Financial Statements 2016-2017

2016-2017

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midland heart

2016-17

Financial Statements

Midland Heart Limited
Financial Statements and Strategic Report
Year ended 31 March 2017

Co-operative and Community Benefit Society Registration Number 30069R
Homes and Communities Agency Registration Number L4466

Contents

Chairman's Foreword

We started 2016/2017 knowing that we faced twin challenges; to continue to deliver the best quality services we could to all our customers and to begin implementing our Fit for the Future Corporate Strategy to ensure that Midland Heart thrived in the years ahead. Our results show we met the first of those challenges by continually improving customer satisfaction outcomes, achieving positive staff engagement and a strengthened balance sheet. Our surplus is at record levels and will be invested to build much needed new homes.

Whilst there have been some changes in Government policy, following the change in Government leadership, the major priorities that impact on our sector remain the same: bearing down on Government expenditure; welfare reform and building more homes. The Board is clear that implementing our Fit for the Future Corporate Strategy is vital for Midland Heart and its customers. The review of our Care and Support work led to some tough decisions; to withdraw from certain activities and to focus on services that are anchored in our accommodation. We have seen early results of the investment in our Customer First programme, the customer satisfaction outcomes demonstrate that our customers are positive about the changes we are making. Midland Heart will invest its surplus in building much needed new homes with an aspiration to build a minimum of 2250 new homes over the next four years.

The Board has led the business through the beginnings of radical change in the past year. However, we need to be certain that the Board is also "Fit for the Future" as it stewards the business through to 2020 and beyond. The changes that we now face caused the Board to ask Price Waterhouse Coopers (PwC) to advise on any changes we should make to Board structure or to our Board Committees. PwC advised that we should make a number of changes in these areas to optimise our governance effectiveness, as follows:

- Adding skills and experience to Boards
- Adding two additional Executive Members to the Board
- Establishing the Operations Committee to replace the two former Customer Committees
- Transferring the responsibilities of Governance and Search Committee to other existing governance forums.

These changes have been implemented in 2017. The changes we are making at Midland Heart have not been at the expense of our customers but are delivering better services to them. I want to pay tribute to all colleagues for this outstanding achievement. Thank you also to the Board for balancing the need for change whilst staying true to our mission of supporting people to live independently.

John Edwards CBE
Chairman

Our results show we met the first of those challenges by continually improving customer satisfaction outcomes, achieving positive staff engagement and a strengthened balance sheet.

CEO's Foreword to the Financial Statements

When I wrote the foreword to our 2016 financial statements, I talked about the fact that we had just signed off our Fit for the Future Corporate Strategy, which was designed to help Midland Heart respond to the new operating environment and to continue to grow and thrive. 2016/17 has been the year in which we began to deliver on this strategy. It has, quite simply, been a year in which Midland Heart has faced more change than at any time since the merger which created our organisation.

But it has also been a year in which we have delivered our promises. We continue to focus on delivering our strategic objectives- to generate an operating surplus of 30%, to reduce our costs to c£3k per unit, and to be a significant developer of affordable homes for rent and sale. And we have made great progress. Our operating margin for the year is 33.8%, and while our cost per unit is still not at the £3k level, we have reduced operating costs by £8m in the year already with more savings to come in the 2017/18 year. And we continue to develop, with a range of exciting opportunities in our forward programme. We have also refocussed our business so that we can concentrate on offering great homes and places to live for our customers, as well as offering great services in our supported living and retirement living businesses. Inevitably, this has meant change as we have exited from some business areas, but this has been managed with the minimum of disruption for our customers. We face the future as a more focused business.

Our changes have not been achieved at the expense of operational performance. In many areas, our performance is as good as it has ever been. We now let our properties more quickly than ever before, our rent arrears are lower than they have ever been and customer satisfaction with our services, particularly our repairs service, remains at high levels. Our staff engagement levels have also remained high, even during a period of such significant change.

Delivering this amount of change, while continuing to deliver business as usual and improving our operational performance is a tribute to how hard our staff work across the business, every single day. I'm grateful for all of their efforts in making Midland Heart Fit for the Future.

Ruth Cooke
Chief Executive Officer

Delivering this amount of change, while continuing to deliver business as usual and improving our operational performance is a tribute to how hard our staff work across the business, every single day.

Board of Directors

Name		Appointed
John Edwards CBE	Chair of the Board	14/5/2014
Ruth Cooke		17/4/2012
Greg Croydon	Chair of Finance & New Business Committee	24/9/2010
Anna East	Chair of Audit & Risk Committee	28/5/2010
Karl George MBE	Chair of Governance & Search Committee	04/02/2011
Julian Healey		23/9/2013
Robert Lake	Chair of Care & Support Committee	26/09/2008
Kathy McAteer		23/09/2013
Peter Pawsey	Chair of Cygnet Property Management plc	04/02/2011
Martin Tiplady OBE	Chair of Remuneration & Executive Selection Committee Chair of Customer & Communities Committee	29/09/2014

Our Board members biography 2017

John Edwards CBE

Chair, non-executive member

John trained as a quantity surveyor; working for major construction companies and subsequently as 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 by PWC and the National Audit Office, as a high performing 4-star organisation. John stood down in in 2008.

John then took on a number of non-executive and advisory roles in the private and public sectors, including chairman of the Dudley Group of Hospitals; an NHS Foundation Trust in the Black Country, for 4 years until December 2014.

He is principal fellow, and strategic advisor to Professor Lord Kumar Bhattacharyya, founder and chairman of the Warwick Manufacturing Group (WMG), a department of Warwick University established in the 1980's to promote manufacturing in the UK. John sits on the Programme Board for the National Automotive Innovation Centre (NAIC), a partnership between WMG, Jaguar Land Rover and Tata Motors and the European Technology Centre.

John received Honorary Doctorates from Aston, Birmingham, Warwick and Wolverhampton Universities and was Midland's Property Personality of the Year in 2008. He was awarded a CBE for services to the regional economy in 2008

Anna East

non-executive member

Anna East was formerly Head of Group Legal and Company Secretary of Britannic Group plc and Halfords Group plc and has also practised as a solicitor at Eversheds. She has specialised in property and company law, corporate governance and regulation. She is Deputy Chairman of Dudley Building Society and a non-executive director at Holloway Friendly Society and at Entrust a national regulator. Anna has held other non-executive roles in the NHS in the acute sector and in mental health trusts. Anna is Deputy Chair, Chair of the Audit & Risk Committee and a member of Governance and Search Committee and the Pensions sub-committee.

Professor Karl George MBE

non-executive member

Karl George MBE, Managing Director at the Governance Forum is a thought leader and internationally established consultant in governance, with over twenty-five years combined experience in accountancy, business and strategy. An accountant by profession, successful businessman and experienced NED, he is a visiting professor, established author and conference speaker.

Karl works with boards and senior executives in developing effective governance frameworks, improving how high performing boards operate and helping them to implement effective board behaviour. He is the creator of the Effective Board Member programmes (EBM) which has been delivered to hundreds of individuals in; the sports sector, large corporate firms across the Middle East and Caribbean and within the private, public and voluntary sectors in the U.K. His work with over one hundred organisations in this area, has helped him to develop a kite-mark for governance and a governance framework that was endorsed by the late Sir Adrian Cadbury.

Martin Tiplady OBE

non-executive member

Martin runs his own HR and Management Consultancy - Chameleon People Solutions - providing change management, organisational development and general HR services to businesses. Previously, he was director of human resources of the Metropolitan Police until his retirement in 2011. Prior, he was director of human resources with The Berkeley Group plc, Westminster Health Care Holdings Plc and The Housing Corporation. In recent years, Martin Tiplady was named by The Daily Telegraph as 'Personnel Director of the Year' and is regularly listed by the HR press as one of the most influential people in HR today. He is a Chartered Companion of the CIPD and was Vice President of the CIPD from 2006 - 2010. He is a non-executive director at Roffey Park Business Institute and was awarded an OBE for services to Policing and Human Resources in The Queen's Birthday Honours 2010.

Greg Croydon

non-executive member

Greg took early retirement from IMI plc, a multinational engineering company based in Birmingham, in 2014. He joined them in 1996 as Group Treasurer. In 2013 he also took responsibility for Group Pensions. Previous to this Greg worked in a number of operational and financial roles at GKN plc, having joined as an engineering graduate in 1978.

Greg was also a Director of the Association of Corporate Treasurers (ACT) between 2004 and 2010. He ran the Midlands Regional Group of the ACT between 1997 and 2001.

Greg became involved with the social housing sector in 2000 when he joined Prime Focus Finance as a Director.

Kathy McAteer

non-executive member

Kathy has a background in social care having worked at executive director level within local government and the NHS. Still registered as a social worker, she has over 40 years' experience, of working for a number of councils across the Black Country and West Midlands as well as for a NHS Care Trust. Kathy's experience has been predominantly in the integration of health and social care, both as a commissioner and a provider of services, and she has particular expertise in the field of learning disability services.

Kathy is currently a non-executive director on the board of the Black Country Partnership NHS Foundation Trust and is also Independent Chair of Worcestershire Safeguarding Adults Board.

Robert Lake

non-executive member

Robert is a qualified social worker and was a Director of Social Services for a total of 15 years, initially in Humberside and then, from 1996, as Director of Social Services (ultimately becoming Corporate Director for Health and Social Care) for Staffordshire. Taking early retirement in 2005, Robert became Chair of the Staffordshire Ambulance Service NHS Trust for two and a half years.

In October 2007, Robert began work with the NHS Information Centre for Health and Social Care as Director for Social Care Information Strategy and Delivery (a joint appointment with the Department of Health), completing this assignment in June 2011.

From December 2012 to August 2015, Robert was the Independent Chair of the Walsall Safeguarding Children Board. Robert currently authors serious case and adult reviews on behalf of local safeguarding boards.

Peter Pawsey, CEng. FICE. FCIHT. FCMI

non-executive member

Peter is a Chartered Civil and Transportation Engineer and has enjoyed a wide and varied career generally related to the construction and property sectors, from which he has broadened his activities to include a number of executive and non-executive appointments across

the public and quasi-public sectors. His experience has been international and unusually broad and varied, including with local and regional government, but mainly in technical consultancies, contractors, facilities managers and developers of various sizes. His resultant board experience extends to over 40 years in a variety of business sizes and models.

He is currently a consultant to Robert West Consulting Engineers.

Until April 2015 he served a 4-year term as the founding Executive Chair of the Worcestershire Local Enterprise Partnership, having previously been Executive Chair of Advantage West Midlands' Rural Regeneration Zone and also Deputy Chairman of Business Link West Midlands, both until the dismantling of regional government. Prior to that, he had been a government appointed Non-Executive Director of The Emerging Africa Infrastructure Fund.

After his formative years in local government, his main career was with Frank Graham Consulting Engineers where he rose to be Chief Executive of the 700 strong consultancy, and then as a Director of Tarmac Construction, responsible for leading the acquired PSA Projects multi-disciplinary design and procurement consultancy from government into the commercial world.

Julian Healey

non-executive member

Julian is a Chartered Surveyor with over 35 years' experience of asset and property Management. Julian 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 NARA (the Association of Property and Fixed Charge Receivers) 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 Practioners' Association Investigations Committee.

Executive Board

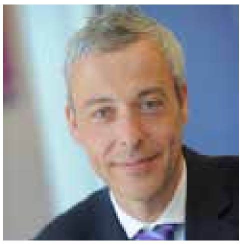
Ruth Cooke

Chief Executive Officer

Ruth has been CEO of Midland Heart since 2012 and was previously Finance Director. Supported by the Executive Board, Ruth has overall responsibility for the delivery of Midland Heart's Fit for the Future strategy. She is passionate about Midland Heart's mission of supporting people to live independently, and in her time with the organisation has been involved in the development of a number of our flagship projects and services. A qualified accountant and corporate treasurer, she is also Chair of Herefordshire Housing and is the Vice Chair of the Social Housing Pension Scheme Committee.

Carl Larter

Executive Director of Assets



Carl Larter is the Executive Director of Assets, which oversees the functions of development, repairs and maintenance. Development includes corporate responsibility for acquiring land, the construction of new homes, sales and marketing.

Carl is a Chartered Surveyor and has 20 years' experience in the housing sector, during which time he has worked for a number of registered social landlords on a range of regeneration and greenfield projects from housing for sale, affordable and market rent, to student and keyworker projects.

Carl is also a non-executive director and deputy chairman at Cross Keys Homes in Peterborough.

Andrew Foster

Director of Governance and Contracts

Andrew Foster joined Midland Heart in 2006 after 10 years working as a Lawyer and Company Secretary with ITNET plc, an IT services company. Before that Andrew was a corporate solicitor with a major Midlands law firm. Andrew has responsibility for the overall effectiveness of Midland Heart's governance processes. He is also responsible for the effective procurement of goods and services and for ensuring that an effective contract management framework is in place so as to provide assurance that external contracts are managed well and deliver high quality and good value services for our customers.

Andrew also manages a number of other central services including Legal, Risk and Audit, Insurance, Policy, Facilities and Health and Safety.

Andrew is a board member of Worcestershire Telecare which is part of the Community Housing Group.

Glenn Harris MBE

Executive Director of Corporate Resources

Glenn Harris joined Midland Heart following a career spanning seven years at East Midlands Development Agency (EMDA), where he spent five years as Executive Director of Corporate Services, followed by two years as Deputy Chief Executive.

His current role includes responsibility for Finance, HR and IT teams, and his role includes leading the Executive team's corporate planning processes.

Glenn is also a Board Member of Nottingham City Homes, where he Chairs the Audit Committee.

