeship Level 6 Chartered Surveyors.

We have also successfully delivered our first degree apprenticeship programme as another means of growing our own talent, especially in areas where we know skills and expertise attract a premium in the external market. Commencing in September 2020 and onboarded during the pandemic, our six degree apprentices have settled very well into the business. Despite the pandemic, we have been able to provide each apprentice time outside of their core function so that they gain valuable insight into how applying their learning back into the workplace will impact the wider business.

Feedback on each has so far been excellent. All six are performing at first class honours level academically and applying their learning back into the workplace to ensure we deliver brilliant services to our customers.

Diversity, inclusion and belonging

Creating an environment where anyone can thrive and succeed regardless of their background is one of our key priorities. For us, this will never be a job that we mark as complete. Despite being ranked 24th on the Top 50 Inclusive Employers listing, we will never be complacent of the progress we have made and more that we can do to make sure all of our people thrive.

The pandemic has provided a particular challenge in terms of making sure our colleagues feel a sense of belonging and connection. This is where our inclusion networks have really come into their own. The colleague led inclusion networks have successfully brought people together through a series of virtual events to celebrate, talk and share experiences during a period when feeling connected was more important than ever.

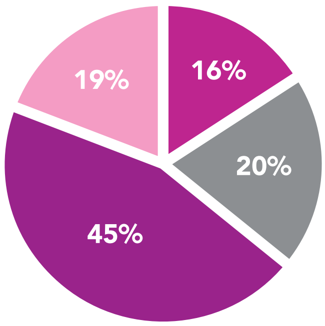
Reflecting on the sad events in the US during the summer of 2020 and the issues raised by the Black Lives Matter movement, we took the time to listen to and really understand the experience of black colleagues working at Midland Heart. Their feedback and experiences helped to inform our diversity priorities for the year ahead. We also invited volunteers to shape our Black History Month celebrations in October 2020. The result was a month of thought provoking and challenging insights into Black History, as well as celebrating the contribution of Black people to the UK. This work continues through our race and ethnicity inclusion network, Unity, which is sponsored by our CEO.

We know that good quality data enables us to make better decisions. Our inclusion networks have supported our drive to increase our diversity data and given us a better understanding of the demographics of our workforce; with 90% of colleagues declaring race and ethnicity information along with 51% of people sharing whether they have a disability.

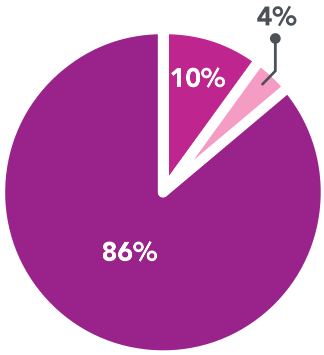
Our mean gender pay gap for 20/21 has reduced from 20.37% to 18.58%. Whilst there is more to do to reduce the gap, our actions to date are having a positive impact. Our Executive Board receive quarterly reports on the impact of recruitment decisions and promotions on our gender pay gap, highlighting areas for action. The Executive Board also receive the same each quarter in regards to race and ethnicity. We have used the data to understand how we compare to our geography, as well as the extent to which we are representative of our customers.

Ethnicity

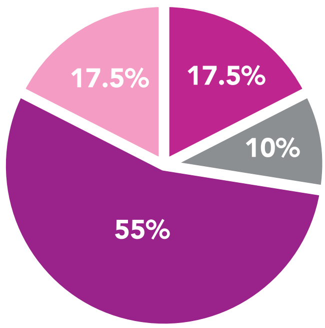
KEY: White · Black · Rest of BAME · Unknown



Our Customers



The Midlands

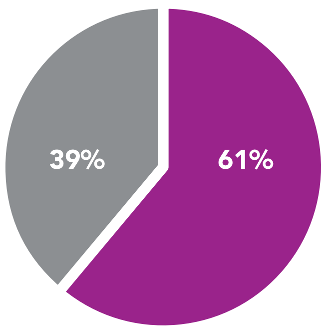


Our Colleagues

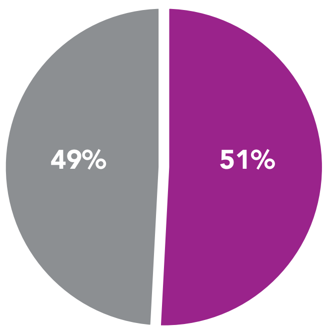
	White	Black	Rest of BAME	Unknown
Frontline Worker	51.9%	19.1%	17.7%	11.3%
Frontline Manager	72.9%	8.3%	16.7%	2.1%
Strategic & Operational Leaders	80.4%	4.3%	15.2%	0.0%

Gender

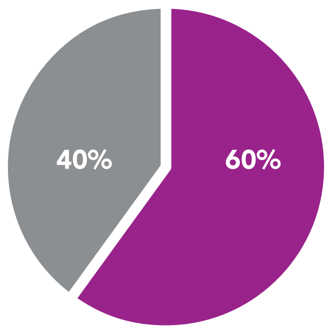
KEY: Female · Male



Our Customers



The Midlands



Our Colleagues

	Female	Male
Frontline Worker	60.6%	39.4%
Frontline Manager	64.6%	35.4%
Strategic & Operational Leaders	43.5%	56.5%

Using the data we have gathered, feedback from our colleagues and benchmarking through the Inclusive Employers ranking, we have shaped our diversity agenda and priorities. We have also worked with The Governance Forum to inform and shape The Race Code. Through this we have identified actions to strengthen our governance of diversity up to and including Board level.

In 2021/22 we will:

- Publish our ethnicity pay gap, aligned to the gender pay reporting cycle.
- Launch development schemes for high performing female and black colleagues.
- Work with our disability network to achieve Disability Confident Leader status and identify how we ensure disabled colleagues are able to develop and grow their careers.
- Work with our inclusion networks to further engender a sense of belonging.
- Launch race, racism and stereotypes training; as well as further developing our inclusion learning.

Much progress has been made through a challenging year but we continue to be committed to making Midland Heart a place where colleagues feel they belong and that people aspire to work for.

Gender pay gap 2020

Our mean gender pay gap was 18.58% the UK mean gender pay gap was 14.6%. Our median gender pay gap was 17.95%, the UK median gender pay gap was 15.5%.

We know that our gender pay gap primarily exists for two reasons. The first is the large number of domestic and catering colleagues our customers services rely upon. Colleagues in these roles are predominantly female which leads to a greater gender imbalance in our lower quartile. The second reason is that although we have good representation of women in our upper quartile, there are more men in senior leadership roles.

Reducing the gender pay gap is not a quick or easy change. We face a societal issue around traditionally male and female roles in our lower quartile, which means the pace of progress may not be as quick as we would want. We know, through independent assurance, that men and women are paid equally for work of equal value.

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. Our three clear aims to address this are:

- Increase the number of women in our upper quartile, particularly at the higher levels;
- Have a more representative gender balance in the lower quartile; and
- Ensure our reward and benefits enable everyone to balance their personal and professional lives.

Our key highlights

- The appointment of **female apprentices** in software engineering, surveying and trades. Females have been appointed to 60% of all senior leadership roles advertised in the past 12 months.
- Following completion of our **aspiring managers programme**, 12 women have progressed into more senior roles. This has all contributed to an improved female representation at managerial and leadership levels of the business.
- Our women's network, **Balance**, launched this year and supported a review of our Family Friendly offer, resulting in enhancing our maternity and adoption pay.

All of our gender pay reports can be found online at **www.midlandheartgroup.org.uk**

Employee involvement and consultation

Our Partnership Council, consisting of our Partners and Executive Board, help inform and consult colleagues on a wide range of issues. The Council meets regularly throughout the year to discuss delivery of *Making What Matters Brilliant*, people related matters and other business issues. Partners also periodically attend meetings of the Executive team, Senior Management team meetings, key steering groups and the Pension Sub-Committee to ensure the colleague voice is represented at all levels in the business.

Our Partners use a range of engagement and communication methods to keep colleagues informed and gather their feedback on key issues. This includes regular briefings, Ask Exec sessions, surveys, drop-in sessions and attendance at team meetings. This approach enables employees to openly question senior management about how we run our business, and actively encourages ideas and feedback from our colleagues.

In this challenging year, our Partners were as critical as ever in disseminating information and supporting colleagues through the ever-changing restrictions. They helped colleagues' transition to home working and championed wellbeing through regular team check-ins, wellbeing month activities, and Ask Exec sessions. As we moved back to office working, our Partners helped make our workspaces Covid-19 secure through hygiene and social distancing measures.

This year, our engagement survey told us that 80% of our colleagues are happy working here, matching our performance in 2019/20. We are pleased that we managed to maintain this result giving the sudden and seismic shift in our ways of working and the hard work that went into running our services.

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

We want to ensure that we continue to provide safe homes to our customers and safe places to work for our colleagues. Achieving full compliance with building and health and safety statutory and regulatory standards is paramount. This means we need to ensure our compliance with regulatory judgments and guidance, such as 'Building a Safer Future' and other safety reviews, by adopting the recommendations as best practice.

Our aim is to proactively engage with customers on safety issues and provide a clear route to raise concerns on safety matters. Clearly demonstrating how customer concerns about safety have been addressed, including speed of response.

Measure	2019/20	2020/21	2024/25 Target
Operating Margin %	43.0	33.8	30
Interest cover %	411	246	>150
Gearing %	41	44	<70
Arrears %	4.46	4.54	4

Our key highlights

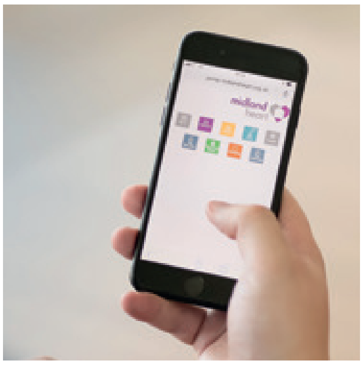
- We continue to deliver strong compliance on **Building Safety** even during the pandemic.
- We have a **Primary Authority Partnership Agreement** with West Midlands Fire and Rescue Service. The partnership has delivered a number of tangible improvements including:
  - The development of a standardised automatic fire detection alarm matrix for our buildings;
  - Currently zero enforcement notices issued by fire authorities; and
  - A partnership approach in responding to the Ministry of Housing, Communities and Local Government (MHCLG) fire safety alerts e.g. GPR composite doors
- An accelerated programme of **EICRs** (electrical safety) is to be completed by March 2022 (84% complete at year end, moving from 10 years to a 5 year cycle). We are targeting 100% by March 2022, ensuring that we are ahead of any future electrical safety requirements as a result of the Social Housing White Paper.

- A retrofit programme of sprinklers in our **Retirement Living** schemes is to commence from April 2021, agreed by the Board in December 2020.
- We have commenced a pilot of **type four intrusion inspections**, of which one of the five buildings has been completed.
- The requirement for **property digital records (PDRs)** was a key recommendation from the Hackitt review. After a successful project, the PDRs went live in November 2020, allowing us to plan changes to our properties and quickly assess the impact on any building safety measures. Furthermore, it allows for decisions to be made with a complete understanding of the building construction and track the evolution of any changes throughout the building's lifecycle.
- In response to the recommendations raised in the **'Building a Safer Future'** review, we have developed a competency framework to ensure our colleagues have the appropriate skills to maintain a building's safety through its lifecycle: design and development, occupation, and redesign.
- To remain resilient, we continue to invest in our **IT infrastructure**.

Investing in our infrastructure

Case study

Over the last year, we have invested in our IT infrastructure to ensure that we can maintain a secure environment. Our Citrix environment is used by over 600 colleagues every day and is critical for our core business functions as it gives secure, remote access to all applications.



During 2020/21, we upgraded the environment to ensure that colleagues could continue to work from home in a secure way. To enable our colleagues to work from home effectively, we distributed around 200 extra laptops and updated nearly 600 devices to ensure continued compatibility with our new network and improve local security on the devices.

We are also upgrading our network to provide more consistent connectivity to all Midland Heart sites in support of our Smart Working project, which will enable our colleagues to work across our sites seamlessly. We are also delivering a Wi-Fi offering for our customers, recognising that access to reliable internet is important for everyday life.

Building safety during the pandemic

Case study

The ever-changing government restrictions presented a challenge when trying to maintain compliance with gas safety as we needed to access our customers' homes.

Understandably customers were nervous about letting people into their homes, but the Building Safety team worked hard to communicate how our working practices adhered to government guidelines as well as our own Covid secure procedures. We also ensured that our contractors worked to the same high standard of safety with appropriate PPE, and that they were able to access parts in a disrupted supply chain.

Despite these challenges, we managed to sustain our strong compliance performance and ensured that 100% of our customers have had an annual gas safety check.

Electrical safety

Case study

We wanted to shorten our EICR inspection programme from 10 years to a 5 year cycle, so we embarked on an accelerated programme in March 2020 to bring all properties into the shorter cycle by March 2022.

We engaged more resource to complete this expediated programme, whilst ensuring high levels of quality and customer service by suitably qualified and competent contractors. We also worked closely with the Housing Management team to ensure that contractors could gain access to the properties and provide additional support where required.

At the end of Year 1, we have exceeded our target of 80% as now 84% of properties are within the new 5-year cycle and we're on track to complete the remaining properties by March 2022.

Being financially strong

Our aim by 2025 is to achieve an operating surplus of at least 30% and meeting our own financial golden rules of interest cover, gearing and liquidity.

Our key highlights

- Our continued strong financial performance and our Moody's rating of **A1 Stable** (best in our sector).
- Our **robust level of liquidity**, c.£265m of cash and undrawn facilities which are immediately available.
- We successfully secured a **£100m bond** at the lowest rate we have ever achieved that will support the ongoing delivery of the corporate plan.

Value for money

Value for money (VFM) is etched throughout our corporate plan, reflecting the VFM standard which came into force in April 2018 and the VFM metrics. After the Board's decision to extend the corporate plan to 2025, we refreshed the VFM strategy in March 2021 to include the new corporate objectives.

The Regulators' published sector wide annual global accounts to March 2020 paint a picture of one of squeezing operating margins and rising costs. It is expected that this trend will continue given the impact of the Social Housing White paper, Decent Homes (consultation in Autumn 2021), building safety and the challenge of low carbon.

Our VFM strategy is very much aligned and integrated into the delivery of our corporate plan (e.g. stock swap, insourcing of repairs, loan repayments and smart working) and governance structures.

We have delivered a strong set of VFM metrics. This is supplemented with a suite of regularly published quality indicators. Our Board continues to set our strategic VFM targets, for example, operating margin 30% to 2025, 4,000 new homes and £120m asset spend to 2025 flow into our VFM metrics i.e. new supply % and reinvestment %. Gearing is also one of our financial golden rules.

Strong value for money 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; and
- Ensuring we maximise the return on assets

These are underpinned by a strong VFM culture where information is transparent, 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 value for money metrics

Measure	2019-20	2020-21	Forecast 2021-22	Forecast 2022-23
Reinvestment	6.6%	6.4%	10%	7.5%
New supply delivered (SHL)	1.6%	1.2%	2.6%	2.8%
New supply delivered (non SHL)	0.4%	0%	0%	0%
Gearing	28.1%	28.9%	31%	32.8%
EBITDA MRI interest cover	268%	214%	287%	247%
Headline CPU	£3,325	£3,480	£3,515	£3,764
Operating margin (SHL)	33.9%	32.6%	31%	30.7%
Operating margin (overall)	30.5%	30.9%	29.3%	28.5%
ROCE	5.1%	3.7%	4.2%	3.3%

The below table shows the VFM metrics by quartile *(source: 2020 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	4.9%	0.7%	0.0%	33.0%	125.9%	3.335	20.8%	18.1%	2.6%
Median	7.2%	1.5%	0.0%	44.0%	170.3%	3.835	25.7%	23.1%	3.4%
Upper Quartile	10.0%	2.4%	0.1%	54.7%	227.3%	4.864	32.3%	28.6%	4.4%

Reinvestment has remained stable with our investment in our new and existing homes being maintained despite the Covid pandemic. This is likely to increase in the future with investments in the green agenda.

New supply delivered dropped due to delays in completions caused by Covid and the accompanying social distancing requirements. Our development programme will catch up this shortfall in future years.

Non-social housing was down as none were built. Midland Heart is focused on delivering social and affordable rented homes.

Gearing marginally increased reflecting the addition of more new debt and an investment programme exceeding our cash flows.

EBITDA MRI interest cover remains strong, and the reduction reflects the early one-off termination of some expensive loans. This will benefit the ratio in subsequent years as interest costs reduce.

Headline CPU has increased reflecting our continued investment in first class repairs, improvements and building safety in our stock. This expenditure is likely to grow as Midland Heart addresses its decarbonisation agenda.

Operating margin (SHL and overall) remains in line with expectations and reflective of our increased investment in our people and properties to deliver our corporate strategy.

ROCE decreased due to lower surpluses on fixed assets sales. This was due principally to the cessation of the pilot Voluntary Right to Buy programme that benefitted the 19/20 results. The net proceeds from this will be reinvested into new social homes.

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.

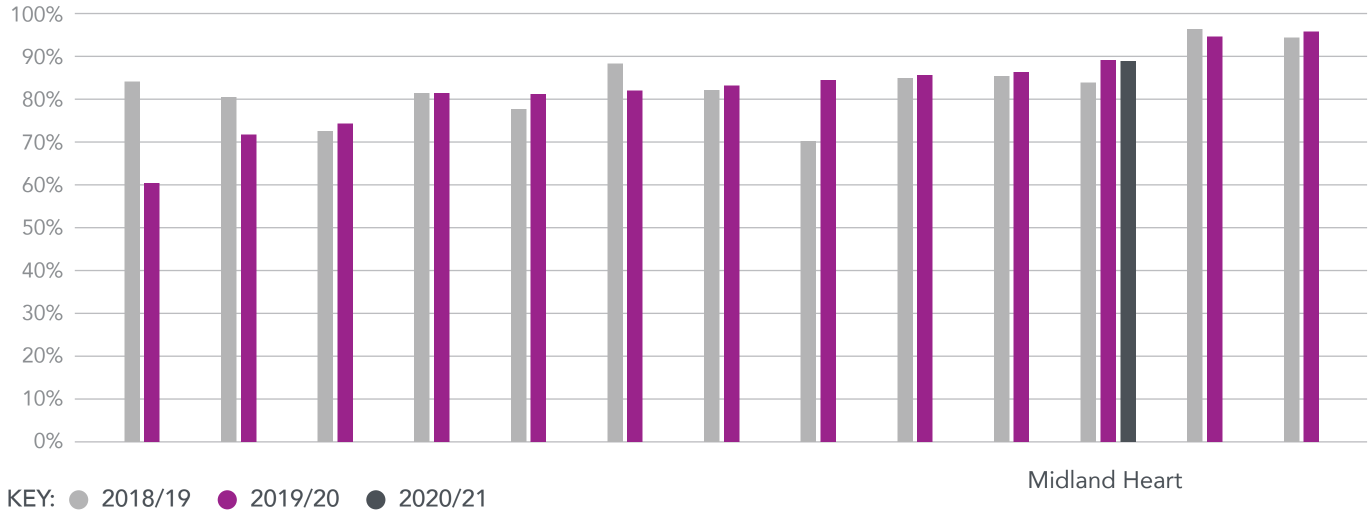
As in previous years, we continue to compare ourselves to a core number of housing providers. We select organisations in all geographies, which represent some of the largest and most efficient Registered Providers, as well as including those that largely have strong governance and viability ratings. This comparator group has been refreshed to take into our account our divestment of care services.

Our benchmarking group consists of:

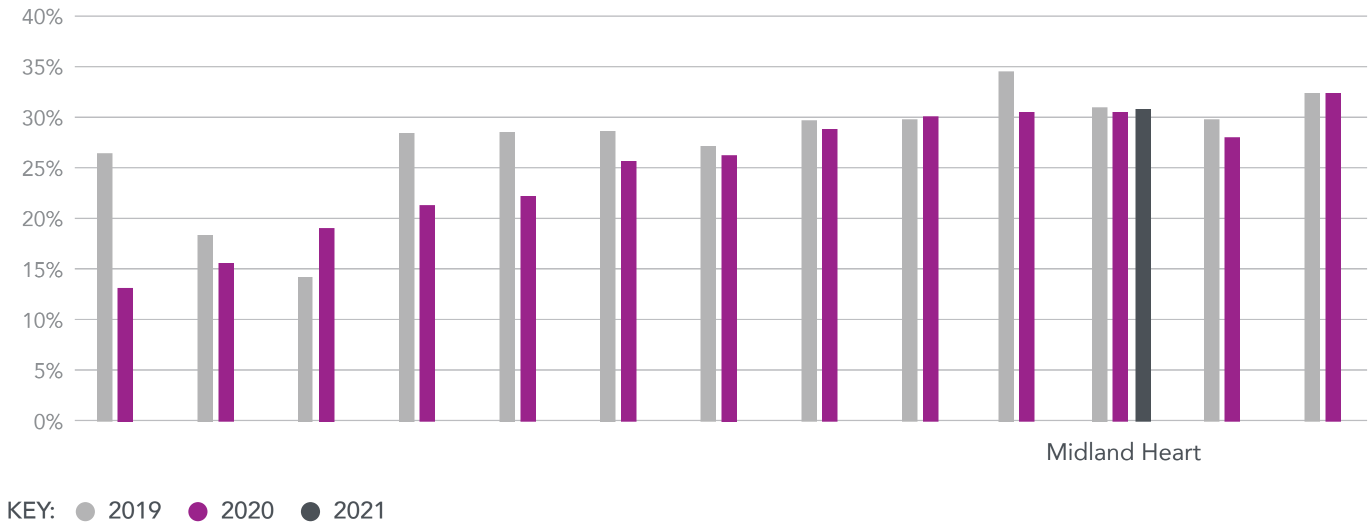
- A2Dominion
- Bromford
- Citizen
- East Midlands Housing
- Flagship
- Hyde
- Optivo
- Orbit
- Platform
- Riverside
- Sovereign
- whg

The results of our core metrics are detailed in the graphs below:

Customer Satisfaction

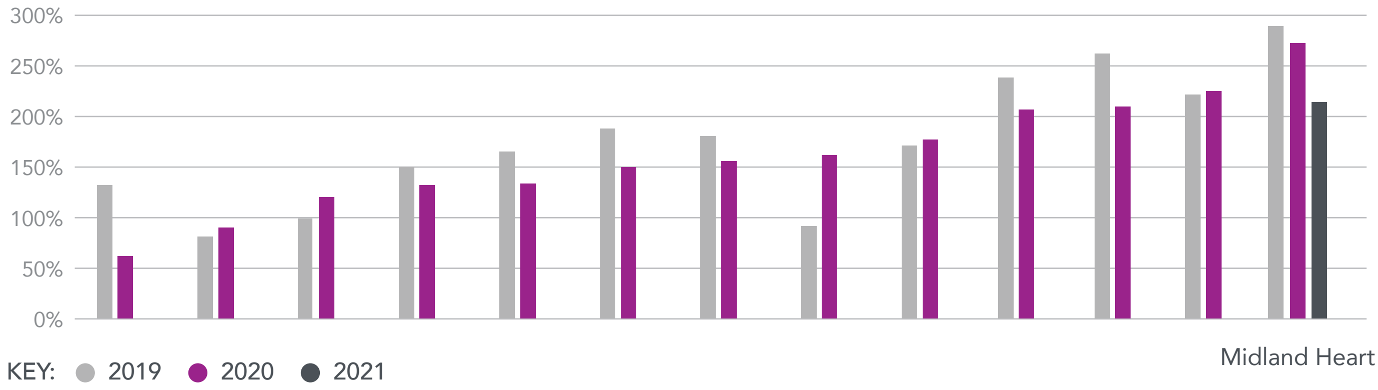


Operating margin – overall % VFM metric



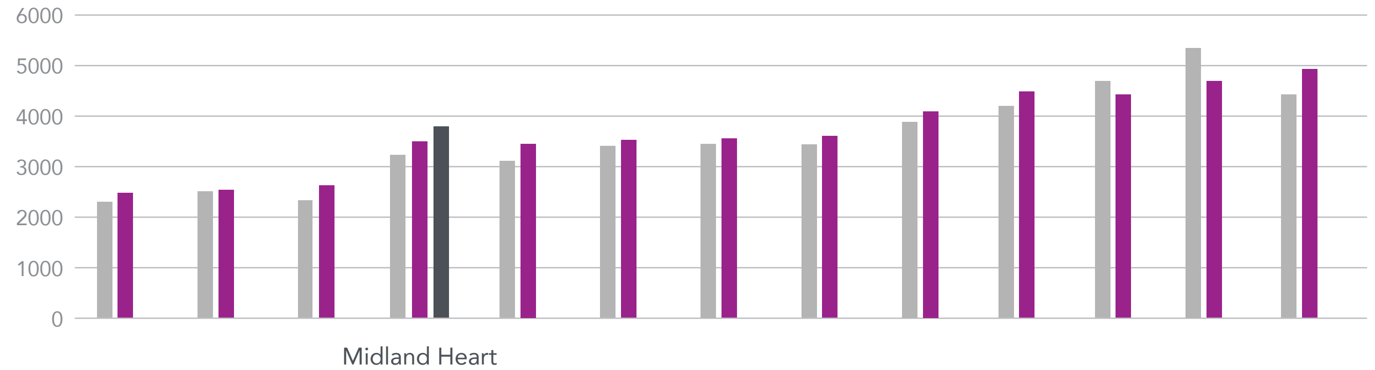
EBITDA MRI interest rate cover – overall % VFM metric

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



Headline cost-per-unit (£)

Our performance on cost-per-unit is consistently very good, especially as we have divested our care provision. This reflects the strong VFM agenda that we have set out.



Low carbon – net Zero by 2050

The decarbonisation agenda is quickly becoming one of the critical issues facing most organisations, whether it be Government, not for profit or commercial entities.