Joe Reeves

Executive Director of Corporate Affairs

As Corporate Affairs Director, Joe is responsible for corporate communications, external affairs, research and growth. Prior to joining Midland Heart in July 2013, Joe spent 15 years at PwC within the Corporate Finance Infrastructure and Government team. As a Director, Joe acted as lead commercial adviser on major economic and social infrastructure PPP projects for local government across the UK with a combined value of £1.5bn. Joe is acknowledged for his work on housing PPP and Housing Revenue Account reform, having co-authored a number of thought leadership publications.

David Taylor

Executive Director of Operations

David Taylor is a member of the CIH and has worked in housing for over 18 years. Before joining Midland Heart he spent 10 years at Leicester City Council, where he played a key role in significantly improving the quality and performance of services to its customers. David is experienced in leading a wide range of customer focused services and ensuring customers are at the heart of shaping these. This has included regeneration projects and leading a team responsible for commissioning and contracting housing related services.

At Midland Heart, David is responsible for leading our neighbourhood and tenancy related services including income collection, community engagement, estate services, community safety, lettings and sales. In January 2017, David took responsibility for the newly formed Operations Directorate, which combined the former Customer and Communities and Care and Support Directorates.

1. Overview of the year

Midland Heart has enjoyed a year of strong financial and operational performance, borne out in the results and KPIs set out later in this report.

In what was the first year of a new five-year plan entitled 'Fit for the Future' this performance has been achieved against a backdrop of significant change agreed by the Board in 2016.

A thorough review of our Care business has seen planned exit from Learning Disabilities and Mental Health services with successful transfers to new providers. The structure of the organisation has been simplified with a single Operations Directorate to deliver efficiencies, but also a more consistent quality of service to customers.

A renewed emphasis on developing new properties primarily for affordable / social rent, whilst ensuring our Retirement and Supporting Living accommodation is sustainable in the long term has been at the heart of this strategy. It is therefore pleasing to note we are achieving record levels of performance demonstrating a robust value for money ethos;

- Customer satisfaction hit the highest level in the last three years (87.2% at year-end). Notably, the share of customers who were very satisfied also increased by c9% over the last 3 years to 65%.
- Repairs satisfaction has been the highest it has been in at least the last 2 years (93.2% at year-end).
- The number of complaints per 1,000 properties has been the lowest ever (29 per 1,000 properties at March 2017).
- We have achieved record surpluses (£39.8m in 2016/17), for investment in our existing and new homes; and maintained our A1 credit rating from Moody's.
- £8m of savings banked in 2016/17 has fed directly into an increase in our operating surplus. £13m of savings has been included in our 2017/18 budget. This is ahead of the £10m p.a. target we set ourselves in July 2015 (to recover £41m over 4 years as a result of -1% rent).
- Our re-let times (18.96 days) and rent arrears (4.53%) have been the lowest they have ever been.

2. Operating and Financial Review

Financial Highlights	**2017**	**2016**
Turnover (£m)	206.0	207.9
Operating Surplus (£m)	69.6	55.7
Operating Margin (%)	33.8	26.9
Surplus for the Year (£m)	39.8	27.5
Interest Cover (%)	268	255
Balance Sheet		
Housing Properties (net of depreciation) (£m)	1468.3	1461.6
Gearing (%)	52	60
Operational Indicators		
Total Housing stock	33,153	33,216
Current Tenant Arrears (%)	4.53	4.75
Average re-let time (days)	19	20
% Routine Repairs on time	97.1	94.1
Customer Satisfaction (%)	87.2	86.6

Customer satisfaction hit the highest level in the last three years.

Statement of Comprehensive Income

- Turnover of £206m, shows a reduction of £1.9m (0.9%) over the previous year as a result of a reduction in contract care income as we have exited a number of contracts during the year, and the -1% rent reduction across the majority of the housing portfolio. Additional new properties handed over for rental during the year and first tranche sales of shared ownership have both increased and are compensating factors.
- Operating surplus has increased by £13.9.m to £69.6m. This represents an operating margin of 33.8%. Previous year included pension deficit of £9.3m, but the balance has been achieved by operational efficiency savings and the planned exit from loss making contracts. Surplus on disposals is now included in the £69.6m.
- Surplus of £39.8m, an increase of £12.3m over previous year. Pension deficit of £9.3m incurred in 2015/16 and efficiency savings across the business are responsible for the increase over the previous year.

The following table summarises the income, costs and operating surpluses derived from our key areas of activity.

	Turnover		Operating Surplus	
	2017	**2016**	**2017**	**2016**
	£m	**£m**	**£m**	**£m**
Social Housing Lettings	175.4	174.5	67.4	52.4
1st tranche Shared Ownership	6.1	6.8	0.8	0.9
Outright sales	0.0	0.7	0.0	0.1
Care Contracts & other	22.3	23.8	(3.4)	(1.8)
Other Social Housing	1.2	1.1	0.4	(0.8)
Market Rent	1.0	1.0	0.6	0.6
Surplus on Disposal of Assets			3.9	4.3
Total	**206.0**	**207.9**	**69.6**	**55.7**

Social Housing turnover remains the core of the business. Although a 1% rent reduction was passed on for the year, growth in new build affordable homes during the year has delivered a slight increase. This has also been helped by reduced void loss performance.

Although care contracts and other show only a £1.5m reduction in the year, by March 2017 we had exited half of our care contracts. We expect these to operate at break even during the 2017/18 financial year.

Market rent and first tranche shared ownership sales have remained consistent, and we had nil outright sales activity during the year.

Interest costs of £30.4m are £1m higher than 2015-16. We have a stable debt portfolio, with the increase attributable to a charge in the year of £777k (2015-16 (£181k) for changes in the fair value of social housing pension liability.

Balance Sheet

The gross cost of housing properties has increased to £1.70bn (£1.68bn in 2015-16). This is a result of expenditure of £27.6m on new homes and a further £13m invested in improvements to existing properties. Properties with a cost value of £11.9m were disposed of during the year.

Social Housing Grant (SHG) has increased by £1.5m £719.5m, with a release of £7.6m to the Statement of Comprehensive Income during the year (2015-16, £8.1m)

Other fixed assets show a net increase of £1.9m to £30.1m, refurbishment of offices and I.T investment being the areas of expenditure.

Debtors decreased from £13.2m to £13m. An increase of £2.7m of social housing grant receivable offset by a reduction in rent arrears net of bad debt provision of £1.9m to £5m for the year. Prepayments and trade debtors were £6m, an increase of £0.1m on the previous year.

Cash at bank and in hand increased to £67.9m (2015-16: £38.6m). The Association remains in a strong cash position, allied to a deep ready access to secured loan facilities which ensures that all commitments are already fully funded. Bond repayments of £32m are expected in 2017-18 and are a reason for a strong liquidity position at the balance sheet date.

Creditors of less than one year increased by £17.9m to £74.7m, with Housing loans due within the year showing an increase of £20.1m due to the bond repayment referred to above. Trade creditors totalled £1.4m and accruals and deferred income totalled £17m, the latter a reduction of £2.1m on the previous year.

3. *Fit for the Future – Year 2*

As we move into year two of our Fit for the Future Corporate Plan (2016-20), we continue to see unprecedented levels of external change and challenge, including the impact of the Local Housing Allowance (LHA) cap, significant cuts to Local Authority (LA) budgets, the growing momentum around welfare reform changes and uncertainty about rent levels post 2020. We will need to remain financially strong so that we are able to ride out future waves.

All political parties believe more homes need to be built in the coming years, and Registered Providers have a key role to play in that increased level of supply. Our focus will remain on social/affordable rent:

- To build as much as possible
- To reduce costs and deliver VFM efficiencies

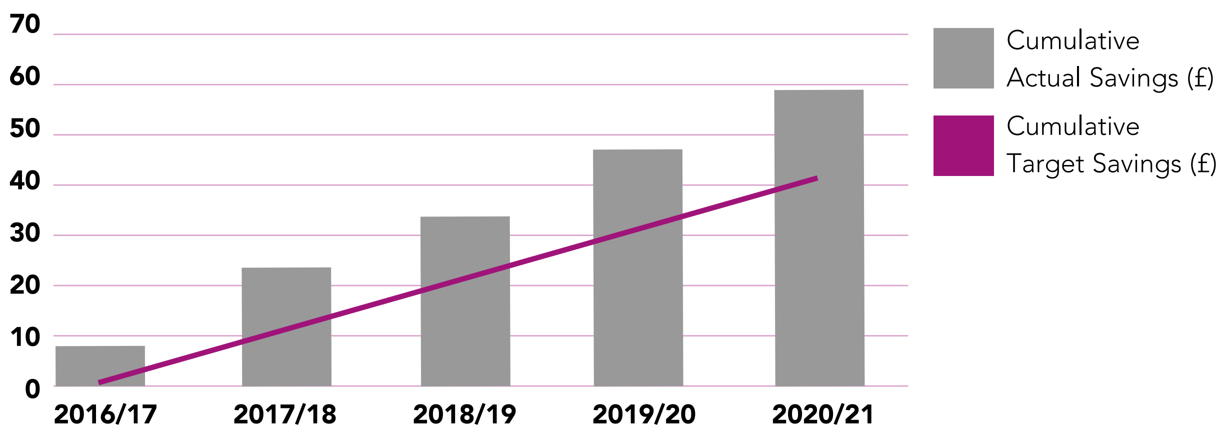
Our Board has agreed that our focus will be on both delivering efficiencies as well as new homes with a very clear set of outcomes. We are pleased to see that this is also the direction set out in the January 2017 White Paper.

We want to remain true to our legacy and charitable aims. We also recognise the very clear direction of national and local government. It could be argued that the national housing shortage is now more acute than in recent times. We have therefore identified three key strategic objectives to 2020:

- To consistently be in the top 20 developers for new homes for rent, focusing on social and affordable rented housing (a clear differentiator from other Providers);
- Having an operating margin of 30%+, using all of our surplus to build; and
- Having operating costs of c£3k per unit (excluding Supported Housing)

4. Making tough strategic choices

We responded quickly to the -1% rent cuts announced in the July 2015 budget and remain ahead of the curve in meeting our savings target. Our financial and value for money performance is strong and this is echoed by Moody's (A1 credit rating). £8.1m savings were banked in 2016/17 and £13m has been taken out of the 2017/18 budget. This is ahead of the £10m p.a. target we set ourselves in July 2015 (to recover £41m over 4 years as a result of -1% rent). The below chart illustrates our cumulative savings targets and actual projected savings to 2020.

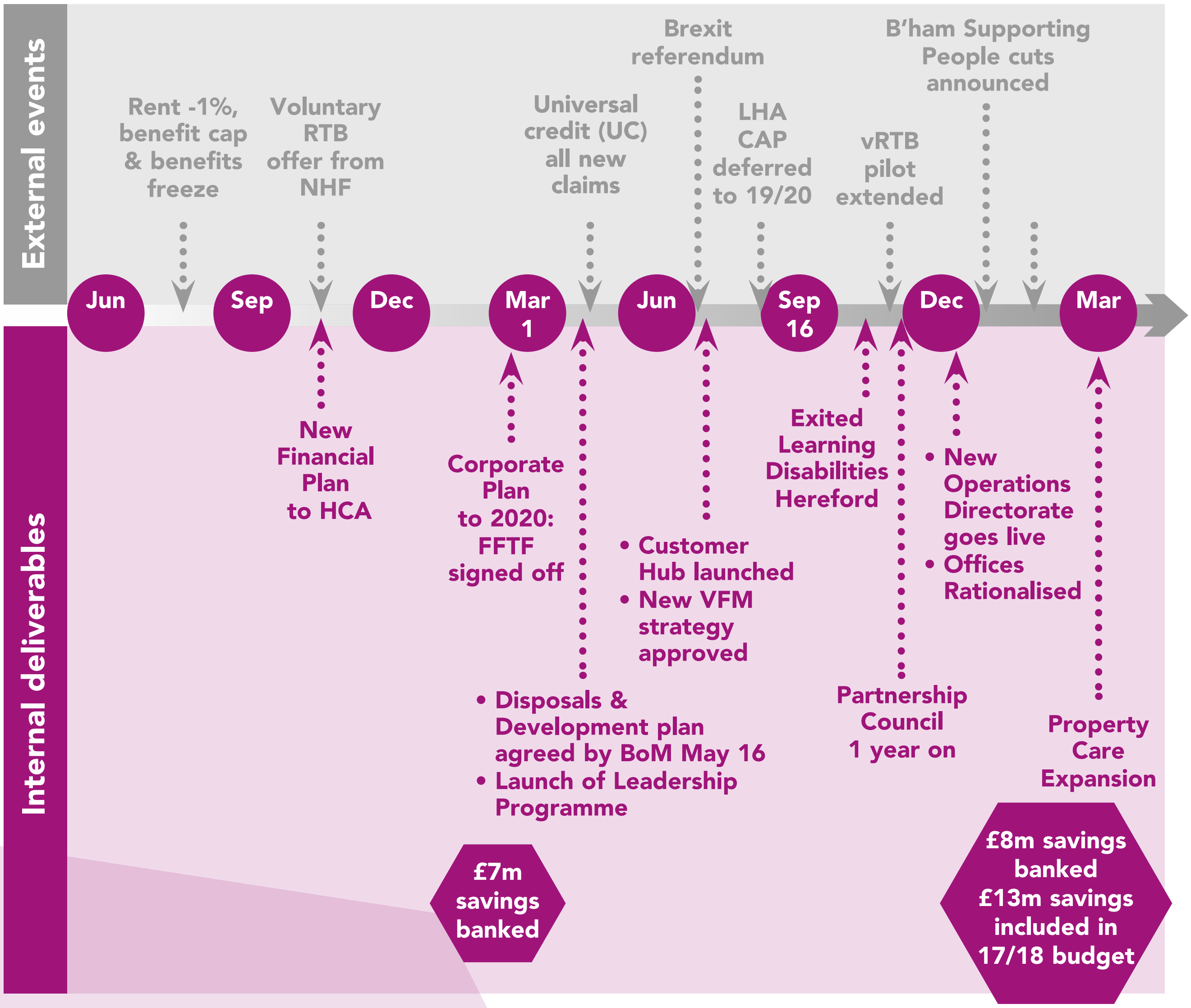


Delivering this level of savings has meant we have had to make a number of very tough strategic choices. We have spent the last year simplifying our business. This has resulted in:

- Moving to one new Operations Directorate bringing together our Customer & Communities (focused on General Needs housing) and our Care & Support Directorates
- At the end of April 2017 we have divested from all of our learning disabilities and mental health services (19 contracts/services) and exited four care and support contracts which provided a negative contribution to Midland Heart. This amounts to c£10m of costs and approximately half of all our revenue contracts. As a result, this has also reduced our exposure to key risks around regulation (Care Quality Commission), compliance and staff.
- Without any interventions, the value of those contracts will reduce by c85% by April 2018 and a further 3% in 2018/19 with the remaining 12% expected to continue to roll over post 2019.
- The above activity has generated a sizeable c£2m increase in net contributions. Our aim is for our remaining Retirement and Supported Living services (revenue contracts) to be subsidy-free by 2020.
- We expect further savings of c£1m to come from further efficiencies through this new Operations Directorate e.g. improved resource planning.