Government announcements on future energy policy, changes to building standards for new build or expectations on the decarbonisation of existing homes will have a profound impact on our future housing development and asset investment strategy.

We have embedded carbon reduction initiatives into each section of *Making What Matters Brilliant*. We also have signed up to be an early adopter of the Sustainability Reporting Standard for Social Housing so that our low carbon journey is reported in a transparent way.

We're currently undertaking calculations of our carbon footprint, including our value chain. This will look beyond the carbon emissions of our direct assets, but also at out supply chain and supporting activities.

Key contributors include:

- Energy used in the homes we rent;
- The goods and services we purchase; and
- Energy used in our offices and activities of staff.

Over the next four years, the Board has agreed to invest £10m on low carbon, primarily to move properties to Band D by 2025. We have also commenced pilots to help assess and determine our route to band C by 2030. A key part of these pilots will be understanding the real-life impact on customers of new technology and changes in their homes.

In addition, we are working with Vantage Business Solutions to benchmark and collaborate with other registered providers in the sector.

We have a carbon reduction plan in place to 2025. This focuses on three key areas:

- **The homes we rent;**
- **The homes we build;** and
- **The way we work.**

These three strands have been integrated into *Making what Matters Brilliant* delivery plan. Our key high impact and priority deliverables include:

- Deliver annual programme of works to move all properties to band D or above.
- Develop the SAMS (Strategic Asset Management System) framework for how we will decide to invest in property, accounting for cost, impact, planning constraints and government policy.
- Develop a costed model and plan to deliver a programme of works to move properties to band C by 2030 where practical and viable.
- Assess the current component replacement approach and understand where different solutions would be more effective. Understand the costs and benefits and how these fit into volumes and future budgets. This is about providing the best energy efficient solution when we replace a heater or boiler etc. This will form part of ongoing investment planning.
- Deliver on our intervention pilots.
- Develop typical low carbon requirements for new homes alongside our delivery partners. Review ongoing impacts on maintenance and renewal costs as well as customer outcomes. Ensure the actions we take on the homes we rent and those we are building remain aligned and the long-term cost and efficiency implications are part of decision making on new builds. e.g. life cycles, service requirements and costs as well availability of parts and maintenance skills.
- Develop a roadmap to bring energy usage down by 20% by 2030 (to be finalised once baselined). Including a plan for renewal of lighting, heating and cooling in existing offices to better match our post-Covid, smart working plans.
- Develop and set clear expectations with our suppliers and embed sustainability within our Procurement Strategy and processes.

The homes we rent

We want to have a complete understanding of the low carbon potential of our properties to make our customers' lives easier, cheaper and warmer. Our aim is to address our worst performing properties to ensure we meet a minimum EPC rating of D by 2025, where viable and practical to do so. We will also understand the potential of moving all properties to EPC C by 2030 by developing a costed programme of works in the next few years.

We also want to improve our understanding and measurement of customers' energy usage so that we can provide tools and information to help them make informed low carbon choices.

The homes we build

Our Housing Delivery Strategy seeks to build 4,000 new homes by 2025, and we want to ensure that all these homes meet future building regulation 2021 standard as soon as reasonably possible.

We want to minimise the need to retrofit new homes in the future, so we will keep development specifications aligned to emerging low carbon requirements.

The way we work

As we move to a smarter way of working, we want to realise the low carbon benefits that come from more remote working.

We want to reduce commuting miles by 20% by 2025 and reduce the energy use in our offices by 20% by 2030 with a minimum of EPC C. We will also develop a new set of 'green benefits' and implement a green recognition programme to incentivise colleagues to make low carbon choices. For our operatives and where practical, we want to deliver a 100% electric fleet and develop the new East Midlands Hub aligned to the low carbon agenda.

ESG reporting

We have signed up to be an early adopter of the Sustainability Reporting Standard for Social Housing because we want to make sure we maximise the positive impact of our investment on our communities and our planet. This will mean that we will have a rigorous and transparent way of reporting on our low carbon plan as well as demonstrating our social value.

We will be publishing our first ever ESG report in 2021 where we will set out in detail how we match up against the Standard, and our plans to further comply.

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 c61%. This represents inherent social value in providing sub-market rents that customers are more likely to afford.
- 2,107 customer referrals received for our Money Advice Team. Of those customers seen, 100% sustained their tenancy.
- £2.044m in income maximisation for customers, increasing income and reducing debt liability. We obtained Universal Credit awards of £540k and £116k in Discretionary Housing Payment (DHP) for tenants struggling to meet their rent shortfall due to financial hardship and the effects of welfare reform.
- An additional £328k claimed in Housing Benefit and £24k attendance allowances were obtained for customers aged 65 and over.
- £1,895 worth of Tesco/Asda vouchers issued to customers in financial hardship, 120 customers received emergency fuel top ups, 73 food bank vouchers and 10 travel tickets issued to enable customers to attend appointments.
- £65k was secured from charities, trust funds and tenants hardship funds to help reduce debt and purchase essential goods and services, such as TV licences, cookers, bedding and fridges. This includes £5k granted from the Martin Lewis Coronavirus Fund.

Loan facilities

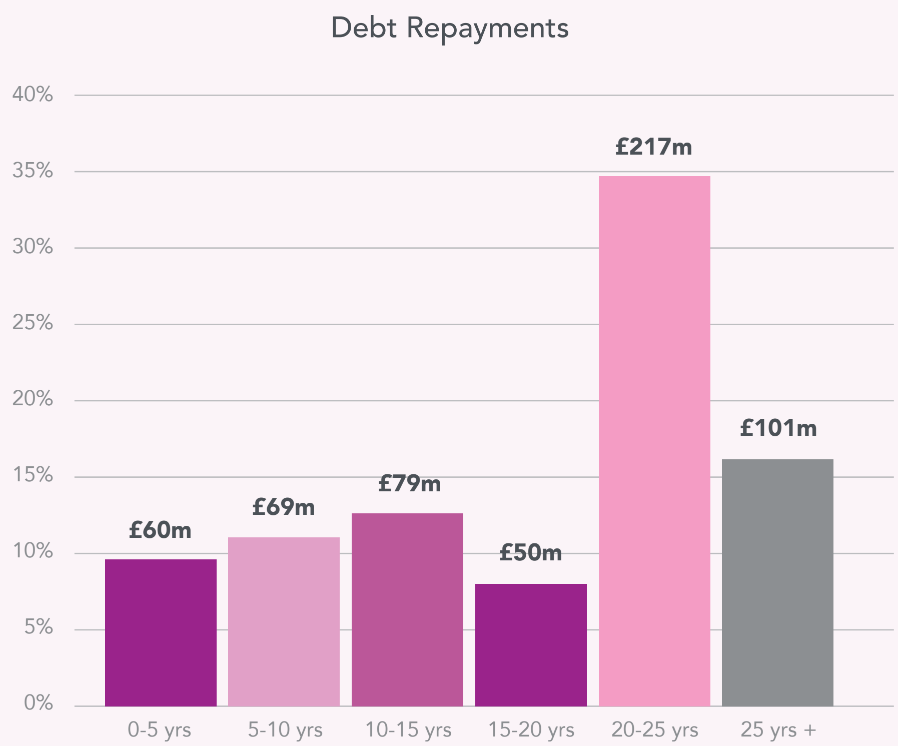
Midland Heart's policy is to develop long-term relationships with lending institutions and investors that understand the business and are able to meet its funding and changing business requirements. To serve these better, we published six monthly results for the first time and have agreed to become an early adopter for the Sustainable Reporting Standard for Social Housing. 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.

We have a liquidity policy that states there should be sufficient cash and fully secured loan facilities to cover 18 months net committed development spend excluding any sales receipts from outright sale/shared ownership properties. During the year, we took advantage of funding conditions and issued a £250m bond (£150m retained) at 1.831% its lowest ever rate. This allowed us to boost our cash levels and pay off some expensive, security intensive legacy loans.

As at 31 March 2021, we had c£265m of available liquidity; comprising £155m available in undrawn fully secured facilities and c£108m in cash. This is an excellent foundation to fund our future development plans, stock acquisition opportunities as well as to ensure a robust liquidity position.

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

	2021	2020
Within one year	9,343	12,673
Between one and two years	21,228	11,972
Between two and five years	29,672	57,512
After five years	515,483	447,054
	575,726	529,211



c90% of our debt matures in over 5 years' time.

We have a diverse funding base. The split between bank and capital market funding as at 31 March 2021 was 55% of our debt came from the capital markets and 45% from banks and building societies.

Financial Instruments

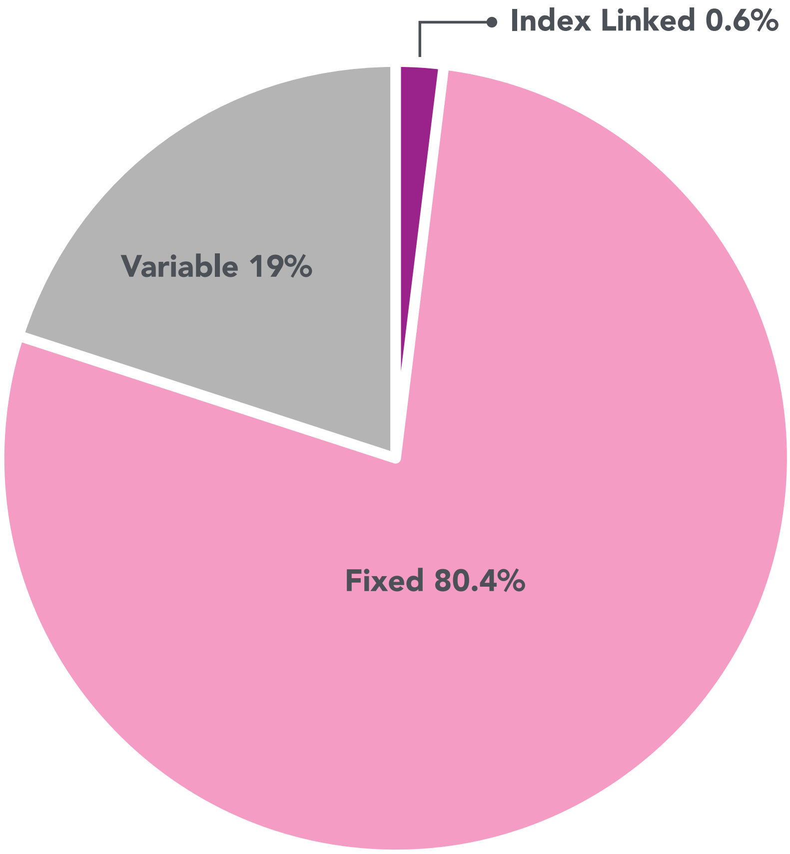
Midland Heart is financed by a combination of retained reserves, long-term loan facilities and grants from the Government. The Group has a formal Treasury Management Policy that is approved by the Board. This policy seeks to address funding and liquidity risk and ensure covenant compliance; it states 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 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 utilises credit thresholds to cover any net future anticipated payments due. As at 31 March 2021 this amounted to just over £65m and all counterparties' exposure was fully covered by property collateral and credit thresholds.

We monitor our exposure daily and stress tests 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 2021 our debt portfolio was 80% Fixed, 19% 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

As we entered 2020/21 in the midst of an unprecedented global pandemic, we kept our focus on our core areas of risk: health and safety of our customers and colleagues, building safety, and maintaining financial stability. We maintained high levels of compliance in building safety, continued with emergency repairs at a minimum, ensured safe Covid secure workplaces, and extensively modelled and stress tested our business plan. Our refreshed business continuity procedures and rehearsals of significant disruptive events in 2019 ensured we were adequately prepared for the challenges from the changing restrictions.

We decided to enhance our risk management through the first half of 2020/21 by reviewing risks monthly to capture the emerging issues during the pandemic. We split the 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). As the environment stabilised, we absorbed these risks into our corporate risk register to ensure we continued to monitor their status into 2021/22.

We have remained focused on building safety, ensuring we employ staff and contractors who have expert knowledge of our statutory requirements. Our assurance team started an annual programme of assurance over key financial and operating controls to enhance our second line of defence.

Looking ahead to 2021/22

As the global pandemic continues, we remain focused on keeping our customer and colleagues safe whilst maintaining our compliance with statutory requirements. More broadly, we are continuing to monitor the economic environment and government policy that may adversely impact our business plan.

Our new Housing Delivery Strategy has increased the number of shared ownership sales within our new homes programme, but the majority of our income will continue to come from our core business of social and affordable rent. We do not have an outright sales programme so any sales exposure is based on shared ownership sales.

Another emerging area of risk is the low carbon agenda. There is an expectation that we will need to meet minimum requirements for our homes and reduce our carbon footprint. This will require significant investment and resource to meet potential climate change targets over the medium term. We will model the impacts in detail within our stress tested business plan.

Cyber security across all sectors continues to remain a real and credible threat.

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 our 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.