5. A timeline of key events

A timeline of key events (internal and external) is detailed below. This summary illustrates the significant and intensive activity that has taken place since the development of our Fit for the Future plans. We have translated our plans in a controlled and manageable way into positive tangible realities on the ground.



6. Building as many new homes for rent as we can

Midland Heart has a strong legacy and culture of adapting to change. We continue to remain true to our charitable aims by building desperately needed affordable and social rented properties (a key differentiator). We continue to work in the most challenging areas (70% of our stock is in 20% of the most deprived wards nationally) and deliver Supported and Retirement Living services.

We are acutely aware of our responsibility to build as many new homes as we can. Critically, we have taken the decision to focus on building new homes primarily for affordable and social rent rather than outright sale. We will therefore be investing all of our operating surplus into new homes.

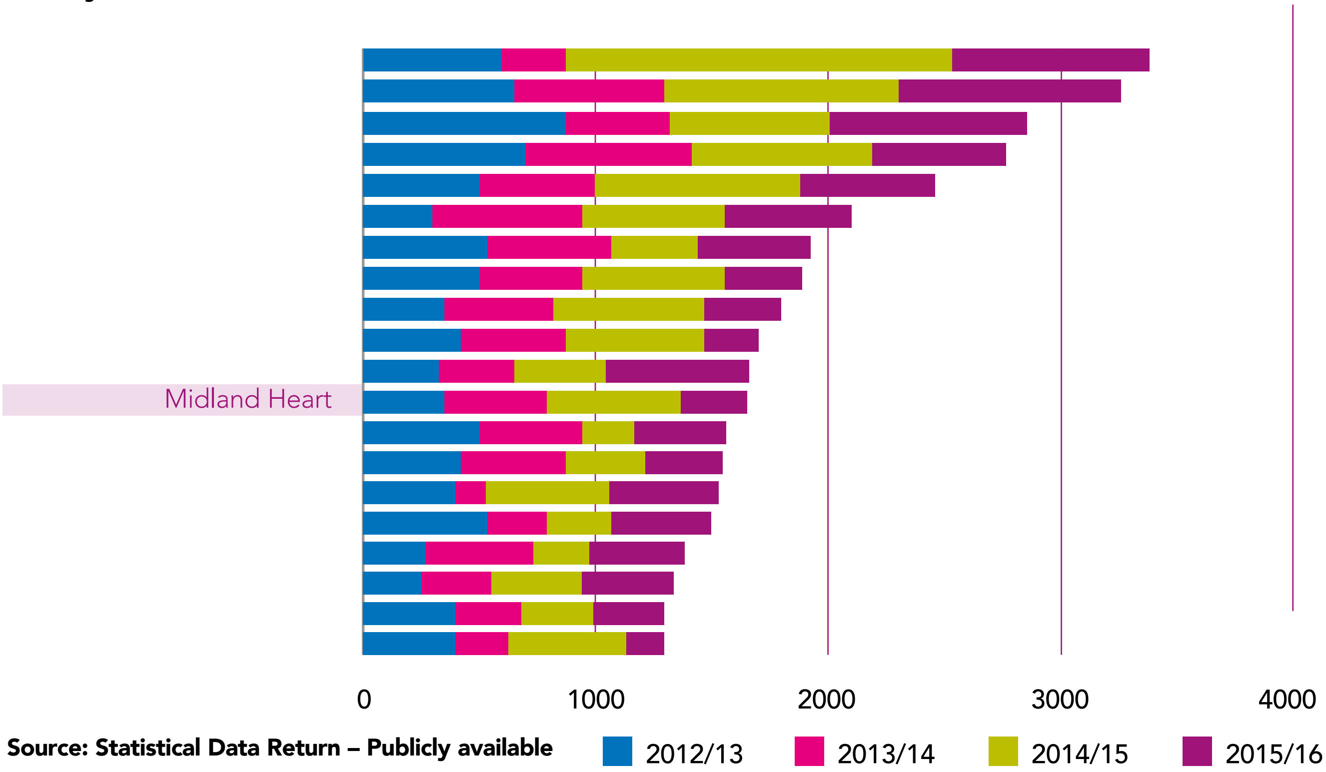
Our commitment for the longer term is to ensure we are consistently in the top 20 nationally for new homes built for rent. We will therefore need to build c2,250 homes over a rolling five-year period. This will be achieved by using our operating surplus. This will be topped up by sales proceeds from the disposal of our low or poorly performing stock (c1,600 units). These proceeds will be dependent on the timeliness of the sales process and market conditions. In addition, new homes will also be built depending upon RTB volumes. We have identified c1,600 properties for disposal which have high management or maintenance costs.

Our in house Strategic Asset Management System (SAMS) is designed to aid decision making through assessing the financial performance of rented homes. SAMS analyses property performance from a financial perspective and the output is a 30 year discounted cash flow of future income net of expenditure (present value or PV) for each property. This is achieved by projecting forward expected income and costs associated with each property over 30 years. The average PV across the stock base was assessed to be £27,010.

The analysis identified 1,612 units that had a negative or low PV and these were identified for disposal as part of a five-year programme. Through disposing of these units the average PV for the stock will improve to £28,923.

Over the 4 years between 2012/13 to 2015/16 we ranked 12th nationally on new homes for affordable and social rent (1,651 new homes) - see chart below. During 2011-15, we had the highest Homes and Communities Agency (HCA) grant funded programme in the Midlands.

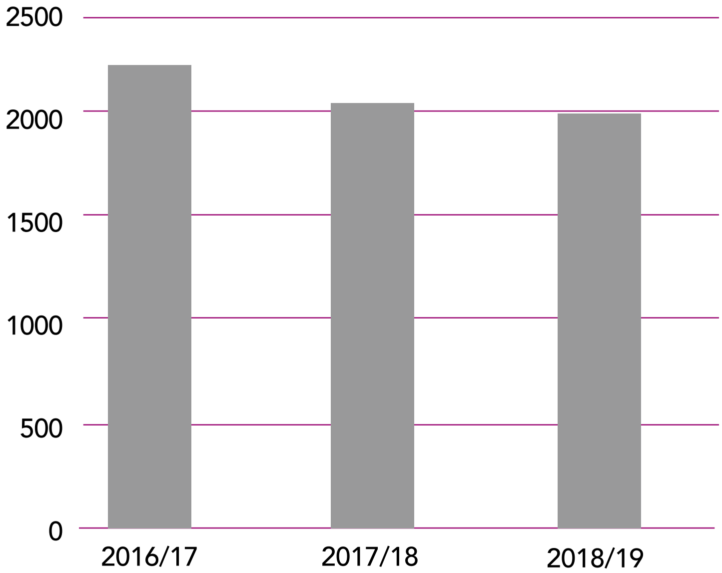
Newly Built rental accommodation 2012/13 – 2015/16



Source: Statistical Data Return – Publicly available

As a result of the cyclical nature of development programmes, in line with government funded programmes, the chart below shows a rolling five-year picture:

Rolling 5 year Total Completions



An example of our ambition is that we have recently agreed the development of 395 properties (119 for affordable rent) in Leicester with 274 properties forecast to complete in 2018/19 and 121 properties in 2019/20.

In addition, we are also planning to develop new self-funding Retirement Living homes. c£10m has been earmarked for the first scheme, with the first units expected to be available in 2018/19.

7. Treasury management

Through hedging and loan re-financing we have saved £1.43m in 2016/17 and have identified £2.25m in 2017/18. These are significant savings.

All of our financial golden rules continue to be met:

- Gearing target 70%: this was 52% at year end, it is projected to peak at 54% in July 17, which is 21% below covenant levels. We set our target to operate at 70% to give ourselves a buffer against unforeseen fluctuations or accounting changes. This buffer is worth c£50m. Gearing has dropped due to completion of frozen GAAP negotiations on all loans and the extension of availability on some bank facilities.

- Interest cover target 150%: at year end we were well in excess at 268%. Interest cover is projected to be at its lowest in 2025 at 212%; and

- Cash (min £20m): We are strong on liquidity, with currently £67.9m cash, £100m facilities and £200m in unencumbered securities. This is well in excess of our policy (min of £20m cash and £50m unencumbered securities/ facilities). Our policy is to have enough cash and undrawn facilities to cover the higher of net future committed development spend or 18 months cash flows. Our business plan is currently fully funded and thus a major strength of the organisation. We have for some time worked on a basis that net development expenditure can be commensurate with the surplus generated by the business, and topped up by disposal proceeds. We are therefore able to support a programme of c400 new build properties per annum over the next 4 years without recourse to increasing levels of debt.

We are seeking to replace higher cost security loans with cheaper finance to save future interests costs and release unencumbered security for future loan finance.

8. Costs per unit

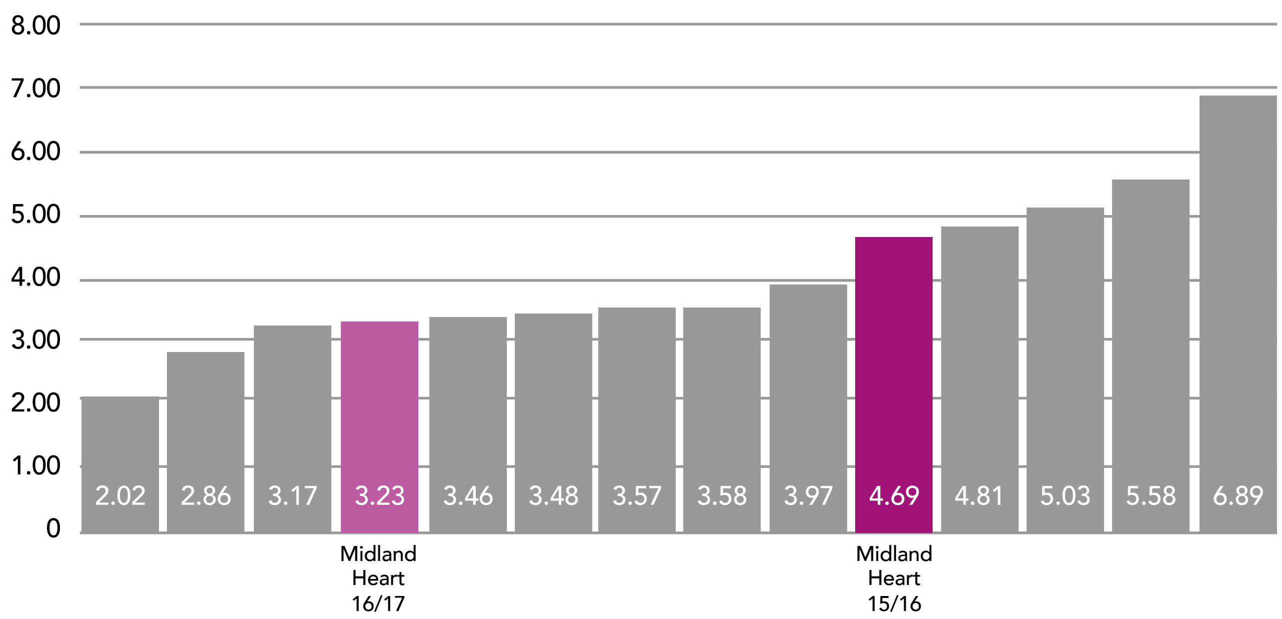
In February 2017, the HCA published their cost per unit data for 2015/16. It is important to note that this is before our Fit for the Future VFM savings kick in.

- Our headline HCA costs per unit (2015/16 under IFRS) were £4,690
- The HCA recognise that these costs should be adjusted where appropriate. There are two key adjustments for Midland Heart and as last year the key one relates to Care & Support contract costs:
    - Care & Support revenue contracts – these costs are unrelated to units and are covered by contract income – c£23m; and
    - Pension costs, c£9m - a one-off cost
- Making these two adjustments alone brings our headline costs down to c£3,600.
- Our ranking then moves to more median levels.

Our unadjusted cost per unit against our corporate benchmarking group is shown in the chart below. The adjusted c£3,600 per unit puts us mid table. Note, those with significant Care and Support activity such as Midland Heart are all on the right of the chart. We perform well against these mixed providers.

Based on 2016/17, our headline cost per unit per the HCA methodology was £3,226. The reduction from £4,690 in 2015/16 relates primarily to one off pension costs in 2015/16, a reduction in service charges, a reclassification of care contract costs and our savings programme. Our ranking moves from 9 out of 13 to 4 out of 13 (all things being equal). Data from the other providers relates to 2015/16.