Risk	Description	Key mitigations
SR1	Causing serious harm or neglect to a customer, staff, 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. • Health and safety strategy 'Safe and Strong'. • Mandatory training programme in place, reviewed to ensure adherence to Covid risk assessment.
SR2	Non-compliance with building safety laws, regulations and best practice in existing and new build properties	• Dedicated teams and budgets in place to manage building safety compliance. • Documented systems in place to identify, control, monitor and report on all areas of building safety risk and performance. • Competent, qualified contractors procured to provide specialist services. • Documented new build handover process agreed with building safety and development teams.
SR3	Adverse operational performance due to not having the right people, behaviours, capacity and/or capability	• Resourcing requirements have been mapped against the corporate plan objectives. • Exec action plan developed for known skills and capacity issues. • Identification and monitoring of business-critical roles. • Talent framework to develop high performers, including Leadership Academy.
SR4	Failure to build homes that meet demand at the required rate and quality	• Development strategy is adequately phased and held to across the 5-year plan. • Development project management processes and procedures with status reported to Board. • Operations sign off development projects to ensure properties have correct specifications to meet customer need. • Development Quality Manager overseeing new builds to reduce number of defects.

Risk	Description	Key mitigations
SR5	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 Exec/Board. • Gearing peaks at 53%, interest cover at 265% whilst maintaining 18 months liquidity. • Stress tests include a rent freeze for 10 years, no government grant and a 20% increase in Maintenance costs. These can be successfully mitigated by management interventions. • Record surplus to ride out future waves with A1 credit rating.
SR6	Increase in price of loans due to discontinuance of LIBOR, adversely impacting surplus	• Reviewed loan agreements with legal advisers to understand our position. • New facilities such as RCF with RBC have recommend LMA neutrality clauses inserted into them. • Regular ongoing communication with banks to assess their approach. • Proper pricing advice provided by Traderisks.
SR7	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 (signature based only), firewalls, email and web filtering.
SR8	Reduction in first tranche sales activity and/or a fall in market values due to impact of the current pandemic on employment and the economy	• Our development financial appraisal has a 90% cost to value cap for new shared ownership homes in terms of offers – this allows for a potential 10% reduction in values to help mitigate any potential impairment. • The business plan is stress tested to assume a 35% reduction in sales values from 2021/22 and proceeds delay of 12 months on the premise of having to still maintain our financial golden rules. • Ability to convert unsold stock to rented homes. • The new Shared Ownership product allows for lower first tranche sales at 10%. This will widen the potential market for shared ownership sales to lower income applicants.
SR9	Failure to comprehend and financially/ operationally plan for the climate change agenda	• Our current governance arrangements meet the requirements set out by the ESG early adopter return. • Low carbon agenda has been added to the corporate plan as agreed by Board in November 2020. • £10m embedded in the financial plan for the next 4 years.

Board and Executive Overview

Board of Directors – appointments and resignations

Name	Position	Appointed	Resigned
John Edwards	Chair of the Board	**14/05/14**	
Glenn Harris	Executive Member	**29/09/17**	
Julian Healey	Chair of Audit and Risk Committee	**23/09/13**	
Kathy McAteer		**23/09/13**	**24/09/20**
David Taylor	Executive Member	**29/09/17**	
Martin Tiplady	Chair of Remuneration and Executive Selection Committee	**29/09/14**	
Carole Mills	Chair of Operations Committee	**29/09/17**	
Chris West	Chair of Finance and Growth Committee	**29/09/17**	
Darren Humphreys		**01/05/19**	
Llewellyn Graham		**01/05/19**	
Joe Reeves	Executive Member	**03/12/20**	

Ahead of Julian Healey's retirement in September 2021, **Dominic Wong** has been recruited to join the Midland Heart Board from 1 May 2021.

Member attendance – 1st April 2020 to 31st March 2021

Board member	Main Board	Finance and Growth Committee	Audit and Risk Committee	Operations Committee	R&ES Committee	Nominations Committee	Board Planning Day in November
Total number of meetings	*9*	*1*	*6*	*4*	*3*	*3*	*1*
John Edwards	9/9				3/3	3/3	1/1
Glenn Harris	9/9	0/1					1/1
Julian Healey	9/9	1/1	6/6				1/1
Kathy McAteer	5/5			1/1	1/1	1/1	
David Taylor	9/9			4/4			1/1
Martin Tiplady	9/9		6/6		3/3	3/3	1/1
Carole Mills	9/9		6/6	4/4			1/1
Chris West	9/9	1/1	5/6				1/1
Darren Humphreys	9/9	1/1			2/2		1/1
Joe Reeves	9/9	1/1					
Llewellyn Graham	7/9			4/4		2/2	1/1

Board and Non-Executive Directors

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.

Baljinder Kang

Executive Director of Corporate Resources

Bal, who joined us in 2014, has over 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 corporate resources agenda including health and safety, facilities management, corporate affairs and technology and transformation.

A Fellow of the Chartered Institute of Personnel and 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.

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 policy and decision making.

Having started her career in the private financial services sector, she has 40 years' experience in the public sector in both the NHS and local government; with two decades at Board level. Carole has particular interest in housing, mental health and addressing health and social inequalities.

A Fellow of the Chartered Institute of Public Finance and 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 Chief Executive 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 and advisor 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.

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 2020 he joined Kier Living as Regional Director of their Central Region to support the proposed sale of the Housebuilding business which has now been secured. Post completion the business will become wholly owned by Terra Firma and the new brand will be launched.

Previous roles include Chief Executive of Rectory Homes Ltd, a number of senior executive positions in leading retirement community developers McCarthy & Stone, eight years as Managing Director of CALA Homes (Midlands) Ltd 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 and an award in Microeconomics with University of Oxford.

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.

David 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.

Llewellyn Graham

Non-executive Member

Llewellyn Graham is an experienced Chief Executive Officer, who has a proven track record of success in leadership at the highest level within the voluntary, social housing and not-for-profit sector.

He is a visionary leader and social entrepreneur who has the ability to analyse and solve complex organisational problems and implement change successfully. Llewellyn was instrumental in providing leadership and strategic direction in developing Nehemiah from its embryonic stage to being a successful multi-million pound social business.

He has, and continues, to hold a number of board appointments as a Non-executive Director including Non-executive Director of a large Midlands Housing Association and is our Board lead on equality, diversity and inclusion. He is also a member of our equality, diversity and inclusion steering group.

He is a member of the National Housing Federation Regional committee, BME National Executive, West Midlands Housing Association Partnership and Birmingham Social Housing Partnership.

Working with people has been a long-term passion that began as a social worker and for 21 years has held the role of a senior pastor and area bishop for the Church of God of Prophecy. He is a member of the national and international church board as well as the Chairman of the International Audit Committee.

He is a member of The Chartered Institute of Housing, Institute of Directors, Association of Corporate Governance Practitioners and Institute of Corporate Governance.

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.

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.

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.

As our Executive Director of Finance and Growth, 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.

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 and Conduct Committee.

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) 2015 code of governance to measure our governance practices. In November 2020 the NHF launched its revised version of the code of governance, which the Board has adopted from 1 April 2021.

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; and
- 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 2021, there were ten Board members, of whom seven are Non-executives and three are Executive members. From 1 May 2021, Dominic Wong has been appointed to the Board as Non-executive member to replace Julian Healey when he retires from the Board in September 2021.

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 2021, 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; and
- 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).

To ensure we adequately monitored and reacted to the changing environment in 2020/21, the committee increased the frequency of meetings to 2-monthly. This ensured the Committee could gain assurance over new risks and changes in processes.

At the March 2021 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 2021. 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, recoverability of long term debtors 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 July 2021 meeting by the external auditor, that in 2020-21, the ratio of non-audit fees (£34k) to audit fees (£96k) was 0.35:1. 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).

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 together with appraising and approving new business opportunities up to a defined value.

During the pandemic and aligned to the Board increasing the frequency of its meetings, FNBC suspended their meetings for most of 2020/2021 and all matters usually dealt with by FNBC flowed directly to the Board. The members of FNBC were kept regularly updated throughout this period.

As a result of the Board continuing with its increased frequency of meetings going forward, the Board and FNBC have agreed for the committee's functions to be updated. From the new financial year FNBC are to be known as the Finance and Growth Committee (F&GC). The membership of F&GC remains the same as FNBC. However, it will meet quarterly and will no longer deal with approvals of new developments/ new business opportunities. As such approvals that would normally have gone to FNBC will be dealt with by Board within the remit of a defined value. The F&GC's functions will continue to include a review of the Group's finances and treasury strategy/ controls and will also include such areas as reviewing the Environmental Social and Corporate Governance annual report.

At the close of the financial year, FNBC convened and considered the following areas:

- The final budget for 2021/2022;
- The latest version of the management accounts report;
- The rent and service charge report;
- Covenant compliance;
- The long-term financial plan, including assessing adequacy and comprehensiveness of stress testing and mitigation plans; and
- The delivery of our development programme and targets and ensuring funding is in place for this build.

Remuneration and Executive Selection Committee

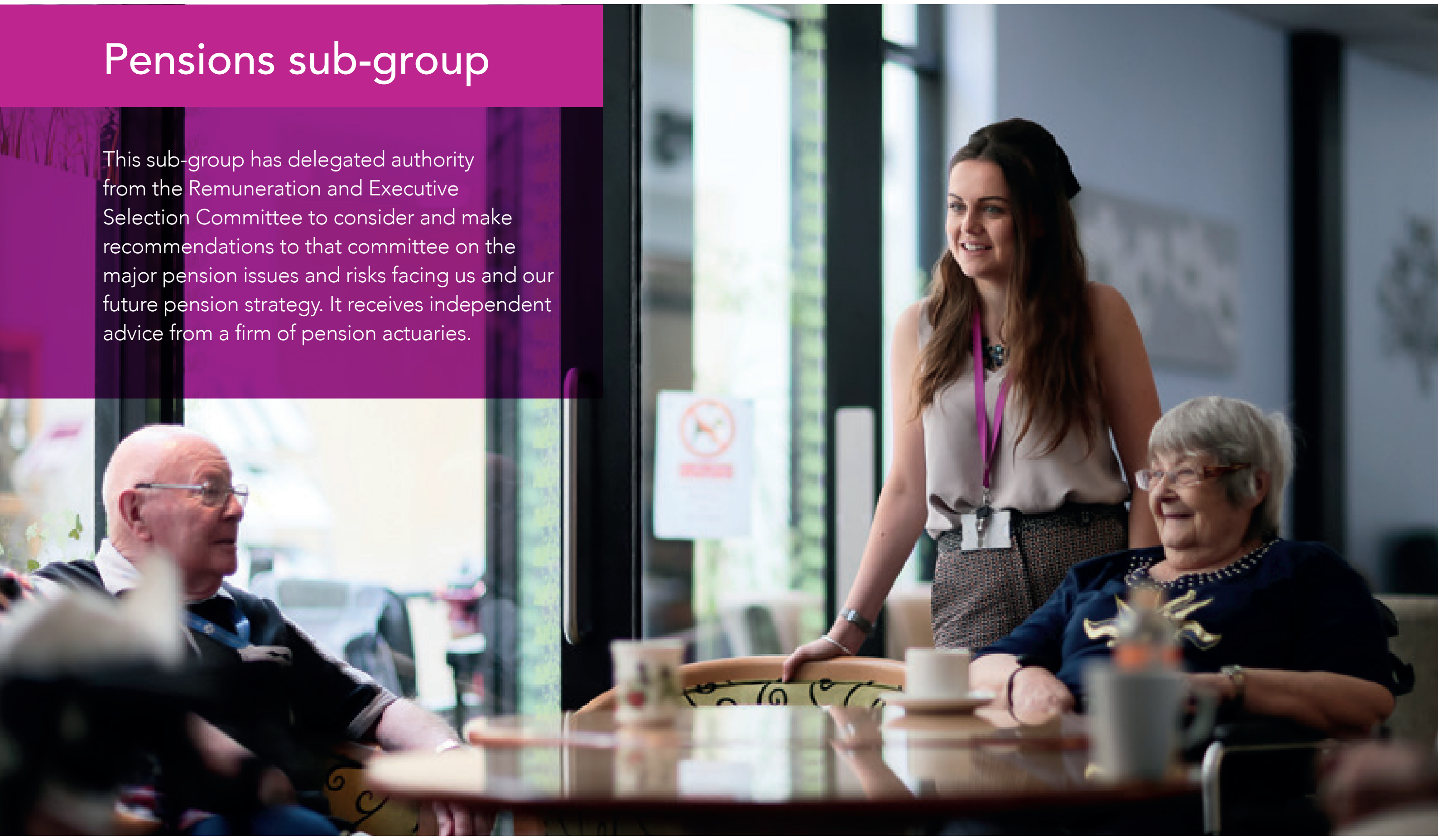
The Remuneration and Executive Selection Committee is chaired by Martin Tiplady OBE and considers all matters about pay and remuneration and oversees the development of effective human resources and employment policies.

During the course of the year the committee has:

- Considered the performance levels of the Chief Executive and Directors and determined the appropriate levels of remuneration and salary;
- 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*;
- Reviewed progress on our work on equality and diversity;
- Reviewed progress on the establishment of the new apprentice scheme;
- Reviewed and agreed the implementation plan for the new HR and payroll system;
- Reviewed the work carried out in relation to talent development initiatives;
- Received third party assurance in relation to equal pay including audit findings;
- Heard from the Chair of the Partnership Council in relation to colleague information and consultation arrangements and the contribution of the Council in delivering *Making What Matters Brilliant*;
- Considered plans for the annual 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; and
- Took decisions regarding pension arrangements both for the current and future years.

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; and
- A review of the NHF 2020 Code of Governance and approval for its adoption as of 1 April 2021.

Operations Committee

The Operations Committee, chaired by Carole Mills, shapes and oversees the effectiveness of our customer engagement and scrutiny, helping to inform policy and decision making, with the aim of achieving positive outcomes for our customers. The committee reviews operational performance and also develops and approves our customer facing policies.

During the pandemic the formal Committee meetings were suspended for part of the year, but continued to meet virtually and informally during this period to ensure members were kept up to date and had a forum to contribute.

As restrictions eased, the Committee formally reconvened in September and since then has met to debate, discuss and recommend a wide range of key activities and policies impacting on our customers while maintaining an important overview of performance and delivery.

Committee members contribute significantly to our work at Midland Heart. In particular, this year, we have continued our work to optimise the visibility of the customer voice throughout the organisation and at Board and been involved with and helped develop the following areas:

- Customer scrutiny;
- First class repairs;
- Intervention schemes;
- Energy efficiency;
- Building safety; and
- The committee also actively reviews the current position through a suite of operational, governance and performance reports.

This year has seen the retirement of Mike Blenkinsop and Trevor Routledge and we thank them for their valued input throughout their terms on the committee.

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.

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 10,797 transactional surveys and 196 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 150 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 440 customers to develop our new approach to communicating and engaging with customers on Building Safety.

Service First

Utilising over 2,700 interventions and feedback helped our customer scrutiny panel to highlight ways we can improve our primary IT systems to capture learning from complaints in a streamlined way and prevent complaints reoccurring.

Right First Time

2,289 pieces of customer insight were reviewed to enhance accuracy of repair diagnostics by our Customer Hub. This has led to us identifying additional new ways we work with customers to obtain the right information to deliver a first time fix.

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 and 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 West Midlands Mayor, 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 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 £10m are approved by a forum with a majority of Non-executives.

Control system	Contribution
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 2020/2021 was delivered by our advisers, BDO. 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 2020-21 internal audit annual report;
- The external auditors who gave an unqualified opinion on the 2020-21 financial statements;
- Financial controls that have shown themselves to be effective through the delivery of on budget financial performance in 2020-21;
- 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; and
- 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;
- 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 2020);
- Experienced and suitably qualified staff take responsibility for important business functions.
- Annual appraisals are carried out for all staff to assess their performance; and
- 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 2021. 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 were permitted to be carried over to 2020/21 to take into account the impact of the lockdown. Subject to those remaining applications completing, around 255 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 contribute to replacing 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 which 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; and
- 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 2021.

Principal activities

The principal activities of the Group are the provision of housing and support. 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

Directors report

A review of our operational and financial performance for the year ended 31 March 2021 can be found in the strategic review.

Income and surplus for the year

The Group's activities generated turnover for the period of £195.7m (2020 - £200.9m) on which a surplus of £66.1m (2020 - £86.4m) was achieved. On 31 March 2021, revenue reserves totalled £432m (2020 - £416m).

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.

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 continuously 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.

We have continued through the year to respond 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 is continuously monitored closely to enable us to react quickly and effectively to ensure government guidelines are 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 £22.2m (2020: £19.0m) 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 29 September 2021. 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 previously reported that the Government's announcements in July 2015 would impact on the future income of the Group and may have led to a breach in borrowing covenants. Since then, we have delivered efficiency savings through both our Fit for the Future corporate plan and following the launch of our *Making What Matters Brilliant* corporate plan which have realised savings that have fully mitigated this risk.

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 the income and expenditure of the group and the association 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's and the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- 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

21 July 2021

John Edwards CBE
Chair

21 July 2021

Independent auditor's report to Midland Heart Limited

Opinion

We have audited the financial statements of Midland Heart Limited ("the association") for the year ended 31 March 2021 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, including 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 2021 and of the income and expenditure of the group and the association for the year then ended;
- comply with the requirements of the Co-operative and Community Benefit Societies Act 2014; and
- have been 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's 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").

In our evaluation of the Board's conclusions, we considered the inherent risks to the group's business model and analysed how those risks might affect the group's and the association's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the Board's use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Board's assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the group's and the association's ability to continue as a going concern for the going concern period.

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 above conclusions are not a guarantee that the group or the association will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of the Board, the Audit and Risk committee, internal audit as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board, Audit and Risk committee minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.
- Obtaining a copy of the Group's fraud register.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet external stakeholder expectations and loan covenants, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that income from property sales and non-social housing income is recorded in the wrong period and the risk that Group management may be in a position to make inappropriate accounting entries.

We did not identify any additional fraud risks.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of some of the Group-wide fraud risk management controls.

We also performed procedures including:

- Identifying journal entries and other adjustments to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included unusual or unexpected account combinations with revenue and unusual or unexpected account combinations with cash.
- Evaluating the business purpose of significant unusual transactions.
- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related co-operative & community benefit society legislation), taxation legislation, pensions legislation and specific disclosures required by housing legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the need to include significant provisions. We identified the following areas as those most likely to have such an effect: GDPR, health and safety, employment law, housing regulator legislation, anti-bribery and money laundering recognising the nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Other information

The Association's Board is responsible for the other information, which comprises the Annual Report, Strategic Report, Statement on Value for Money, Statement of Board's Responsibilities and Statement of Internal Controls Assurance. 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; or
- the association has not maintained a satisfactory system of control over its transactions; or
- the financial statements are not in agreement with the association's books of account; or
- 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 explained more fully in their statement set out on page 53, 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 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
B46GH

Date: 5 August 2021

Financial Statements.

Year ended 31 March 2021

Financial Statements

Group Statement of Comprehensive Income

	Note	2021 £'000	2020 £'000
Turnover	3	195,719	200,934
Operating expenditure	3	(135,181)	(139,701)
Surplus on disposal of property, plant and equipment	6	3,841	24,829
Surplus on revaluation of investment properties	11	1,755	304
Operating Surplus	**3**	**66,134**	**86,366**
Interest receivable	7	743	656
Interest and financing costs	8,26	(28,738)	(23,173)
Surplus before Tax	**9**	**38,139**	**63,849**
Taxation	10	3	(86)
Surplus for the year		**38,142**	**63,763**
Other comprehensive income			
Movement in fair value of cash flow hedged financial instruments	25	14,458	(10,946)
Actuarial (loss)/gain on defined benefit scheme	26	(22,207)	24,414
Total comprehensive income for the year		**30,393**	**77,231**

The results for both years are wholly attributable to continuing activities.
These financial statements were approved by the Board of Directors on 21 July 2021 and signed on its behalf by:

Member
John Edwards CBE

Member
Julian Healey

Member
Glenn Harris MBE

Association Statement of Comprehensive Income

	Note	2021 £'000	2020 £'000
Turnover	3	194,523	200,083
Operating costs	3	(134,533)	(139,197)
Surplus on disposal of property, plant and equipment	6	3,841	24,809
Operating Surplus	**3**	**63,831**	**85,695**
Interest receivable	7	743	656
Interest and financing costs	8,26	(28,418)	(22,868)
Gift Aid receivable		-	95
Surplus before Tax	**9**	**36,156**	**63,578**
Taxation	10	-	(2)
Surplus for the year		**36,156**	**63,576**
Other comprehensive income			
Movement in fair value of cash flow hedged financial instruments	25	14,458	(10,946)
Actuarial (loss)/gain on defined benefit scheme	26	(22,207)	24,414
Total comprehensive income for the year		**28,407**	**77,044**

The results for both years are wholly attributable to continuing activities.
These financial statements were approved by the Board of Directors on 21 July 2021 and signed on its behalf by:

Member
John Edwards CBE

Member
Julian Healey

Member
Glenn Harris MBE

Group Statement of Financial Position

	Note	2021 £'000	2020 £'000
Fixed Assets			
Tangible Assets			
Housing properties	12	1,615,900	1,556,943
Investment properties	11	27,250	25,325
Other Fixed Assets	13	38,718	31,023
Homebuy loans receivable	14	100	100
Fixed Asset investments	15	2,130	2,144
Total Fixed Assets		**1,684,098**	**1,615,535**
Current Assets			
Debtors	17	10,462	13,974
Properties for sale and work in progress	18	13,681	5,432
Investments	19	771	-
Cash and cash equivalents	20	107,971	91,211
		132,885	**110,617**
Creditors: Amounts falling due within one year	21	(55,212)	(52,607)
Net Current Assets		**77,673**	**58,010**
Total Assets less Current Liabilities		**1,761,771**	**1,673,545**
Creditors: Amounts falling due after more than one year	22	(1,359,628)	(1,319,950)
Pension – defined benefit liability	26a	(35,364)	(17,209)
Total Net Assets		**366,779**	**336,386**
Reserves			
Revenue reserves		431,803	415,868
Cash flow hedge reserve		(65,024)	(79,482)
Total Reserves		**366,779**	**336,386**

The results for both years are wholly attributable to continuing activities.
These financial statements were approved by the Board of Directors on 21 July 2021 and signed on its behalf by:

Member
John Edwards CBE

Member
Julian Healey

Member
Glenn Harris MBE

Association Statement of Financial Position

	Note	2021 £'000	2020 £'000
Fixed Assets			
Tangible Assets			
Housing properties	12	1,621,729	1,562,148
Other Fixed Assets	13	30,804	22,920
Homebuy Loans Receivable	14	100	100
Investments	15	2,130	2,144
Investments in subsidiaries	16	6,067	6,067
Total Fixed Assets		**1,660,830**	**1,593,379**
Current Assets			
Debtors	17	14,266	14,162
Stock and Work in Progress	18	13,681	5,432
Investments	19	771	-
Cash and cash equivalents	20	107,315	90,434
		136,033	**110,028**
Creditors: Amounts falling due within one year	21	(59,930)	(58,258)
Net Current Assets		**76,103**	**51,770**
Total Assets less Current Liabilities		**1,736,933**	**1,645,149**
Creditors: Amounts falling due after more than one year	22	(1,342,814)	(1,297,592)
Pension – defined benefit liability	26a	(35,364)	(17,209)
Total Net Assets		**358,755**	**330,348**
Reserves			
Revenue reserves		423,779	409,830
Cash flow hedge reserve		(65,024)	(79,482)
Total Reserves		**358,755**	**330,348**

The results for both years are wholly attributable to continuing activities.
These financial statements were approved by the Board of Directors on 21 July 2021 and signed on its behalf by:

Member
John Edwards CBE

Member
Julian Healey

Member
Glenn Harris MBE

Group Cash Flow Statement

	Note	2021 £'000	2020 £'000
Cash flows from Operating Activities			
Operating Surplus		66,134	86,366
Adjustments for:			
Depreciation & Impairment charges		27,868	27,839
Amortisation of grant		(8,147)	(8,106)
Surplus on disposal of property, plant and equipment		(3,841)	(24,829)
Surplus on revaluation of investment properties		(1,755)	(304)
Interest received		743	656
Interest and financing costs (including capitalised interest)		(31,067)	(25,118)
Decrease/(Increase) in debtors		3,512	(1,105)
Increase in stock		(3,276)	(2,322)
Increase/(Decrease) in creditors		4,091	(4,757)
Decrease in pension defined benefit liability		(4,409)	(4,325)
Tax received/(paid)		25	(326)
Net Cash flow from Operating Activities		**49,878**	**43,669**
Cash Flows from Investing Activities			
Acquisition and construction of housing properties		(102,185)	(101,051)
Social Housing Grant received		14,480	21,341
Sales of housing properties		21,715	59,053
Net decrease in investments and loans to other associations		14	207
Purchase of other tangible fixed assets		(11,228)	(6,088)
Sales of other tangible fixed assets		-	-
Increase in short term deposits		(771)	-
Net Cash flow from Investing Activities		**(77,975)**	**(26,538)**
Cash Flows from Financing Activities			
Loan advances received		100,809	11,730
Loan principal repayments		(55,952)	(13,248)
Net Cash flow from Financing Activities		**44,857**	**(1,518)**
Net Increase in cash & cash equivalents	**35**	**16,760**	**15,613**
Cash and cash equivalents at the start of the year		91,211	75,598
Total Reserves		**107,971**	**91,211**

Statement of Movements in Reserves

Group	Income and Expenditure Reserves £'000	Cash flow hedge reserve £'000	Total Reserves £'000
At 1st April 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
Surplus for the Year	38,142	-	38,142
Movement in cash flow hedge	-	14,458	14,458
Movement in defined benefit pension obligations	(22,207)	-	(22,207)
At 31 March 2021	**431,803**	**(65,024)**	**366,779**

Association	Income and Expenditure Reserves £'000	Cash flow hedge reserve £'000	Total Reserves £'000
At 1st April 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
Surplus for the Year	36,156	-	36,156
Movement in cash flow hedge	-	14,458	14,458
Movement in defined benefit pension obligations	(22,207)	-	(22,207)
At 31 March 2021	**423,779**	**(65,024)**	**358,755**

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 32.