Headline Social Housing Cost per unit



How does cost per unit fit into our overall Fit for the Future plans?

Like other providers we have spent a lot of time analysing our cost per unit data. Indeed, we have been working with an external organisation (Vantage) to lead the sector in establishing a new benchmarking group where organisations can access and compare data from the top 150 plus providers' annual financial accounts as they are published.

Our strategic aim is for our headline costs per unit to move to c£3k by 2020 (excluding Supported Housing). Against other mixed providers we perform relatively well. However, we recognise that there is more work to do when compared to those that solely have general needs properties and do not incur the Knock-on effects of supported housing such as higher service charges.

Our Fit for the Future savings are expected to reduce our cost per unit to c£3,000 based on the 2017/18 budget (excluding supported housing).

We will seek to re-baseline in 2017/18 as savings are banked, restructuring costs incurred and the new Operations Directorate embeds. We aim to drive out a further c£1m in efficiencies in 2017/18 and identify the next tranche of savings by Spring 2018.

The table below details our composition of costs for 2016/17:

	£m	**%**
Management	30.6	28.4
Service Costs	23.0	21.3
Maintenance	30.8	28.5
Depreciation	21.4	19.8
Bad debts	2.3	2.1
Other	(0.1)	(0.1)
Total	**108.0**	**100**

It is important to note from the table that service costs are recovered by service charges. The high level there reflects the nature of some of the services we provide in supported accommodation. Our strategy is clear; we will continue to provide both Supported Living and Retirement accommodation. We will look to reduce service costs, in part to address potential LHA cap issues, but the scope to reduce this to below £17m is very limited. Similar size providers, without having a portfolio such as ours, typically have services costs in the range of £4m-£7m and so this differential will be maintained. Customer satisfaction for environmental works (grass cutting, cleaning communal areas and window cleaning – key service chargeable areas) remains high at 84.5% in March 2017 (82.3% March 16).

9. What makes up our savings?

Year one of our Fit for the Future programme has delivered £8m savings in 2016/17 and 13m savings included in the 2017/18 budget. These are summarised in the table below.

Savings	2016/17 £m	2017/18 £m
Reshaping Community Investment	1.1	1.1
Customer First Programme	-	0.5
Voids and Mutual Exchanges (General Needs) – A 17% reduction in the number of voids	0.1	0.8
Office estate rationalisation	-	0.3
Asset Management	3.8	3.8
Back office	0.9	0.9
Treasury and re-financing	1.4	2.3
Procurement	0.3	0.8
Sickness absence	0.1	0.1
Service Charge Income (Retirement and Supported Living)	0.1	0.1
Voids (Retirement and Supported Living)	0.2	0.3
Care & Support Review		2.0
Total	**8.0**	**£13.0**

Our Fit for the Future programme now consists of three key areas:

- Operations: In 2016/17 this involved the bringing together of two directorates Customer & Communities (primarily general needs) and Care & Support directorates. It also involved a fundamental change to our operating model with the launch of our new Customer Hub in July 2016. The aim being to improve customer service, improve first contact resolution and deliver VFM. We also went live with our new People team (to provide expert services that tackle complex customer issues) and Places team (ensure our neighbourhoods are managed to a high standard). We have also rationalised our regional offices and created new touchdown points at our Retirement and Supported Living schemes. The aim has been to improve our customer service (more officers on patch), environmental and financial outcomes.

A pressing challenge for 2017/18, as a result of the LHA cap, will be to deliver a plan to protect the long term viability of our Supported Living accommodation. This is a high priority for the forthcoming year.

- Right homes in the right places: This theme is central to meeting our strategic aim of being consistently in the top 20 nationally for new build for rent. It also explores the aspiration of developing new Retirement Living accommodation for self-funders. In addition, we are expanding our internal DLO (Property Care) as it takes on the repairs and maintenance for another 6,000 homes from April 2017. £5m of savings has been targeted over 10 years as a result.

- New ways of working: The focus of 2017/18 will be to help support the broader business with implementing and managing change. We will continue to see through initiatives launched this year e.g. the Leadership Programme as well as making sure we are more 'organisationally ready' should a merger opportunity arise.

10. Loan facilities

Midland Heart's policy is to develop long-term relationships with lending institutions and those investors that understand the business and are able to meet its funding and changing business requirements. The Group's main financial covenants are in respect of gearing and interest cover. These have been agreed with all the relationship banks and are monitored on a regular basis at our Finance and New Business Committee. All the covenants now benefit from having frozen accounting policy clauses which protects both parties against changes in reported results and asset values. The Board believes that the financial covenants entered into are appropriate for a registered provider.

During the year Midland Heart was successful in securing £17m of money via the issue of Affordable Homes Finance 2043 (government guaranteed) at an effective rate of under 2%. In addition, it extended the availability of £89m of its facilities for a further 2 years.

Midland Heart has a liquidity policy that states there should be sufficient cash and secured loan facilities to cover the higher of 18 months' net forecast cash requirements or net committed development spend. As at 31 March 2017 Midland Heart had group facilities of over £105m available in undrawn fully secured facilities, £8m in reserve Affordable Home Finance bonds and just under £68m in cash. This is more than sufficient to fully fund our current development pipeline and take advantage of attractive new opportunities as they arise.

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

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

	2017 £m	**2016 £m**
In one year or less	35.8	15.7
Between one and two years	31.9	35.3
Between two and five years	41.7	60.3
In five years or more	455.4	450.6
	564.8	**561.9**

Over 80% of our debt matures after 5 years.

Midland Heart has diversified its funder base, such that there is now an almost equal split in our portfolio between bank and capital market funding. As at 31 March 2017, 53% of our debt came from the capital markets and 47% from banks and building societies.

11. 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.

Midland Heart uses embedded instruments (such as fixed rate bank loans and bond issues) and standalone interest rate swaps to reduce the impact to Midland Heart of increases in interest rates. They are only used to hedge existing variable rate debt liabilities and are prohibited from being used for speculative purposes. As a result of using swaps, Midland Heart sets aside property collateral and utilises credit thresholds to cover any net future anticipated payments due by Midland Heart. As at 31 March 2017 this amounted to just over £76m and all counterparties' exposure was fully covered by property collateral and credit thresholds.

Midland Heart monitors its exposure daily and stress tests it. Currently we calculate that if interest rates were to fall to zero across the yield curve we would have to provide cash collateral of around £8m to support the swaps transactions. This would be fully covered by our Treasury policy that requires a minimum of £20m of cash to be held.

As at 31 March 2017 our debt portfolio was 90% Fixed (2016:88%); 8% Variable (2015: 10%) and Inflation Linked 2% (2016: 2%). Midland Heart does not have any non -sterling or exchange rate exposures.

As at 31 March 2017, Midland Heart held an A1 rating with negative outlook from Moody's Investors Services, maintaining our leading credit status as one of the highest in the sector.

12. How do we compare to others?

We continue to report year on year against a basket of VFM indicators.

	2017	2016
Management costs per unit (General Needs)	**£619**	**£647**
Management costs (social housing lettings) as a % of turnover	**14.9%**	**15.2%**
Operating costs as a % of turnover	**68.1%**	**70.8%**
Return on Assets	**2.5%**	**1.8%**
ROCE	**4.6%**	**3.7%**
Assets – total general needs costs per unit (capital and revenue)	**£4,132**	**£4,878**

Midland Heart continues 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.

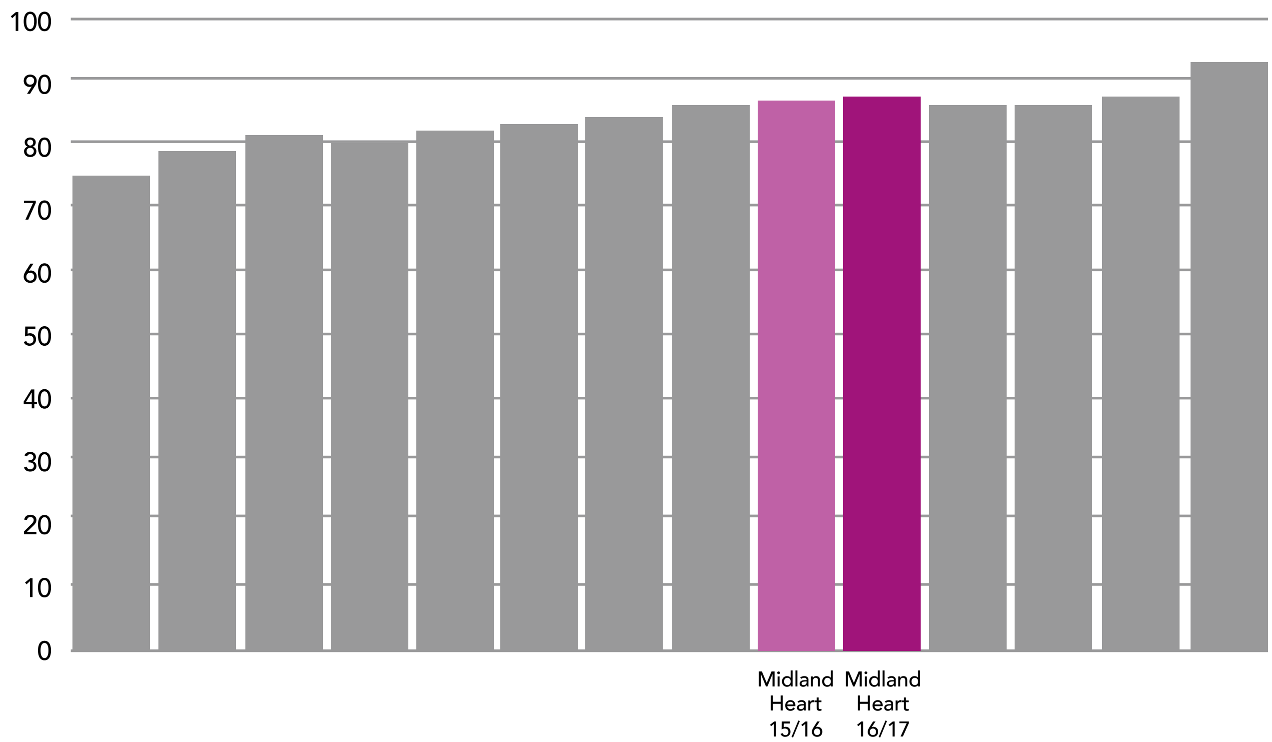
As in previous years, we continue to compare ourselves to a core number of Housing & Care providers. We have selected organisations in all geographies which represent some of the largest and most efficient Registered Providers as well as including those that largely have strong governance and viability ratings. We also include a number which are mixed providers like Midland Heart that have notable care and support operations as well as those which have an in-house maintenance team (DLO).

Our benchmarking group consists of:

- Accord
- Affinity Sutton
- ASRA
- Bromford
- East Midlands
- Family Mosaic
- Home
- Housing 21
- Orbit
- Riverside
- Waterloo
- WM Housing

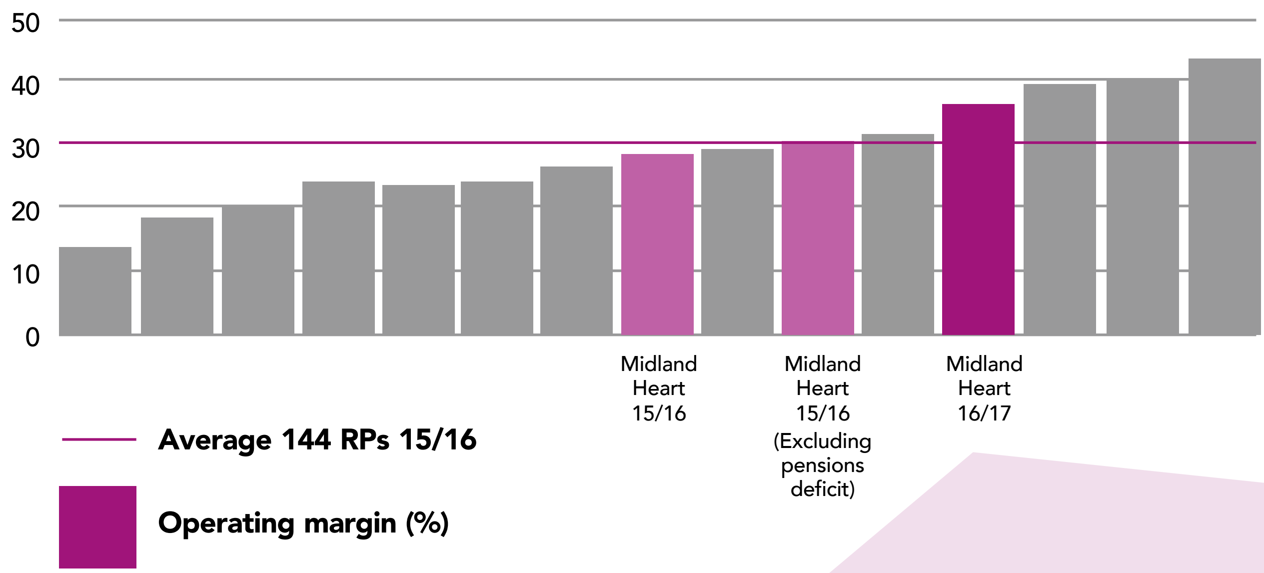
The results are detailed in the graphs below. The latest information available relates to 2015-16, the first time that this is available on a FRS basis. Our savings will feed into 2016/17 i.e. next years' summary.