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 by Registered Social Housing Providers Update 2018, 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 expected net realisable value of properties developed for outright/ shared ownership sales and work in progress are reviewed and impairment is made when a loss is anticipated.

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 2021. 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 26.

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 2021 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 2021 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 2021/22 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£265m 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 the SORP update 2018. 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 & doors	30	years
• Roofs	75	years
• Kitchens	20	years
• Bathrooms	30	years
• Heating	30	years
• Sprinklers	25	years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since the 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 31st March 2021, interest has been capitalised at an average rate of 3.6% (2020: 4.25%) 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 are written off in the Statement of Comprehensive Income is 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.

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's 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 26 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; and
- 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, and 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; and

(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.

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

	2021					2020
	Turnover £'000	Operating Costs £'000	Surplus on disposals £'000	Surplus on investment properties £'000	Operating Surplus/ (Deficit) £'000	Operating Surplus/ (Deficit) £'000
Social Housing Lettings	**177,160**	**119,395**	**-**	**-**	**57,765**	**59,016**
Other Social Housing Activities:						
Development services and costs not capitalised	-	100	-	-	(100)	(59)
1st tranche shared ownership sales	9,708	8,301	-	-	1,407	1,861
Other income	2,132	2,093		-	39	280
Total	**11,840**	**10,494**	**-**	**-**	**1,346**	**2,082**
Activities other than Social Housing Lettings:						
Properties developed for outright sale	-	-	-	-	-	(105)
Charges for support services	2,427	3,374	-	-	(947)	(1,444)
Market rent lettings	1,722	647	-	-	1,075	776
Student lettings	272	204	-	-	68	178
Commercial	1,047	501	-	-	546	466
Leased to other bodies	1,251	566	-	-	685	264
Disposal of property, plant and equipment	-	-	3,841	-	3,841	24,829
Revaluation of investment properties	-	-	-	1,755	1,755	304
Total	**6,719**	**5,292**	**3,841**	**1,755**	**7,023**	**25,268**
Total from Social and Non-Housing Activities	**195,719**	**135,181**	**3,841**	**1,755**	**66,134**	**86,366**

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

Particulars of turnover and operating expenditure from Social Housing Lettings

	2021					2020
	General Needs Housing £'000	Supported Housing £'000	Residential Care Homes £'000	Shared Ownership Accommodation £'000	Total £'000	Total £'000
Rent receivable net of identifiable service charges, net of voids	115,212	19,525	-	5,537	140,274	136,855
Service charge income	7,531	16,159	-	1,326	25,016	24,316
Amortised Government Grants (Accrual model)	6,158	1,567	19	234	7,978	7,996
Net Rental Income	**128,901**	**37,251**	**19**	**7,097**	**173,268**	**169,167**
Other income	622	2,306	249	715	3,892	4,898
Turnover from Social Housing Lettings	**129,523**	**39,557**	**268**	**7,812**	**177,160**	**174,065**
Management	17,693	9,473	43	1,468	28,677	29,214
Service charge costs	8,212	16,822	30	965	26,029	25,534
Routine maintenance	20,136	3,358	70	141	23,705	22,931
Planned maintenance	6,427	1,233	18	8	7,686	6,482
Major repairs expenditure	5,159	2,832	25	19	8,035	5,092
Impairment of housing properties	-	(203)	-	(57)	(260)	364
Depreciation of housing properties	19,569	3,864	58	746	24,237	23,719
Bad debts	879	381	-	26	1,286	1,713
Operating Costs on Social Housing Lettings	**78,075**	**37,760**	**244**	**3,316**	**119,395**	**115,049**
Operating Surplus on Social Housing Lettings	**51,448**	**1,797**	**24**	**4,496**	**57,765**	**59,016**
Void losses	(829)	(895)	-	(44)	(1,768)	(2,000)

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

	2021				2020
	Turnover £'000	Operating Costs £'000	Surplus on disposals £'000	Operating Surplus/(Deficit) £'000	Total £'000
Social Housing Lettings	**177,329**	**119,394**	**-**	**57,935**	**59,184**
Other Social Housing Activities:					
Development services and costs not capitalised	525	100	-	425	370
1st tranche shared ownership sales	9,708	8,301	-	1,407	1,861
Other income	1,964	2,093	-	(129)	112
Total	**12,197**	**10,494**	**-**	**1,703**	**2,343**
Activities other than Social Housing Lettings:					
Properties developed for outright sale	-	-	-	-	(105)
Charges for Support Services	2,427	3,374	-	(947)	(1,444)
Student lettings	272	204	-	68	178
Commercial	1,047	501	-	546	466
Leased to other bodies	1,251	566	-	685	264
Disposal of property, plant and equipment	-	-	3,841	3,841	24,809
Total	**4,997**	**4,645**	**3,841**	**4,193**	**24,168**
Total from Social and Non-Housing Activities	**194,523**	**134,533**	**3,841**	**63,831**	**85,695**

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

	2021					2020
	General Needs Housing £'000	Supported Housing £'000	Residential Care Homes £'000	Shared Ownership Accommodation £'000	Total £'000	Total £'000
Rent receivable net of identifiable service charges, net of voids	115,212	19,525	-	5,537	140,274	136,855
Service charge income	7,531	16,159	-	1,326	25,016	24,316
Amortised Government Grants (Accrual model)	6,158	1,567	19	234	7,978	7,996
Net Rental Income	**128,901**	**37,251**	**19**	**7,097**	**173,268**	**169,167**
Other income	791	2,306	249	715	4,061	5,066
Turnover from Social Housing Lettings	**129,692**	**39,557**	**268**	**7,812**	**177,329**	**174,233**
Management	17,693	9,473	43	1,468	28,677	29,214
Service charge costs	8,212	16,821	30	965	26,028	25,534
Routine maintenance	20,136	3,358	70	141	23,705	22,931
Planned maintenance	6,427	1,233	18	8	7,686	6,482
Major repairs expenditure	5,159	2,832	25	19	8,035	5,092
Impairment of housing properties	-	(203)	-	(57)	(260)	364
Depreciation of housing properties	19,569	3,864	58	746	24,237	23,719
Bad debts	879	381	-	26	1,286	1,713
Operating Costs on Social Housing Lettings	**78,075**	**37,759**	**244**	**3,316**	**119,394**	**115,049**
Operating Surplus on Social Housing Lettings	**51,617**	**1,798**	**24**	**4,496**	**57,935**	**59,184**
Void losses	(829)	(895)	-	(44)	(1,768)	(2,000)

4. Directors' Emoluments

	2021 £'000	2020 £'000
Aggregate Emoluments payable to Directors (including pension contributions and benefits in kind)	838	949
Emoluments (excluding pension contributions) payable to the Chief Executive who was also the highest paid Director	294	263

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

There were 3 Directors in the Group's pension scheme described in note 26 (2020: 4).

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.

Director	Position	Date of Appointment	Date of Resignation	Salaries £'000	Taxable benefits £'000	Pensions & equivalent £'000	Total 2021 £'000	Total 2020 £'000
Glenn Harris	Chief Executive Officer	29/03/2018		259	13	22	294	263
David Taylor	Executive Director of Operations	15/04/2015		170	9	14	193	186
Joe Reeves	Executive Director of Finance & Growth	08/07/2013		170	9	10	189	176
Baljinder Kang	Executive Director of Corporate Resources	01/06/2018		141	9	12	162	149

The aggregate amount of Directors' Pensions recognised within these financial statements for the year ended 31 March 2021 is £37k (2020: £41k).

The aggregate compensation for loss of office of key management personnel was £nil (2020: £93k).

4. Directors' Emoluments (continued)

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

		2021 £'000	2020 £'000
John Edwards		27	27
Julian Healey		13	12
Martin Tiplady		13	12
Carole Mills		13	12
Chris West		13	12
Kathleen McAteer	Resigned 24/09/2020	5	10
Darren Humphreys		10	9
Llewellyn Graham		10	9
James Lockyer		2	2
Michael Blenkinsop	Resigned 31/01/2021	2	2
Abigale Leigh Bromfield		2	2
Trevor Caffull		2	2
Dasos Christou		2	2
Paul Field		2	2
Thomas Forty		2	2
Thomas O'Flaherty	Resigned 31/05/2020	-	2
Trevor Routledge	Resigned 31/01/2021	2	2
Debra Smith	Resigned 31/05/2020	-	2
Trevor Stanley		2	2
Zaheda Vaid		2	1
Rebecca Zurek		2	2
Nicola McGowan		2	2
Caroline Waters		2	2
		130	**132**

5. Employee Information

	Group		Association	
	2021 Number	2020 Number	2021 Number	2020 Number
Asset Management	185	180	185	180
Central Services	164	164	164	164
Development	16	16	16	16
Operations	585	801	585	801
Average number of employees expressed as full time equivalents	**950**	**1,161**	**950**	**1,161**

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

Staff Costs (for the above persons)

	Group		Association	
	2021 Number	2020 Number	2021 Number	2020 Number
Wages & Salaries	31,212	35,150	31,212	35,150
Social Security Costs	3,215	3,425	3,215	3,425
Other Pension Costs	1,371	1,315	1,371	1,315
	35,798	**39,890**	**35,798**	**39,890**

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	2021 Number	2020 Number
£270,000 to £310,000	1	-
£260,000 to £270,000	-	2*
£250,000 to £260,000	-	-
£240,000 to £250,000	-	-
£190,000 to £240,000	1	-
£180,000 to £190,000	1	1
£170,000 to £180,000	-	1
£150,000 to £170,000	1	-
£140,000 to £150,000	-	1

Salary Range	2021 Number	2020 Number
£130,000 to £140,000	1	1
£120,000 to £130,000	-	-
£110,000 to £120,000	4	1
£100,000 to £110,000	8	3
£90,000 to £100,000	6	5
£80,000 to £90,000	-	3
£70,000 to £80,000	12	13
£60,000 to £70,000	29	25
	64	**56**

* This was a combination of salary paid during 19/20 and compensation for loss of office paid in 20/21 for one employee.

6a. Surplus on Sale of Fixed Assets – Group

	2021			2020		
	Proceeds £'000	Cost of Sales £'000	Surplus £'000	Proceeds £'000	Cost of Sales £'000	Surplus £'000
Staircasing on Shared Ownership	4,587	2,895	1,692	5,199	3,204	1,995
Other Property Sales	7,015	4,866	2,149	40,538	17,704	22,834
	11,602	**7,761**	**3,841**	**45,737**	**20,908**	**24,829**

6b. Surplus on Sale of Fixed Assets – Association

	2021			2020		
	Proceeds £'000	Cost of Sales £'000	Surplus £'000	Proceeds £'000	Cost of Sales £'000	Surplus £'000
Staircasing on Shared Ownership	4,587	2,895	1,692	5,199	3,204	1,995
Other Property Sales	7,015	4,866	2,149	40,518	17,704	22,814
	11,602	**7,761**	**3,841**	**45,717**	**20,908**	**24,809**

7. Interest receivable and similar income

	Group		Association	
	2021 £’000	2020 £’000	2021 £’000	2020 £’000
Interest receivable on financial assets measured at amortised cost:				
Interest on investments	524	480	524	480
Equity Investment realisation	219	176	219	176
Total interest receivable and similar income	**743**	**656**	**743**	**656**

8. Interest and Financing costs

	Group 2021 £'000	Group 2020 £'000	Association 2021 £'000	Association 2020 £'000
Interest payable on financial liabilities measured at amortised cost:				
Housing loans	13,799	15,019	13,530	14,671
Discounted bonds	1,553	1,502	1,553	1,502
Interest on finance leases	614	622	614	622
Notional interest on Recycled Capital Grant Fund	-	77	-	77
	15,966	**17,220**	**15,697**	**16,872**
Interest payable on loan swap arrangements	6,333	5,998	6,333	5,998
Interest capitalised	(2,668)	(2,036)	(2,668)	(1,930)
Loan fees	1,241	998	1,190	935
Interest paid on early repayment of loan	7,506	-	7,506	-
Unwinding of discount on Social Housing Pension Scheme liability	3	-	3	-
Change to measurement of net finance cost on Social Housing Pension Scheme liability	357	993	357	993
Total interest and financing costs	**28,738**	**23,173**	**28,418**	**22,868**

Interest was capitalised at an average rate of 3.6% (2020: 4.25%).

9. Surplus before Taxation is stated after charging

	Group 2021 £'000	Group 2020 £'000	Association 2021 £'000	Association 2020 £'000
Depreciation of housing property fixed assets	24,647	24,069	24,467	24,069
Depreciation of non-housing property fixed assets	3,481	3,406	3,272	3,206
Auditors' remuneration - Audit fees				
Group fees	96	88	96	88
Other Group services	34	36	34	36
Payments under Operating Leases				
Plant	591	548	591	548
Office	39	35	39	35

10. Taxation on Surplus on Ordinary Activities

a) Analysis of charge in the period - Group	**2021 £'000**	**2020 £'000**
United Kingdom Corporation Tax on surplus of the period	-	62
Adjustments in respect of prior years	(63)	(2)
	(63)	**60**
Deferred tax	60	**26**
	(3)	**86**

a) Analysis of charge in the period - Association	**2021 £'000**	**2020 £'000**
United Kingdom Corporation Tax on surplus of the period	-	-
Adjustments in respect of prior years	-	2
	-	2
Deferred tax	-	**-**
	-	**2**

10. Taxation on Surplus on Ordinary Activities (continued)

Factors affecting the tax charge for the year

The Corporation Tax charge is lower (2020: lower) than that resulting from applying the standard rate of Corporation Tax of 19% (2020: 19%) to the surplus before taxation.

The differences are explained below:

	Group		Association	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Surplus on ordinary activities before tax	38,139	63,849	36,156	63,578
Tax payable at 19% (2019: 19%) thereon	**7,246**	**12,131**	**6,870**	**12,080**
Expenses not deductible for tax purposes	-	-	-	-
Income not taxable for tax purposes	(214)	(58)	-	-
Amounts charged/(credited) directly to equity or otherwise transferred	-	-	-	-
Current tax charged/(credited) directly to equity	-	-	-	-
Fixed Asset differences	-	(4)	-	-
Prior period adjustments – current tax	(63)	(2)	-	2
Prior period adjustments - deferred tax	63	(1)	-	-
Capital gains/(losses)	-	-	-	-
Adjust closing deferred tax to average rate	-	-	-	-
Adjust opening deferred tax to average rate	-	-	-	-
Exemption due to charitable status	(6,870)	(12,080)	(6,870)	(12,080)
Deferred tax not recognised	-	100	-	-
Gift aid	(165)	-	-	-
Total tax charge	**(3)**	**86**	**-**	**2**

11. Investment Properties held for letting: Group

	Work in Progress	Market Rent Properties	2021	2020
Valuation:				
At 1 April	11	25,314	25,325	23,337
Additions during the year	145	25	170	1,690
Transfers on completion	-	-	-	-
Disposals during the year	-	-	-	(6)
Gain in valuation	-	1,755	1,755	304
At 31 March	**156**	**27,094**	**27,250**	**25,325**

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

The valuation of properties was undertaken in accordance with the Royal Institution of Chartered Surveyors Valuation Standards. 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 MV-VP ranges from 10% for prime property to 50% where market conditions are 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.

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 2020	1,667,495	54,297	93,817	28,679	1,844,288
Additions	-	63,570	-	23,560	87,130
Improvements	14,166	-	-	-	14,166
Interest capitalised	-	1,640	-	1,028	2,668
Transferred on completion	39,682	(39,682)	14,770	(14,770)	-
Transfer to current assets	-	-	-	(14,365)	(14,365)
Transfer from current assets	409	-	-	-	409
Disposals	(6,806)	--	(2,793)	-	(9,599)
At 31 March 2021	**1,714,946**	**79,825**	**105,794**	**24,132**	**1,924,697**
Depreciation and impairment					
At 1 April 2020	277,693	-	9,652	-	287,345
Charge for the year	23,872	-	775	-	24,647
Eliminated on disposal	(2,847)	-	(348)	-	(3,195)
At 31 March 2021	**298,718**	**-**	**10,079**	**-**	**308,797**
Net Book Value					
At 31 March 2021	**1,416,228**	**79,825**	**95,715**	**24,132**	**1,615,900**
At 31 March 2020	1,389,802	54,297	84,165	28,679	1,556,943

12b. Housing Properties - Association

	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 2020	1,671,244	55,753	93,817	28,679	1,849,493
Additions	-	64,194	-	23,560	87,754
Improvements	14,166	-	-	-	14,166
Interest capitalised	-	1,640	-	1,028	2,668
Transferred on completion	39,682	(39,682)	14,770	(14,770)	-
Transfer to current assets	-	-	-	(14,365)	(14,365)
Transfer from current assets	409	-	-	-	409
Disposals	(6,806)	-	(2,793)	-	(9,599)
At 31 March 2021	**1,718,695**	**81,905**	**105,794**	**24,132**	**1,930,526**
Depreciation and impairment					
At 1 April 2020	277,693	-	9,652	-	287,345
Charge for the year	23,872	-	775	-	24,647
Eliminated on disposal	(2,847)	-	(348)	-	(3,195)
At 31 March 2021	**298,718**	**-**	**10,079**	**-**	**308,797**
Net Book Value					
At 31 March 2021	**1,419,977**	**81,905**	**95,715**	**24,132**	**1,621,729**
At 31 March 2020	1,393,551	55,753	84,165	28,679	1,562,148

12c. Housing Properties

Expenditure on works to existing properties	Group 2021 £'000	Group 2020 £'000	Association 2021 £'000	Association 2020 £'000
Components capitalised	14,166	13,886	14,166	13,886
Amounts charged to the Income and Expenditure account	8,035	5,092	8,035	5,092
	22,201	**18,978**	**22,201**	**18,978**

Completed housing properties book value, net of depreciation and impairment	Group 2021 £'000	Group 2020 £'000	Association 2021 £'000	Association 2020 £'000
Freehold land and buildings	1,407,990	1,369,876	1,411,739	1,373,625
Leasehold land and buildings	103,953	104,091	103,953	104,091
Total Net Book Value	**1,511,943**	**1,473,967**	**1,515,692**	**1,477,716**

13. Other Tangible Fixed Assets - Group

	Office Premises £'000	Furniture & Equipment £'000	Total £'000
Cost:			
At 1 April 2020	12,230	39,886	52,116
Additions	503	10,725	11,228
Disposals	-	(116)	(116)
At 31 March 2021	**12,733**	**50,495**	**63,228**
Depreciation:			
At 1 April 2020	2,700	18,393	21,093
Charge for the year	234	3,247	3,481
Eliminated on disposal	-	(64)	(64)
At 31 March 2021	**2,934**	**21,576**	**24,510**
Net Book Value			
At 31 March 2021	**9,799**	**28,919**	**38,718**
At 31 March 2020	9,530	21,493	31,023

13. Other Tangible Fixed Assets - Association

	Office Premises £'000	Furniture & Equipment £'000	Total £'000
Cost:			
At 1 April 2020	1,820	39,525	41,345
Additions	503	10,705	11,208
Disposals	-	(116)	(116)
At 31 March 2021	**2,323**	**50,114**	**52,437**
Depreciation:			
At 1 April 2020	247	18,178	18,425
Charge for the year	66	3,206	3,272
Eliminated on disposal	-	(64)	(64)
At 31 March 2021	**313**	**21,320**	**21,633**
Net Book Value			
At 31 March 2021	**2,010**	**28,794**	**30,804**
At 31 March 2020	1,573	21,347	22,920

14. Homebuy Loans – Group and Association

	2021 £'000	2020 £'000
As at 1 April	100	112
Loans redeemed in the year	-	(12)
	100	**100**

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

	2021 £'000	2020 £'000
Investments - Mutuals	2,110	2,124
Investments - Other	20	20
	2,130	**2,144**

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.

16. Investment in Subsidiaries - Association

	£'000
Investment at 1 April 2020	6,067
Investment at 31 March 2021	**6,067**

The investment in subsidiaries represents shares in Group undertakings as described in Note 32.

17. Debtors

	Group		Association	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Gross rent and service charge arrears	14,594	15,108	14,554	15,084
Less: provision for bad and doubtful debts	(9,023)	(8,608)	(9,003)	(8,599)
Net rent arrears	**5,571**	**6,500**	**5,551**	**6,485**
Social Housing Grant receivable	-	-	-	-
Amounts due from Group undertakings	-	-	3,838	175
Prepayments and other debtors	4,858	7,474	4,844	7,469
Corporation tax	33	-	33	33
Deferred tax asset	-	-	-	-
	10,462	**13,974**	**14,266**	**14,162**

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

	2021 £'000	2020 £'000
Stock and work in progress	5,408	1,807
Schemes developed for shared ownership disposal	8,273	3,625
	13,681	**5,432**

19. Current Asset Investments – Group and Association

	2021 £'000	2020 £'000
Investments	771	-
	771	**-**

The investments represent funds held by EIB investments as collateral for the sinking funds associated with our Haven Loan which was repaid in this year.

20. Cash and Cash Equivalents

	Group		Association	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Bank Accounts	107,915	91,175	107,259	90,398
Cash in hand	56	36	56	36
	107,971	**91,211**	**107,315**	**90,434**

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.

21. Creditors: Amounts falling due within one year

	Group		Association	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Housing loans (Note 22a)	9,216	12,501	3,414	6,516
Rents received in advance	4,776	3,922	4,769	3,910
Obligations due under finance leases (Note 22a)	127	172	127	172
Trade creditors	1,384	1,191	1,384	1,191
Amounts due to Group undertakings	-	-	16,086	14,528
Recycled Capital Grant and Disposals Proceeds Fund (Note 23)	2,236	2,043	2,236	2,043
Other taxation and social security costs	2,496	2,363	2,524	2,386
Corporation tax	-	6	-	-
Deferred tax	74	13	-	-
Accruals and deferred income	26,732	22,266	21,219	19,382
Deferred social housing grant	8,147	8,106	8,147	8,106
Social Housing Pension Scheme Liability (Note 26b)	24	24	24	24
	55,212	**52,607**	**59,930**	**58,258**

Amounts due to group undertakings for the Association include interest bearing loans due to group undertakings of £5,802k (2020: £5,526k) The interest is incurred on these loans at LIBOR +0.35%. 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 £2,072k (2020: £2,405k).

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

22. Creditors: Amounts falling due after more than one year

	Group		Association	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Housing loans	548,818	499,419	167,721	207,929
Discounted bonds	14,018	13,503	14,018	13,503
Obligations due under finance leases	3,547	3,615	3,547	3,615
Premium on bond issues	11,993	12,648	3,995	4,303
Loan and bond arrangement fees	(6,202)	(5,737)	(3,317)	(3,459)
Amounts due to Group undertaking	-	-	369,396	275,199
Homebuy grant: deferred income	100	100	100	100
Deferred social housing grant	706,778	698,790	706,778	698,790
Derivative financial instruments designated as hedges of variable interest rate risk (note 25)	65,024	79,482	65,024	79,482
Social Housing Pension Scheme Liability (Note 26b)	72	91	72	91
	1,344,148	1,301,911	1,327,334	1,279,553
Recycled Capital Grant and Disposal Proceeds Fund	15,480	18,039	15,480	18,039
	1,359,628	**1,319,950**	**1,342,814**	**1,297,592**

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

22a. 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	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
By instalments:				
In one year or less	8,986	12,501	3,184	6,516
Between one and two years	9,401	11,833	3,309	5,572
Between two and five years	28,906	35,051	8,740	14,470
In five years or more	206,061	237,275	112,922	134,906
	253,354	**296,660**	**128,155**	**161,464**

	Group		Association	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Lump Sum Repayments:				
In one year or less	230	-	230	-
Between one and two years	11,700	-	-	-
Between two and five years	386	22,044	386	9,764
In five years or more	306,382	206,720	56,382	56,720
	318,698	**228,764**	**56,998**	**66,484**

	Group		Association	
Finance lease liabilities	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Total of future minimum lease payments:				
In one year or less	127	172	127	172
Between one and two years	127	139	127	139
Between two and five years	380	417	380	417
In five years or more	3,040	3,059	3,040	3,059
	3,674	**3,787**	**3,674**	**3,787**

22a. Creditors: Amounts falling due after more than one year (continued)

Fixed rate financial liabilities bear a weighted average interest rate of 4.39% and are fixed for a weighted average period of 24 years. Including swaps the average weighted interest rate is 4.32%.

Interest rates on fixed rate borrowings range between 1.83% 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 2021 was:

	Variable rate £'000	Fixed rate £'000	Total £'000
Instalment loans	232,405	24,623	257,028
Non-instalment loans	26,700	291,998	318,698
	259,105	**316,621**	**575,726**

As at 31 March 2021, 55% (£315,129k) of the above debt came from the capital markets and 45% (£260,597k) from banks and building societies.

22b. Creditors

	Group		Association	
Dicounted bonds	**2021 £'000**	**2020 £'000**	**2021 £'000**	**2020 £'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	5,018	4,503	5,018	4,503
Net value at 31 March	**14,018**	**13,503**	**14,018**	**13,503**

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 £5,066k (2020: £5,581k).