Overall customer satisfaction (%)



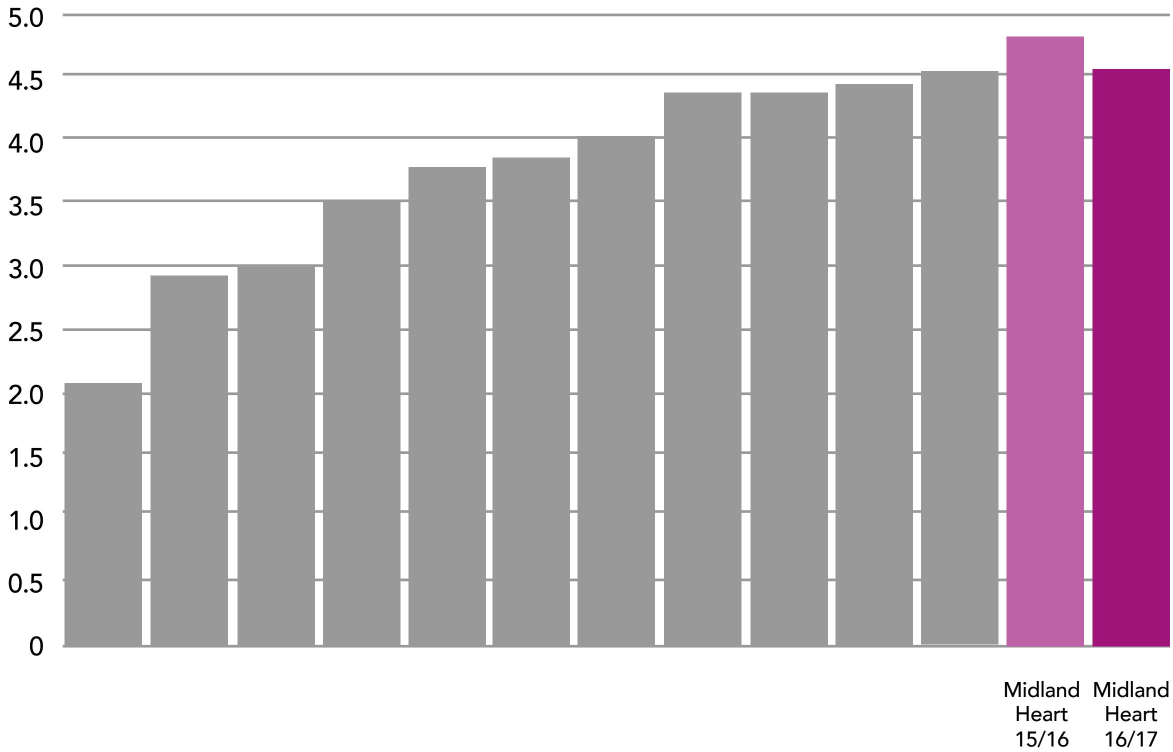
Based on 2016/17 results our ranking moves from 8 out of 12 in 2014/15 to 5th in 2016/17 (all things being equal).

Group operating margin (%)



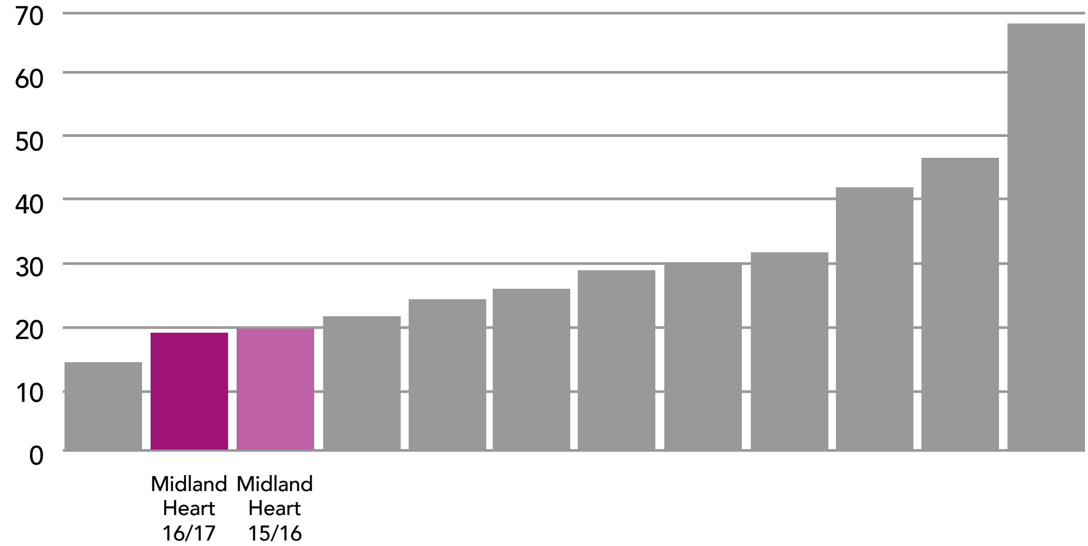
Our ranking moves us from 6 out of 14 in 15/16 (excluding pensions deficit) to 4th in 2016/17 (all things being equal). We are well above the average of 144 providers (2015/16).

Published current tenant arrears (%)



Our arrears decreased from 4.75% in 2015/16 to 4.53% in 2016/17. Our CTA measure does not include notional balances i.e. expected housing benefit payments from Local Authorities.

Re-let days (days)



Our performance on re-let times remains strong, we rank 2nd in the group.

13. Our People

We continue to invest in our people, further developing our leadership and management capability, providing a range of new flexible on-line benefits and to engender a culture of engagement, giving colleagues a voice about the things that matter to them.

We launched our Leadership Academy so that existing and future leaders, frontline managers and aspiring managers were supported to raise the wider capability of the business. During the first year, 63 colleagues ranging from strategic and operational leaders and frontline managers have commenced or completed the programme. The impact on the business has been to place a much greater emphasis on performance and value for money across all areas of the organisation. It has been instrumental in enabling us to sustain and improve business performance during a period of significant change.

Savings have been realised through developing our portfolio of e-learning products with 83 new e-learning modules developed and implemented. 1,079 colleagues completed e-learning within a 9-month period; the 'classroom' equivalent would have taken 18 months to deliver to the same number.

Our colleague representatives (Partners) have been very busy this year. They have played a key role in launching and aiding the understanding of our Fit for The Future corporate strategy through assisting the business in its effective communication through a series of face to face briefings. Our Partners now routinely attend Executive Board and senior management meetings, this allows our senior managers to link directly with the voice of the business and share information. In attending these meetings colleagues become aware that Partners can have an impact and should be encouraged to work with the Partnership Council.

We also had our first annual recognition awards event and a range of colleagues and teams won awards centred around our core values and recognising those who go above and beyond their roles during the course of their work.

We launched our on-line benefits platform which enables colleagues to access a range of voluntary benefits. As a result of this we have seen colleagues take up a range of benefit options to suit their lifestyles. During the course of the year 273 different types of benefits were taken up, ranging from cars, cycle to work scheme, mobile telephones and electronic gadgets amongst other things.

We continue to invest in our people, further developing our leadership and management capability, providing a range of new flexible on-line benefits and to engender a culture of engagement, giving colleagues a voice about the things that matter to them.

14. Delivering Social Value

How we demonstrate Social and Environmental value

Our work to provide high quality housing and support services is underpinned by our continued commitment to deliver social value. Midland Heart works with a number of local partners across our region to create opportunities or bring about mutually beneficial outcomes for both 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 Midland Heart 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, we:

- Created 14 apprenticeships through the Midland Heart apprenticeship programme and engagement with our supply chains
- Given employment support opportunities to 117 individuals through Midland Heart and our supply chains
- Supported 740 customers to have face-to-face money advice support
- Released 10 employees to mentor in a Birmingham school
- Delivered 130 life skills sessions to support customers with healthy eating and to learn to cook
- Through engaging our supply chains we packed over 200 gift boxes for those experiencing homelessness this Christmas

In addition, Midland Heart was awarded a £4m contract to deliver Supported People services in Birmingham in 2014. As part of this, we signed up to the Birmingham Business Charter for Social Responsibility, and our social value work is delivered within the principles of the Charter.

We successfully completed our commitments for the Birmingham Business Charter for the second year and have a number of new commitments that we have made for 2017.

Demonstrating Environmental Value

In 2016/17 Midland Heart was awarded a Gold Standard award, recognising the work and investment made into our customers' homes, helping them to conserve fuel, assist in reducing fuel poverty and sustaining affordable tenancies. Midland Heart was also nominated in the 'Most Improved Organisation' category.

In delivering this programme Midland Heart:

- Delivered £6m of fully funded home energy improvements to over 4,000 customer homes
- Engaged 75% of customers in home energy advice via our contractors
- Increased our Energy Rating across our stock assisting future lettings
- Increased recycling facilities at our offices
- Introduced regular monitoring of office energy use that led to improvements, for example, the installation of LED lighting in the main office
- Introduced a cycle to work scheme
- Increased sustainable materials used in asset repairs and planned programmes

Securing £6 million of external funding to help our customers out of fuel poverty and make older solid wall properties meet current day standards has been a great achievement which has assisted in helping to ensure that our portfolio meets customer needs and expectations for the future.

15. Development

Social Enterprise Value

Each year we measure our Social Enterprise Value (SEV) which is the difference between the rents we charge our customers and the equivalent market rates. In 2016-17 our average social rents were 65% of market rents (2015-16: 68%) across our 23,766 socially rented properties, demonstrating an improved performance from 2015-16. By translating this into an annual saving to our customers, we can report £59m savings (2015-16: £51m).

In addition to our general rented accommodation we also provide specialist supported housing which is focussed on enabling customers to live independently. These services are centred around older persons housing and homeless accommodation, accounting for 15% of our total homes. Whilst the specialist nature of these services means they do carry higher costs than traditional rented housing, these costs are recovered through service charges.

The 2016-2017 financial year was another successful period for building new homes with the continuation of our funded programmes through the Homes and Communities Agency and investment in the development team to ensure we are adequately resourced to fulfil our forward commitments.

It was also a busy year for new business activity as we continue to grow our pipeline in order to meet one of the main objectives from our Fit for the Future Corporate Plan 2016-20, which is to build as many homes as we can, consistently being in the top 20 nationally for building affordable and social rented homes. This will see Midland Heart building over 2,250 new homes in the next 5 years.

2016-2017 was also a year of innovation where we built affordable homes through 'off site manufacture' with a modular house builder in Coventry.

We also finished the year on a particular high by entering into a contract with one of our partner developers to build 395 new homes in the heart of Leicester through a joint venture arrangement over the next two years. This is across three prominent brown-field sites in the city with a mix of tenures to meet the needs of the local community. The joint venture was critical in enabling the project which was supported by funding from the Homes and Communities Agency.

We continue to focus our development activity in key local authority areas across the West and East Midlands where we can maximise operational efficiencies and achieve better value for money.

Year at a Glance:

2016-2017

Homes Completed	147
Costs	£22,068,063
Grant Received	£5,061,000
Recycled Capital Grant Fund committed	£6,761,626
Disposal Proceeds Fund committed	£279,000

Risk Management

The Group, like all businesses, is exposed to a number of risks which may have material and adverse effects on its reputation, performance and financial position.

The Group's risk management process is described below; it seeks to identify the key risk factors that may have a material impact on the Group and to manage them appropriately. The risk factors cover financial, operational and reputational risk. They include:

Risk Factor	Management Actions to Mitigate Risk
Financial Negative impact of Local Housing Allowance on rents, especially in Supported Housing.	Financial modelling done and considered by Board to determine required management actions. Effective and sustainable allocations policy and income collection processes deployed.
Adverse impact on financial plan of possible continued rent reduction post 2020.	Fit for the Future change programme implemented which has delivered reduced costs. Record surplus in 2016/17 will help to ride out future financial shocks. Multi-variate testing of Financial Plan done and reported to Board for required corrective actions to be identified.
Adverse impact on rents of Universal Credit (UC) and Welfare reform.	Specific reporting to Board of number of customers affected by UC and Welfare Reform and the impact of this cohort on arrears, with specific provision made in budget for anticipated impact on income. Proactive action from Income Team in contacting customers at risk of arrears and of Money Advice Team in helping customers to improve their financial management.
Mark to Market (MTM) – Not being able to meet derivative calls.	Regular monitoring of MTM position and reporting to Finance and New Business Committee (FNBC)/Board. Strong liquidity, available loan facilities and security provide comprehensive mitigation against worsening MTM position.
Change Failure to embed internal change causes adverse movement in operational or financial performance.	Programme management controls and governance in place over change programmes via Programme Board and Project Steering Groups. Formal benefits realisation evaluation approval in place. Measure staff engagement to identify any pockets of lower morale.

Risk Factor	Management Actions to Mitigate Risk
Development Inability to meet development targets.	Oversight of new build projects in Finance and New Business Committee. Ongoing review of viability of different tenures, in light of Local Housing Allowance (LHA), Universal Credit and Welfare Reform. Monitoring of sales position and forward development strategy manages sales risk by Board having agreed maximum share of new build tenures represented by sale units.
Growth Development of business affected by reduced finance availability	Long-term financial planning done and discussed at Board, including management actions required to improve availability of finance. Cash flow monitored and reported to FNBC. VFM Strategy delivers progressively improved Value for Money to further improve surplus. Identification and divestment of low performing assets to improve average return on assets. Finance golden rules ensure strong fiscal discipline. Increase in surplus budgeted for 17/18 to help ride out future financial challenges.
Care Causing serious harm or neglect to a customer.	Operation of robust safeguarding and operational policies, procedures and practices by all Care and Support staff (including agency) who come into contact with or have access to information on vulnerable and/or challenging customers. Induction and training of staff. Customers have individual risk assessed care/support plans where required. Annual internal inspections, service improvement plans and external inspections. Ongoing regular programme of work and reporting to maintain compliance in relation to fire, gas, asbestos, legionella. Health and Safety (H&S) team workplan aimed at improving awareness of H&S risk, via training, inspections and dissemination of risk alerts.