22c. Cumulative Social Housing Grant (Displayed regardless of age)

	Group		Association	
	2021 £'000	**2020 £'000**	**2021 £'000**	**2020 £'000**
Opening Balance of SHG received/receivable	706,896	702,765	706,896	702,765
SHG received during the year	19,382	21,341	19,382	21,341
SHG recycled	(3,769)	(11,109)	(3,769)	(11,109)
Amortisation write back on sale of fixed assets	563	2,005	563	2,005
Cumulative total of Social Housing Grant received or receivable	**723,072**	**715,002**	**723,072**	**715,002**
Less grant amortised in the year	(8,147)	(8,106)	(8,147)	(8,106)
Amount held as deferred	**714,925**	**706,896**	**714,925**	**706,896**
Amounts to be released within one year (Note 21)	8,147	8,106	8,147	8,106
Amounts to be released in more than one year (Note 22)	706,778	698,790	706,778	698,790
	714,925	**706,896**	**714,925**	**706,896**
Social Housing Grant under UKGAAP				
Opening SHG	841,691	831,459	841,691	831,459
SHG received net of recycling	15,612	10,232	15,612	10,232
less investment property	-	-	-	-
less eliminated on disposal	-	-	-	-
	15,612	10,232	15,612	10,232
Closing SHG	**857,303**	**841,691**	**857,303**	**841,691**

23. Recycled Capital Grant (including amounts due in less than one year)

Group and Association	£'000
Balance at 1 April 2020	**20,082**
Grants recycled	2,536
Interest accrued	-
Allocated to new build developments	(4,902)
Balance at 31 March 2021	**17,716**

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

The net proceeds of £721k (2020: £19,801k) and recyclable grant of £234k (2020: £7,129k) arose from the sale of 7 (2020: 248) Voluntary Right to Buy properties in the year and will be used to develop replacement properties.

24. Financial Instruments

The carrying amounts of the financial assets and liabilities include:

	Group		Association	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Liabilities measured at amortised cost				
Loans	577,843	561,122	571,313	553,255
Finance Leases	3,674	4,045	3,674	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.

25a. 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 £150m standalone interest rate swap contracts to fix the rates of £150m of its borrowing portfolio until various dates up to 2038.

The negative fair value of these swap contracts as at 31 March 2021 was £65.0m (2020 £79.5m). 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 2021.

The total change in fair value during the year ended 31 March 2021 of £14.4m (2020: £10.9m) 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: 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	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Barclays Swap £20m 4.815% 2038	12,015	14,855	12,015	14,855
Barclays Swap £30m 5.01% 2037	18,010	22,095	18,010	22,095
Barclays ex-European Cancellable Swap with Double Up £10m 4.24% 2031	6,908	8,498	6,908	8,498
Credit Suisse Swap £40m 2.345% 2020	-	423	-	423
Lloyds Swap £25m 0.817% 2022	185	119	185	119
Lloyds Swap £5m 0.812% 2022	52	-	52	-
Lloyds Swap £50m 5.432% 2034 (ex-Bermudan)	27,854	33,492	27,854	33,492
Fair values of financial instruments designated as hedging instruments	**65,024**	**79,482**	**65,024**	**79,482**

25a. 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.

	2021					
	Carrying amount £'000	Expected cash flows £'000	1 year or less £'000	1 to <2years £'000	2 to <5years £'000	5 years and over £'000
Interest rate swaps:						
Hedged items cash-flows (liabilities)	150,000	19,966	477	592	3,402	15,495

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

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.

25b. 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 £40m 2.345% 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 3 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 3 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 3 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 3 Month LIBOR 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 £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.
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 3 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 3 Month LIBOR rate.	The variability of cash flows stemming from the interest payments of the Nationwide £130m Fl Loan 2036loan due to movements in the 3 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 3 Month LIBOR rate.
Fair values of financial instruments designated as hedging instruments £'000	12,015	18,010	6,908	-

25b. Financial Instruments: Hedges (continued)

	Lloyds Swap £25m .817% 2022	Lloyds Swap £5m .812% 2022	Lloyds Swap £50m 5.432% 2034 (ex-Bermudan)	
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 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 THFC/EIB 2031 £15m Loan, a floating rate loan 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 3 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 3 Month LIBOR rate.
Description of the financial instruments designated as hedging instruments	The interest rate swap, Lloyds Swap £25m .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 £5m .812% 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.
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 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 HFC/EIB 2031 £15m Loan 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 3 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 3 Month LIBOR rate.
Fair values of financial instruments designated as hedging instruments £'000	185	52	27,854	

26a. 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.

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, and as at 30 September 2020 to inform the liabilities for accounting year ends from 31 March 2021 to 28 February 2022 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.

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)	**2021 £'000**	**2020 £'000**
Fair value of plan assets	146,718	133,691
Present value of defined benefit obligation	(182,082)	(150,900)
Net defined benefit asset (liability) to be recognised	**(35,364)**	**(17,209)**

Reconciliation of Opening and Closing Balances of the Defined Benefit Obligation	**Period ended 31 Mar 2021 £'000**
Defined benefit obligation at start of period	150,900
Expenses	110
Interest expense	3,534
Actuarial gains due to scheme experience	(2,804)
Actuarial losses due to changes in demographic assumptions	656
Actuarial losses due to changes in financial assumptions	34,459
Benefits paid and expenses	(4,773)
Defined benefit obligation at end of period	**182,082**

Reconciliation of Opening and Closing Balances of the Fair Value Plan Assets	Period ended 31 Mar 2021 £'000
Fair value of plan assets at start of period	133,691
Interest income	3,177
Experience on plan assets (excluding amounts included in interest income) - gain (loss)	10,104
Contributions by the employer	4,519
Benefits paid and expenses	(4,773)
Fair value of plan assets at end of period	**146,718**

The actual return on the plan assets (including any changes in share of assets) over the period ended 31 March 2021 was £13,281,000.

Defined Benefit Costs Recognised in Statement of Comprehensive (SOCI)	Period ended 31 Mar 2021 £'000
Expenses	110
Net interest expense	357
Defined benefit costs recognised in Statement of Comprehensive Income (SOCI)	**467**

Defined Benefit Costs Recognised in Other Comprehensive Income	Period ended 31 Mar 2021 £'000
Experience on plan assets (excluding amounts included in net interest cost) - gain	10,104
Experience gains arising on the plan liabilities - gain	2,804
Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation - loss	(656)
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation - loss	(34,459)
Total actuarial losses (before restriction due to some of the surplus not being recognisable) – loss	**(22,207)**
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)	**(22,207)**

Assets	31 March 2021 £'000	31 March 2020 £'000
Global Equity	23,383	19,553
Absolute Return	8,098	6,971
Distressed Opportunities	4,237	2,575
Credit Relative Value	4,617	3,667
Alternative Risk Premia	5,526	9,348
Fund of Hedge Funds	17	78
Emerging Markets Debt	5,923	4,048
Risk Sharing	5,341	4,515
Insurance-Linked Securities	3,524	4,106
Property	3,047	2,945
Infrastructure	9,782	9,950
Private Debt	3,499	2,694
Opportunistic Illiquid Credit	3,730	3,235
High Yield	4,394	-
Opportunistic Credit	4,022	-
Cash	2	-
Corporate Bond Fund	8,669	7,623
Liquid Credit	1,751	54
Long Lease Property	2,876	2,313
Secured Income	6,101	5,073
Liability Driven Investment	37,287	44,371
Net Current Assets	892	572
Total Assets	**146,718**	**133,691**

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 March 2021 % per annum	31 March 2020 % per annum
Discount Rate	2.18	2.38
Inflation (RPI)	3.27	2.62
Inflation (CPI)	2.87	1.62
Salary Growth	3.87	2.62
Allowance for commutation of pension for cash at retirement	75% of maximum allowance	75% of maximum allowance

In response to the ongoing reform of RPI there has been a change in the estimate at TPT in how to set the CPI assumption in relation to RPI. The impact of this change is circa £7.6m.

The mortality assumptions adopted at 31 March 2021 imply the following life expectancies:

	Life expectancy at age 65 (Years)
Male retiring in 2021	21.6
Female retiring in 2021	23.5
Male retiring in 2041	22.9
Female retiring in 2041	25.1

26b. 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.

26b. The Pensions Trust - The Growth Plan (continued)

Present Values of Provision	2021 £'000	2020 £'000
Present value of provision	96	114

Reconciliation of Opening and Closing Provisions	2021 £'000	2020 £'000
Provision at start of period	114	139
Unwinding of the discount factor (interest expense)	3	1
Deficit contribution paid	(24)	(23)
Re-measurements - impact of any change in assumptions	3	(3)
Re-measurements - amendments to the contribution schedule	-	-
Provision at end of period	96	114

Income and Expenditure Impact	2021 £'000	2020 £'000
Unwinding of the discount factor (interest expense)	3	1
Re-measurements - impact of any change in assumptions	3	(3)
Re-measurements - amendments to the contribution schedule	-	-
Costs recognised in income and expenditure account	6	(2)

The above cost is presented as follows in the Statement of Comprehensive Income:	2021 £'000	2020 £'000
Operating costs (pension deficit costs)	3	(3)
Interest and financing costs	3	1
	6	(2)

Assumptions	2021 % per annum	2020 % per annum
Rate of discount	0.66	2.53

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.

26b. 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:	2021 £'000	2020 £'000
Year 1	24	24
Year 2	25	24
Year 3	26	25
Year 4	22	26
Year 5	-	22
Year 6	-	-
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.

27. Share Capital

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

Allotted, called up and fully paid shares of £1 each:	2021 £
At end of year	35
	Number
At 1 April 2020	40
Issued	1
Cancelled	(6)
At 31 March 2021	**35**

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.

28. Operating Leases - Group and Association

Total of future minimum lease payments under non-cancellable operating leases	2021 £'000	2020 £'000
Plant - Leases which expire:		
Within one year	511	524
Between one year and two years	364	502
Between two and five years	322	640
Office premises - Leases which expire:		
Within one year	37	37
Between one year and two years	37	37
Between two and five years	36	73
After five years	-	-
	1,307	**1,813**

During the year £630k was recognised as an expense in the profit and loss account in respect of operating leases (2020: £583k).

29. Capital Commitments - Group and Association

	Group		Association	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Capital expenditure contracted not provided for	136,428	120,842	136,428	120,842
Capital expenditure authorised by the Board of Directors but not contracted for	68,264	101,498	68,264	101,498

The expenditure represents the total bids submitted to Homes England.

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 £18.1m (2020 £20.5m) 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 £27.9m (2020: £28.1m) for reinvestment. This is made up of sale proceeds of £33.0m (2020: £31.9m) less attributable debt of £3.9m (2020: £3.8m) that we need to reinvest in new properties. This figure includes £6.2m (2020: £7.1m) of recycled grant. During the year we reinvested £4.3m of these funds in replacement developments.

30. Contingent Liabilities

There are no contingent liabilities (2020: nil).

31. Housing Stock

	As at 1 April 2020	Units Developed	Units Sold	Other Movements	As at 31 March 2021
Social Housing					
Social rent	20,608	40	(13)	10	20,645
Affordable rent	2,758	193	-	(23)	2,928
Supported housing and housing for older people	4,182	-	(44)	(37)	4,101
Residential Care Homes	115	-	(15)	(12)	88
Shared ownership accommodation	2,130	117	(46)	(13)	2,188
Lease Scheme for the elderly	165	-	-	-	165
Total social housing units owned	**29,958**	**350**	**(118)**	**(75)**	**30,115**
Accommodation managed for others	1,638	-	-	1	1,639
Total social housing units owned and managed	**31,596**	**350**	**(118)**	**(74)**	**31,754**
Long leasehold	1,059	-	-	13	1,072
Garages	122	-	-	-	122
Total Social Housing	**32,777**	**350**	**(118)**	**(61)**	**32,948**
Non-Social Housing					
Market rent	212	-	-	-	212
Commercial lettings	115	-	-	(16)	99
Student accommodation	61	-	-	-	61
Leased to other parties	320	-	-	26	346
Total non-social housing units owned	**708**	**-**	**-**	**10**	**718**
Leasehold	126	-	-	-	126
Total non-social housing	**834**	**-**	**-**	**10**	**844**
GRAND TOTAL	**33,611**	**350**	**(118)**	**(51)**	**33,792**

Other movements include properties that have changed tenure during the year.

32. 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 Regulator of Social Housing. 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 £168k 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.

There has been no other cost apportionment within the Group.

33. Related Parties

Midland Heart Limited participates in the Social Housing Pension Scheme, this provides benefits to employees that choose to take part (see note 26).

34. Post Balance Sheet Events

On the 28th June 2021, Midland Heart entered into a stock transaction with Orbit Group. 620 mixed tenure housing properties were received in exchange for 526.

35. Notes to the Cash Flow Statement

A - Reconciliation of net cash flow to movement in net debt	2021 £'000	2020 £'000
Increase in cash	16,760	15,613
Cash flow from increase/(decrease) in debt finance	(44,881)	1,849
Discounted bonds	(515)	(465)
	(28,636)	16,997
Net debt at beginning of year	(444,910)	(461,907)
Net debt at end of year	**(473,546)**	**(444,910)**

B - Analysis of changes in net debt	At 1 April 2020 £'000	Cash flows £'000	At 31 March 2021 £'000
Cash at bank and in hand	91,211	16,760	107,971
	91,211	**16,760**	**107,971**
Discounted bonds	(13,503)	(515)	(14,018)
Other loans due less than one year	(12,501)	3,285	(9,216)
Other loans due in more than one year	(499,419)	(49,399)	(548,818)
Finance lease	(3,787)	113	(3,674)
Premium on bond issue	(12,648)	655	(11,993)
Issue expenses	5,737	465	6,202
Net debt	**(444,910)**	**(28,636)**	**(473,546)**

Financial Statements

2020/21

20 Bath Row, Birmingham B15 1LZ
midlandheartgroup.org.uk

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