The Midland Heart Board has overall responsibility for risk management and the system of internal control within Midland Heart. The Audit and Risk Committee reviews the systems in place to identify and manage risk. The Group uses an Enterprise-wide Risk Management (ERM) framework in order to support the identification and management of risk.

ERM is a strategic process which enables an organisation to identify, measure and manage the entire range of business opportunities and risks. Effective ERM increases the probability of success and reduces both the probability of failure and the uncertainty of achieving the Group's overall objectives, and it is therefore a key part of Midland Heart's system of internal control.

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 regard both to the functional risk registers, the risks arising from the Group's Corporate Strategy and Plan, and the Homes and Communities Agency's views on sector risk, the Group has identified its key corporate risks, which are actively managed and monitored by the Group.

To ensure there is effective ownership of risk within each functional area of the business, a meeting of Directorate Risk champions takes place regularly, comprising senior representatives from each functional area of Midland Heart. This helps to ensure that ERM is embedded in the systems and processes used by each business unit and also ensures that there is local sponsorship of/support for ERM in all parts of the business.

Following the Grenfell Tower fire in June 2017, Midland Heart has reviewed fire risks related to its stock, at the same time as responding to requests for information about fire risks from Department for Communities and Local Government (DCLG) and local authorities.

Midland Heart has no high rise tower blocks, but does have a number of medium and low rise blocks. All fire risk assessments for these blocks are up to date. We have been asked by DCLG to check for ACM type cladding on Medium rise blocks and only one has cladding of the type reportedly used on Grenfell Tower, although this only affects one storey of one part of the building we will be removing/making safe the cladding shortly.

We will continue to be vigilant and proactive in managing fire risks and employ full time staff with expert knowledge of fire risks to lead on this work. We will continue our existing practice of identifying fire risks and where necessary quickly making the investment required to ensure that building is safe.

It seems likely that changes will be made to legislation and fire service guidance related to fire risk management and we will monitor these and promptly respond. Whilst the profile of our stock (no high rise blocks) means that we are likely to be less affected by such changes than some registered providers, the financial strength of Midland Heart means that we are well placed to make any necessary further investment in our buildings.

Corporate Governance Report

Corporate Governance

Midland Heart is committed to the principles of good corporate governance and to achieving high standards of business integrity, ethics and professionalism across all of our activities. We have adopted a Code of Conduct setting out the values we expect our staff and Board/Committee members to adopt in carrying out Midland Heart's business.

The Board previously resolved that Midland Heart would adopt the National Housing Federation (NHF) Code of Governance as the code against which it would measure its governance practices to provide governance assurance to stakeholders.

The NHF Code (which was updated and reissued in February 2015) contains a broad range of governance measures for the Board to address in relation to such matters as:

- Constitution and Composition of the Board
- Essential Functions of the Board and Chair
- Board Skills, Renewal and Review
- Conduct of the Board and Committee Business
- The Chief Executive
- Audit and Risk
- Conduct, Probity and Openness

The Board has reviewed its compliance with the Code and confirms it complies with all of the provisions.

During the year we have completed the implementation of a number of improvements to our system of governance in line with recommendations received from our advisers, Price Waterhouse Coopers (PWC).

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. The Board delegates specific responsibilities to a number of Committees of the Board under Terms of Reference approved by the Board.

As at 31 March 2017, there were 10 Board Members, of whom 9 are non-executives and 1 is an executive officer, as shown at the beginning of this report. Recruitment to the Board takes place as appropriate to maintain orderly succession to the Board 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 business of governing Midland Heart. Executive Directors attend all Board meetings and members are provided with appropriate papers and information in advance of all Board and Committee meetings.

During 2016, the Board commissioned an independent review of board composition and governance structure which was delivered by PWC, Board and the overall governance system within Midland Heart and concluded that:

In view of the advice given by PWC:

1. The Board will recruit three new NEDs in 2017, to replace 4 members due to step down in 2017 and one in 2018.

2. The Board composition will change in September 2017 from 9 Non Executives and 1 Executive member to 7 Non Executives and 3 Executive members.

3. Operations Committee will replace the Customer and Communities and Care and Support Committees with effect from 1st April 2017.

4. The responsibilities of Governance and Search Committee will be assumed by the Board and other Committees in September 2017, whereupon Governance and Search (G&S) Committee will cease to exist.

At 31 March 2017 the Board had six committees and a Pensions sub-group and operates one property owning subsidiary, Cygnet Property Management plc.

Audit and Risk Committee

The Committee is responsible for five key areas, delegated to it by the Board 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.

In addition to exercising oversight of these areas, the Committee also considered items related to:

- Business Continuity/Resilience
- Data Protection/Information Governance
- Directorate Assurance Planning
- Review of Standing Orders
- Cyber Security

It is chaired by Anna East.

Finance and New Business Committee

The Finance and New Business Committee is responsible for overseeing the finances of the Group, agreeing treasury strategy and controls and approving new loan facilities and interest rate risk management arrangements up to a defined value. It is also responsible for appraising and approving new business opportunities with a capital value of up to £20m.

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

- Plans to optimise Treasury arrangements so as to reduce risks and costs
- Delivery plans for planned investment in our stock
- Overseeing our Income collection operations, including managing changes in welfare benefits, including the introduction of Universal Credit
- Checking covenant compliance
- Detailed review of long term financial plan, including assessing adequacy and comprehensiveness of stress testing
- Overseeing delivery of our development Programme and targets, and ensuring that funding is in place for this.

It is chaired by Greg Croydon.

Remuneration and Executive Selection Committee

The Committee is responsible for establishing remuneration packages for executive directors, based on advice received from external remuneration consultants, assessing their performance and selecting new executive directors. It also reviews the Group's pension arrangements and staff remuneration strategy and reviews succession planning arrangements for senior management.

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

- Review of options to manage long term pensions liabilities
- Appraisal of CEO and Executive team
- Annual pay review for CEO and Exec team
- Plans for new Leadership Academy
- Review of approach to Succession Planning

It is chaired by Martin Tiplady.

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 pensions issues and risks facing Midland Heart and in relation to future Pensions Strategy. It receives independent advice from a firm of pensions actuaries.

Governance and Search Committee

This Committee is responsible for succession planning for Midland Heart's Boards and Committees and for recommending new appointees to the Board. It is responsible for recommending what the remuneration should be for non-executive directors and for the members of the Board Committees. It also carries out the annual appraisal of the Chair and of all Boards and Committees within Midland Heart, and reviews and reports to the Board on overall governance effectiveness.

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

- Approval of plans for Board, Committee and Chair appraisal
- Board and Committee succession planning
- Review of progress made against Governance improvement plan
- Review of compliance against NHF Governance Code
- Review of board skills required to support delivery of our Corporate Strategy to 2020
- Review of Committee structures required to support delivery of Corporate Strategy
- Annual pay review for Board and Committees

It is chaired by Karl George.

Customer and Communities Committee

This Committee is replaced by the newly formed Operations Committee on 1st April 2017. The old Committee's prime purpose was to carry out performance monitoring and review and to ensure that the customers' views on Midland Heart's performance are being properly heard and translated into management action by Midland Heart through strategies and policies.

It is chaired by Martin Tiplady.

Care and Support Committee

This Committee is replaced by the newly formed Operations Committee on 1st April 2017. The old Committee's prime purpose was to carry out performance monitoring and review and to ensure that the customers' views on Midland Heart's performance are being properly heard and translated into management action by Midland Heart through strategies and policies.

Cygnet Property Management plc

Cygnet oversees the acquisition and management of a small portfolio of properties for market rent. Surplus generated from this business is gift aided to Midland Heart. As a non-charitable operating subsidiary of the Midland Heart Group, Cygnet has its own external funding arrangements, separate from those used by Midland Heart, and operates through a separate legal entity.

Some of the areas considered by the Cygnet Board were:

- Risk management
- Stock condition survey
- KPI performance

It is chaired by Peter Pawsey.

As of 1st April 2017, the Operations Committee has become part of Midland Heart's governance structure, assuming the governance responsibilities of the former Customer and Communities and Care and Support Committees. The new Committee's main responsibilities are as follows:

- Oversight of the effectiveness of our customer engagement and customer scrutiny
- Performance oversight and checking that services deliver positive outcomes for customers
- Policy development and approval (customer facing policies)

Executive Board

The Board of Midland Heart delegates the day-to-day operation of the business to the Executive Board, chaired by the CEO, Ruth Cooke.

Customer Involvement

Midland Heart aims to be fully accountable to its customers and to involve as many as possible in the review, development and continuous improvement of our services.

We have therefore put in place a robust framework of Scrutiny and Oversight led by our customers. Customers are also involved in procurement of major contracts and have a central role in decision making with 5 Customer Members represented on the Operations Committee of the Main Board. To enable customers to fully engage and contribute effectively to the governance of Midland Heart, we have developed a training suite of both accredited and non-accredited courses which have been extremely well received by our customers. To support our co-regulatory approach each year customers are engaged in assessing compliance with HCA consumer standards.

Our ambition in this area is high and we will continue to innovate in order to ensure that every customer has interesting, effective and inclusive ways to make their voice heard.

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 that systems of internal control are established and maintained, and that 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 mis-statement or loss.

In reviewing the system of internal control in operation in Midland Heart, the Board takes assurance from the following practices or elements of Midland Heart's control framework.

Control system	**Contribution**
Governance arrangements	The Group's governance arrangements as described in this report provide regular and significant oversight of and scrutiny over the business and its performance.
Terms of Reference for the Audit and Risk Committee	Provides for a detailed system of scrutiny and checking of the effectiveness of management processes using both internal and external sources of assurance.
Standing Orders	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.
Performance information - non financial (e.g. key performance indicators)	Regular reporting of operational performance information at Board, Committees, Executive Board and divisional levels allows 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 Fit for the Future change programme.
Performance information – financial (e.g. management accounts and budget reports)	Regular reporting of financial performance information at Board, Committees, Executive Board 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 Fit for the Future change programme.

Control system	Contribution
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. Transactions with a capital value in excess of £5m are approved by a forum with a majority of non-executives.
Management and independent assurance	Specific audit checks (both internal and external) are carried out to provide assurance that performance information is accurate and that policies and procedures are being complied with, and to identify areas for improvement. The outcomes of these checks are reported to Audit and Risk Committee who, in turn, report to the Board.
Quality assurance reports	These look at specific areas of operational performance in our customer services, and the outcome of these are reviewed at Executive Board and Audit and Risk Committee.
Regulatory Standards Compliance	An annual report provides evidence of compliance against the HCA Regulatory Standards which is reviewed by the Board and enables the Chairman, on behalf of the Board, to certify compliance against the Regulatory Standards.
Health and Safety risk monitoring	A Health and Safety Committee meets regularly in each customer facing business unit to monitor the extent to which Midland Heart is meeting its Health and Safety responsibilities. Reporting of Health and Safety key performance indicators and review of risks and controls occurs at each meeting of Executive Board, Audit and Risk Committee and the Board to determine if Health and Safety Risks are being adequately managed.

Statement on Internal Control

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

- The internal auditors who expressed this opinion in the 2016-17 Internal Audit Annual Report.
- The external auditors who gave an unqualified opinion on the 2016-17 Financial Statements.
- The fact that Midland Heart's financial controls have shown themselves to be effective, a view supported by Midland Heart's financial performance in 2016-17 which delivered a greater than budgeted surplus.
- A Group-wide risk management function which seeks to proactively manage risk so as to avoid any serious damage or impact to the Group, its customers or its assets. This includes a formal requirement to report on risk and how this will be mitigated in relation to new business and major development initiatives.
- The ongoing monitoring and scrutiny of Midland Heart's Assurance framework by both the Executive Board and the Audit and Risk Committee. The key elements of the assurance framework are detailed in the list below:

  - Internal audit
  - External audit
  - Care Quality Commission annual inspection programme
  - Supporting People inspections by Local Authorities
  - Homes and Communities Agency annual audit of development programme performance
  - External funder reviews and annual financial/governance reviews by credit rating agency - Moodys
  - Internal Quality Assurance frameworks
  - Health & 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
  - Business continuity planning and disaster recovery planning and externally led testing of these plans
  - Fraud reports, including annual fraud report to the Housing Regulator, HCA
  - Ad hoc audit reviews
  - Whistleblowing reports
  - Homes and Communities Agency Regulatory Judgement

- Formal policies and procedures are in place. This includes the Standing Orders which document the key systems and rules relating to the delegation of authority. This provides for the monitoring of controls and prohibits the unauthorised use of assets.
- Experienced and suitably qualified staff take responsibility for important business functions and the key outcomes of their work are monitored by the Executive Board. Annual appraisal procedures are established for all staff to assess their performance and to set targets for their work for the forthcoming year.
- Internal audits are carried out in an audit programme focusing on the areas of highest risk within the business. This is an outsourced service which in 2016/17 was delivered by our advisers, Grant Thornton. These are determined by the Audit and Risk Committee annually by reference to a rolling 3-year programme which aims to ensure all key risk areas are audited at least every 3 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, with the Committee subsequently checking that this has been done in a timely and effective way.

- 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 internal auditors on the effectiveness of the system of internal control for the year ended 31 March 2017. No significant weaknesses were found in the internal controls that resulted in material losses, contingencies or uncertainties that require disclosure in the Financial Statements or in the Auditors' Report on the Financial Statements.

HCA Regulatory Standards Compliance

For Financial Years from April 2015, Registered Providers are required by the Homes and Communities Agency to assess their compliance with the HCA's Governance and Financial Viability Standard. The Board has considered Midland Heart's compliance with such standards and in line with the requirements of the HCA hereby certifies that Midland Heart complies with such standards.

Voluntary Right to Buy Agreement

The Board previously approved a resolution to enter into a voluntary agreement with Government to implement the Government's Right to Buy policy. The Board has decided that it intends to replace RtB properties sold to tenants on a 1:1 basis. It is not known when RtB will be fully rolled out, though it is anticipated that the Midlands will be selected for an RtB pilot to commence during 2017.

Mergers and Partnerships

The Board decided in February 2016 to adopt the NHF 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:

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

The following set of key principles will act as a guide for Midland Heart's approach towards Mergers and Partnerships (M&P).

- 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 M&P activity is in the best interest of our current and future beneficiaries
- We will not enter into any M&P activity which would represent poor value for money for Midland Heart
- We cherish our unitary structure and believe it to be the most efficient means to deliver our services. Whilst M&P activity may alter our structure in the short term, we would return to a unitary structure over time
- We believe that M&P activity is most likely to arise with fellow housing associations within the greater Midlands area

Statement on Internal Control

We will evaluate potential partners for M&P 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 2017.

Principal activities

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

Legal Entity Structure

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

Legal Entity and Operating Structure - April 2017

CYGNET PROPERTY MANAGEMENT PLC
(Market Rent Subsidiary)
Operating Business

- Registered at Companies House
- Co Reg No. 02631685
- Non-Charitable
- Owns Market Rented property
- Wholly owned by Midland Heart
- Borrowings: £3.075m (discrete borrowings from Handelsbanken)
- Assets: 115 market rent properties (Valued at £11.3m) and £6m Equity investment from MHL. No parental guarantee from MHL to Cygnet.

MIDLAND HEART LTD
(Main Operating Business of Group)

- Owns all the property assets within the Group (except Cygnet properties)
- Has charitable status
- Registered Society (No. 30069R)
- Registered with Homes and Community Agency L4466
- Assets: 33,000 units
- Borrowings: £569m (total group borrowings)

MIDLAND HEART DEVELOPMENT LTD
(VAT mitigation Company)

- Registered at Companies House
- Co Reg No. 05743218
- Non-Charitable
- Wholly owned by Midland Heart
- Assets: Nil
- Borrowings: Nil

MIDLAND HEART CAPITAL PLC
(Capital Markets Vehicle)

- Registered at Companies House
- Co Reg No. 8159931
- Non-Charitable
- Group's Bond Finance Vehicle
- Wholly owned by Midland Heart
- Assets: Nil
- Borrowings: included in Midland Heart figure

PRIME FOCUS REGENERATION GROUP LTD

- Non Operating Subsidiary
- Owns Midland Heart Headquarters Building
- Assets: £10.4m
- Borrowings: £6.3m

PRIME FOCUS FINANCE LIMITED
(Funding Vehicle)

- Non-Operating Subsidiary of PFRG
- Borrower under pre-2006 Merger
- Loan Agreement with Nationwide Syndicate.
- Borrowings: £144.5m (included in Midland Heart figure) (secured against 5652 properties)

Note – Touchstone Extra Care Limited (Former Joint Venture Vehicle) was dissolved on 27.10.15.

Statement on Internal Control

Business review
A review of the operational and financial performance of Midland Heart for the year ended 31 March 2017 can be found in the strategic review on page 12

Income and surplus for the year
The Group's activities generated turnover for the period of £206m (2016: £207.9m) on which a surplus of £39.8m (2016: £27.5m) was achieved. At 31 March 2017, revenue reserves totalled £251.8m (2016: £212m).

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 Financial Review.

Equality and diversity
For Midland Heart, equality and diversity has always been at the very core of our work in meeting the needs of the diverse communities which we serve. It sits at the heart of the Group's efforts to promote community cohesion, regenerate disadvantaged communities and encourage social inclusion. This applies to the quality of homes we develop, how we recruit and manage people and, crucially, the services we provide.

We do not make any assumptions about what people want, but we will recognise and respond to individual needs. We aim to ensure that our policies and practices reflect the needs of our customers, staff and communities.

We encourage applications from all groups within the community to ensure that the workforce employed reflects the diversity of the population and customers we serve. In 2013, Investors in Diversity awarded Midland Heart the accreditation of "Excellence in Diversity".

The Board approved an updated Diversity Strategy during 2016/17. The aim of the strategy is to mainstream diversity so that it is embedded across all areas of Midland Heart. There are three workstreams arising from the strategy which are as follows:

- Developing diversity
- Valuing diversity
- Celebrating diversity

When recruiting to our Board we actively reach out to those groups under-represented on our Board (especially Women and BME candidates) so as to encourage applications from these groups.

Midland Heart intends to comply with the Parker review recommendations relating to BME representation on Boards: that we will have at least one director of colour at all times.

Modern Slavery Act
This statement has been published in accordance with the Modern Slavery Act 2015. It sets out the actions Midland Heart has taken to combat slavery and human trafficking in our operations and supply chains for the financial year 2016–2017. Details about our business size and structure can be found in the Strategic review and the business review elsewhere in these Financial statements.

Policies
Midland Heart's Governance and Control Framework outlines the systems, processes, culture and values that provide Midland Heart with a robust structure to ensure high quality, effective decision-making in all areas of strategy, performance, responsibility and accountability. To demonstrate our commitment to our obligations, our approach to prevent slavery and human trafficking is included in this key document.

During 2016 – 2017 the following documents were published and are relevant to our approach in combatting modern slavery:

- Whistleblowing Policy – Specifically encourages Midland Heart staff, customers and other business partners to report any concerns related to the direct activities, or supply chains of the organisation including those that may give rise to risk of slavery and human trafficking.
- Standard employment terms and conditions which set out the rights of employees aimed at ensuring fairness and respect towards our staff.

In addition, the following relevant documents were also reviewed in the period and are planned for publication in the forthcoming financial year:

- Safeguarding and Wellbeing Policy
- Code of Conduct

Due Diligence: Mitigating Risk in Supply Chains

The following steps demonstrate Midland Heart's due diligence in identifying areas of risk and the measures we have taken to manage risks posed:

- Our Procurement Pre-Qualification Questionnaire includes questions related to modern slavery and human trafficking to identify and mitigate risk in supply chains.
- Our standard Terms and Conditions require suppliers to agree to a modern slavery clause.
- Midland Heart is a signatory of the Birmingham Business Charter for Social Responsibility. Our 2016 – 2017 action plan related to the charter included revising our Procurement Strategy to incorporate an ethical procurement element and communicate this to relevant teams.

Effectiveness

Each of our key policies that reference Modern Slavery detail reporting measures and performance indicators. These measures provide assurance on policy effectiveness and highlight where improvements can be made.

Our Contract Management Framework is the means by which we monitor and performance manage our contractors. All suppliers procured since April 2016 have confirmed their adherence to the Modern Slavery Act.

The new clauses to Midland Heart's Contract Management Framework implemented in 2015 – 2016 relating to the Modern Slavery Act have been successfully embedded within all new contracts with no challenges from suppliers. The response to date has been a positive one.

Training

The updates to the key documents and frameworks noted in this statement have been formally communicated to staff.

Since 2016 we can confirm that modern slavery is now part of the Safeguarding Training we provide to operational staff. During this financial year we have also started to source an e-learning module on modern slavery that will provide all staff with greater awareness and understanding of modern slavery and what they should do if they have a concern.

The Midland Heart Board approved this statement on 29th July 2017 and it is signed by the accountable lead, our Executive Director of Governance & Contracts and Company Secretary.

Health and Safety

Midland Heart is committed to ensuring and maintaining the health, safety and welfare of its staff, customers, contractors, partners and members of the public who may be affected by its activities. This is achieved through continuous application and monitoring of our Health and Safety Policy and Management System, by training and raising awareness of Health and Safety risk among our staff and customers, and by conducting audits, inspections and investigations. We adopt a practical approach to the way we manage health and safety performance whilst supporting our customers to live independent lives within our communities with the aim of promoting safer environments in everything that we do.

Statement on Internal Control

Health and Safety risks are identified and regularly reviewed and, where required, staff are supported by technical specialists, for example fire risk assessments are completed by fire risk assessors, who also ensure that any work identified in such assessments is carried out in a timely way and is prioritised for action on the basis of risk.

The Executive Board together with the Audit and Risk Committee and Board receive regular reports on a number of measures, which include details of the organisation's risk profile and audit activity, accidents at work and health and safety incidents, in order to assess the Group's performance on health and safety issues and identify any areas for improvement.

Investment for the Future

Midland Heart is committed to investing in our properties and the communities in which we serve. During the year we invested £17.1m (2016: £23.7m) 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 our core operational area. Proceeds from these properties are used to fund development of properties within our core area.

Policy on payment to suppliers

Midland Heart is committed to paying suppliers in line with the payment terms agreed with those suppliers.

Environmental Matters

Midland Heart is committed to doing business in a sustainable way. We strive to meet exacting environmental standards for all of our new Homes and Communities Agency funded developments. We are continuing to develop our approach to sustainability in respect of our customers, our people and our buildings and arrange our environmental standards by reference to the 'Environmental Strategy' which sets out ambitious plans for organisational sustainability to 2020.

Employee involvement and consultation

Our people strategy aims to achieve competitive advantage by recruiting, rewarding, developing and retaining talented staff who are actively involved in running the business.

We have developed roles for staff partners and advocates who consult with employees on formal and other matters. We have formed a Partnership Council made up of representatives of the Executive team and staff partners elected by staff in their part of the business. This meets to discuss key business issues several times each year and Partners also attend some meetings of the Executive Board. We keep staff fully informed through our communications strategy which includes briefings and roadshows, social media, staff conferences and surveys to gain full and open feedback. This approach enables employees to openly question senior management about how we run our business, and actively encourages ideas and innovation from our staff.

We encourage best practice in employment and we provide leadership and management development programmes to build talent and support managers to understand fully the implications of employment legislation.

Auditors

KPMG LLP are auditors to the Group. They have indicated their willingness to continue in office and resolutions for their re-appointment and to authorise the Directors to determine their remuneration will be proposed at the AGM on 29 September 2017. The auditors' fees for audit and non-audit work are disclosed in note 9 to the financial statements.

Directors' responsibilities

The Statement of Directors' responsibilities in relation to the financial statements is set out on page 51

Going Concern

The Board has considered those areas that could give rise to significant financial exposure and are 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 an efficiency programme which has realised savings which have fully mitigated this risk.

Midland Heart has 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 Compliance

The Directors confirm that this Strategic Review has been prepared in accordance with the principles set out in the Housing SORP2014 Statement of Recommended Practice for registered social housing providers.

Statement of Directors' responsibilities in respect of the Directors' Report and the financial statements

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

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

The financial statements are required by law to give a true and fair view of the state of affairs of the Group and the Association and of the income and expenditure of the Group and the Association for that period.
In preparing these financial statements, the Directors are 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the association will continue in business.

The Directors are 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 2015. The Directors have 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 Directors are 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, so 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 as a Director 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

Andrew J Foster

Andrew Foster
Company Secretary
28 July 2017

John Edwards CBE
Chairman
28 July 2017

Independent auditor's report to Midland Heart Limited

We have audited the financial statements of Midland Heart Limited for the year ended 31 March 2017 set out on pages 54 to 105. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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

Respective responsibilities of the Board and auditor

As more fully explained in the Statement of Board's Responsibilities set out on page 54, the association's Board is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the Group and the Association as at 31 March 2017 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 properly prepared in accordance with the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Matters on which we are required to report by exception

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

- the association has not kept proper books of account; or
- the association has not maintained a satisfactory system of control over 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.

Harry Mears
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH


midland
heart

Group Statement of Comprehensive Income

for the year ended 31 March 2017

	Note	2017 £'000	2016 £'000
Turnover	3	205,978	207,922
Operating expenditure	3	(140,194)	(147,162)
Operating costs - pension deficit		-	(9,342)
Surplus on disposal of property, plant and equipment	6	2,662	3,482
Surplus on revaluation of investment properties	11	1,170	845
Operating Surplus	**3**	**69,616**	**55,745**
Interest receivable	7	648	1,131
Interest and financing costs	8, 25	(30,380)	(29,413)
Surplus before Tax	**9**	**39,884**	**27,463**
Taxation	10	(100)	-
Surplus for the year		**39,784**	**27,463**
Other comprehensive income			
Movement in fair value of cash flow hedged financial instruments	24	(2,891)	(5,230)
Total comprehensive income for the year		**36,893**	**22,233**

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

These financial statements were approved by the Board of Directors on 28 July 2017 and signed on its behalf by:

Member	Member	Member
John Edwards	Anna East	Ruth Cooke

Association Statement of Comprehensive Income

for the year ended 31 March 2017

	Note	2017 £'000	2016 £'000
Turnover	3	205,985	207,012
Operating costs	3	(139,831)	(147,083)
Operating costs - pension deficit		-	(9,342)
Surplus on disposal of property plant and equipment	6	2,666	3,417
Operating Surplus	**3**	**67,820**	**54,004**
Interest receivable	7	648	1,131
Interest and financing costs	8, 25	(30,251)	(29,213)
Surplus before Tax	**9**	**38,217**	**25,922**
Gift Aid receivable		19	695
Taxation	10	-	-
Surplus for the year		**38,236**	**26,617**
Other comprehensive income			
Movement in fair value of cash flow hedged financial instruments	24	(2,891)	(5,230)
Total comprehensive income for the year		**35,345**	**21,387**

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

These financial statements were approved by the Board of Directors on 28 July 2017 and signed on its behalf by:

Member	Member	Member
John Edwards	Anna East	Ruth Cooke

Group Statement of Financial Position

as at 31 March 2017

	Note	2017 £'000	2016 £'000
Fixed Assets			
Tangible Assets:			
Housing properties	12	1,468,258	1,461,609
Investment properties	11	14,463	11,300
Other Fixed Assets	13	30,101	28,182
Fixed Asset investments	14	3,017	3,639
Total Fixed Assets		**1,515,839**	**1,504,730**
Debtors	16	13,012	13,174
Investments	17	595	632
Properties for sale and work in progress	18	2,862	2,171
Cash and cash equivalents	19	67,939	38,628
		84,408	**54,605**
Creditors: Amounts falling due within one year	20	(74,739)	(56,764)
Net Current Assets/(Liabilities)		**9,669**	**(2,159)**
Total Assets less Current Liabilities		**1,525,508**	**1,502,571**
Creditors: Amounts falling due after more than one year	21	(1,350,109)	(1,364,065)
Total Net Assets		**175,399**	**138,506**
Reserves			
Revenue reserves		251,796	212,012
Cash flow hedge reserve		(76,397)	(73,506)
Total Reserves		**175,399**	**138,506**

These financial statements were approved by the Board of Directors on 28 July 2017 and signed on its behalf by:

Member	Member	Member
John Edwards	Anna East	Ruth Cooke

Association Statement of Financial Position

as at 31 March 2017

	Note	2017 £'000	2016 £'000
Fixed Assets			
Tangible Assets:			
Housing properties	12	1,472,007	1,465,358
Other Fixed Assets	13	21,568	19,435
Investments	14	3,017	3,639
Investments in subsidiaries	15	6,067	6,067
Total Fixed Assets		**1,502,659**	**1,494,499**
Current Assets			
Debtors	16	13,080	13,880
Investments	17	595	632
Stock and Work in Progress	18	2,862	2,171
Cash and cash equivalents	19	66,978	37,307
		83,515	**53,990**
Creditors: Amounts falling due within one year	20	(74,696)	(57,655)
Net Current Assets/(Liabilities)		**8,819**	**(3,665)**
Total Assets less Current Liabilities		**1,511,478**	**1,490,834**
Creditors: Amounts falling due after more than one year	21	(1,340,516)	(1,355,217)
Total Net Assets		**170,962**	**135,617**
Reserves			
Revenue reserves		247,359	209,123
Cash flow hedge reserve		(76,397)	(73,506)
Total Reserves		**170,962**	**135,617**

These financial statements were approved by the Board of Directors on 28 July 2017 and signed on its behalf by:

Member	Member	Member
John Edwards	Anna East	Ruth Cooke

Group Cash Flow Statement

for the year ended 31 March 2017

	Note	2017 £'000	2016 £'000
Cash flows from Operating Activities			
Operating Surplus		69,616	55,745
Adjustments for:			
Depreciation & Impairment charges		24,048	24,823
Amortisation of grant		(7,576)	(8,150)
Surplus on disposal of property, plant and equipment		(2,662)	(3,482)
Surplus on revaluation of investment properties		(1,170)	(845)
Interest received		648	1,131
Interest and financing costs (including capitalised interest)		(30,016)	(30,162)
Decrease/(Increase) in debtors		1,798	(2,002)
Decrease/(Increase) in stock		308	(4,556)
(Decrease)/Increase in creditors		(9,442)	4,472
Net Cash flow from Operating Activities		**(24,064)**	**(18,771)**
Cash Flows from Investing Activities			
Acquisition and construction of housing properties		(43,386)	(47,003)
Social Housing Grant received		12,487	1,550
Sales of housing properties		15,749	20,095
Net decrease in investments and loans to other associations		622	704
Purchase of other tangible fixed assets		(5,048)	(5,682)
Sales of other tangible fixed assets		630	-
Decrease in short term deposits		37	-
Net Cash flow from Investing Activities		**(18,909)**	**(30,336)**
Cash Flows from Financing Activities			
Loan advances received		18,180	350
Loan principal repayments		(15,512)	(20,884)
Net Cash flow from Financing Activities		**2,668**	**(20,534)**
Net Increase/(Decrease) in cash & cash equivalents	**32**	**29,311**	**(13,896)**
Cash and cash equivalents at the start of the year		38,628	52,524
Cash and cash equivalents at the end of the year		**67,939**	**38,628**

Statement of Movements in Reserves

for the year ended 31 March 2017

	Income and Expenditure Reserves £'000	Cash flow hedge reserve £'000	Total Reserves £'000
Group			
At 1st April 2015	184,549	(68,276)	116,273
Surplus for the year	27,463	-	27,463
Movement in cash flow hedge	-	(5,230)	(5,230)
At 31 March 2016	212,012	(73,506)	138,506
Surplus for the year	39,784	-	39,784
Movement in cash flow hedge	-	(2,891)	(2,891)
At 31 March 2017	**251,796**	**(76,397)**	**175,399**

	Income and Expenditure Reserves £'000	Cash flow hedge reserve £'000	Total Reserves £'000
Association			
At 1st April 2015	182,506	(68,276)	114,230
Surplus for the year	26,617	-	26,617
Movement in cash flow hedge	-	(5,230)	(5,230)
At 31 March 2016	209,123	(73,506)	135,617
Surplus for the year	38,236	-	38,236
Movement in cash flow hedge	-	(2,891)	(2,891)
At 31 March 2017	**247,359**	**(76,397)**	**170,962**

Notes to the Financial Statements

for the year ended 31 March 2017

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 Homes and Communities Agency (Registration number L4466). Midland Heart Limited is a public benefit entity.

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

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

2 Accounting policies

2a Basis of Accounting

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

Current Assets: The estimated net realisable value of properties developed for outright sale is reviewed with regard to market conditions to ensure this is higher than its carrying value. 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 profit and loss. The Group engaged independent valuation specialists to determine fair value at 31 March 2017. 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. Further details are given in note 25.

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

2b Basis of consolidation

The consolidated financial statements incorporate the results of Midland Heart Limited and all of its subsidiary undertakings as at 31 March 2017 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 Board has considered those areas that could give rise to significant financial exposure and are 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.

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

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 Income and Expenditure account in accordance with the treatment in SORP

2014. Second and subsequent tranche surpluses or deficits are shown on a net basis before operating surplus has been determined.

Depreciation

Where a housing property comprises two or more major components with substantially different useful economic lives (UELs), each component is accounted for separately and depreciated over its individual UEL. Expenditure relating to subsequent replacement or renewal of components is capitalised as incurred.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each component. Land is not depreciated. The estimated useful lives are as follows:

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

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

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

Non component works to existing properties

The amount of expenditure incurred which relates to an improvement, which is defined as an increase in the net rental stream or the life of a property, has been capitalised. Expenditure incurred on other major repairs, cyclical and day-to-day repairs to housing properties is charged to the income and expenditure account 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 2017, interest has been capitalised at an average rate of 5.0% (2016:5.2%) 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 (dependent on whether item is service chargeable)	3 to 28 years
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 profit or loss for the period.

Investments in listed company shares, which have been classified as current asset investments, are re-measured to market value at each balance sheet date. Gains and losses on re-measurement are recognised in profit or loss for the period.

Current asset investments

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

2i Social Housing and other government grants

Where developments have been financed wholly or partly by social housing and other grants, the amount of the grant received has been included as deferred income and recognised in Turnover over the estimated useful life of the associated asset structure (not land), under the accruals model. SHG received for items of cost written off in the Statement of Comprehensive Income Account 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.

Disposal Proceeds Fund (DPF)

Receipts from the sale of SHG funded properties less the net book value of the property and the costs of disposal are credited to the DPF, this creditor is carried forward until it is used to fund the acquisition of new social housing.

Properties developed for outright sale

Shared ownership first tranches 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 balance sheet 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 Income and Expenditure account. Where the agency holds the support contract with the Supporting People Administering Authority and carries the financial risk, the Income and Expenditure account includes only that income and expenditure which relates solely to the Group.

2l Loans to mutual societies registered under the Co-operative and Community Benefit Societies Act 2014

The loans were advanced to enable the societies to develop schemes for housing. The loans are categorised as long term loans.

Certain loans are either index linked by reference to the retail price index or include deferred interest. The annual increase arising from indexation or deferred interest is credited to the Income and Expenditure account in the year in which it arises. Individual loans are reviewed annually with regard to recoverability. Where necessary, provisions are made to reduce outstanding debt to the recoverable amount.

2m 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.

2n 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.

2q 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.

2r Impairment

Financial assets (including trade and other debtors)

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

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

Non-financial assets

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.

2s 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 pensions 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.

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 (a defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts). A full actuarial valuation for the scheme which was carried out with an effective date of 30 September 2014 showed a substantial deficit; to eliminate this funding shortfall, the trustees and the participating employers have agreed that additional contributions will be paid, in combination from all employers. Further details are given in Note 25 to the financial statements.

Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

The defined benefit scheme was closed to new members in October 2010. Arrangements are in place to provide a defined contribution scheme to new members. Employer contributions to this scheme are charged to the Income and Expenditure account 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.

2t Provisions

A provision is recognised in the balance sheet 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.

2v 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 the Homes and Communities Agency 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.

2w 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.

2x 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 profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Finance lease
The interest element of rental obligations is charged to the I&E 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 Income and Expenditure account 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 profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (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 profit or loss as they accrue. Dividend income is recognised in the profit and loss account on the date the company's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

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.

2y 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.

2z 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 income and expenditure 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 had 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 profit or loss. 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.

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 profit or loss 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 profit or loss 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.

Notes to the Financial Statements (continued)

for the year ended 31 March 2017

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

2017	Turnover £'000	Operating Costs £'000	Surplus on \disposals £'000	Surplus on investment properties £'000	Operating Surplus/ (Deficit) £'000
Social Housing Lettings	**175,382**	**108,020**	**-**	**-**	**67,362**
Other Social Housing Activities:					
Community regeneration activities	140	410	-	-	(270)
Development services and costs not capitalised	-	70	-	-	(70)
Surplus from 1st tranche shared ownership sales	6,112	5,356	-	-	756
Surplus on properties developed for outright sale	-	-	-	-	-
Other income	1,041	278	-	-	763
Total	**7,293**	**6,114**			**1,179**
Activities other than Social Housing Lettings:					
Charges for support services (SP income)	20,741	23,035	-	-	(2,294)
Market rent lettings	973	363	-	-	610
Student lettings	244	176	-	-	68
Nursing Homes	490	708	-	-	(218)
Commercial	338	246	-	-	92
NHS	517	774	-	-	(257)
Surplus on disposal of property, plant and equipment	-	-	2,662	-	2,662
Surplus / deficit on revaluation of investment properties	-	-	-	1,170	1,170
Other	-	758	-	-	(758)
Total	**23,303**	**26,060**	**2,662**	**1,170**	**1,075**
Total from Social and Non-Housing Activities	**205,978**	**140,194**	**2,662**	**1,170**	**69,616**

2016	Turnover £'000	Operating Costs £'000	Surplus on disposals £'000	Surplus on investment properties £'000	Operating Surplus/ (Deficit) £'000
Social Housing Lettings	**174,471**	**122,057**	**-**	**-**	**52,414**
Other Social Housing Activities:					
Community regeneration activities	-	315	-	-	(315)
Development services and costs not capitalised	-	59	-	-	(59)
Surplus from 1st tranche shared ownership sales	6,801	5,897	-	-	904
Surplus on properties developed for outright sale	735	631	-	-	104
Other income	1,068	1,491	-	-	(423)
Total	**8,604**	**8,393**			**211**
Activities other than Social Housing Lettings:					
Charges for support services (SP income)	21,816	22,734	-	-	(918)
Market rent lettings	956	358	-	-	598
Student lettings	237	135	-	-	102
Nursing Homes	557	708	-	-	(151)
Commercial	351	258	-	-	93
NHS	930	1,273	-	-	(343)
Surplus on disposal of property, plant and equipment	-	-	3,482	-	3,482
Surplus / deficit on revaluation of investment properties	-	-	-	845	845
Other	-	588	-	-	(588)
Total	**24,847**	**26,054**	**3,482**	**845**	**3,120**
Total from Social and Non-Housing Activities	**207,922**	**156,504**	**3,482**	**845**	**55,745**

Notes to the Financial Statements (continued)

for the year ended 31 March 2017

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

Particulars of turnover and operating expenditure from Social Housing Lettings

2017	General Needs Housing £'000	Supported Housing £'000	Residential Care Homes £'000	Shared Ownership Accommodation £'000	Total £'000
Rent receivable net of identifiable service charges, net of voids	110,964	21,935	39	4,619	137,557
Service charge income	5,814	15,767	4	1,084	22,669
Amortised Government Grants (Accrual model)	6,112	1,208	2	254	7,576
Net Rental Income	**122,890**	**38,910**	**45**	**5,957**	**167,802**
Other income	788	6,221	3	568	7,580
Turnover from Social Housing Lettings	**123,678**	**45,131**	**48**	**6,525**	**175,382**
Management	14,209	14,936	220	1,277	30,642
Service charge costs	6,471	15,292	249	1,002	23,014
Routine maintenance	15,928	4,799	63	133	20,923
Planned maintenance	4,834	878	54	5	5,771
Major repairs expenditure	2,328	1,733	27	14	4,102
Impairment of housing properties	-	-	-	-	-
Depreciation of housing properties	18,336	2,543	13	475	21,367
Bad debts	1,642	663	(11)	10	2,304
Holiday pay accrual	(20)	(78)	(2)	(3)	(103)
Pension deficit	-	-	-	-	-
Operating Costs on Social Housing Lettings	**63,728**	**40,766**	**613**	**2,913**	**108,020**
Operating Surplus on Social Housing Lettings	**59,951**	**4,365**	**(564)**	**3,612**	**67,362**
Void losses	(822)	(1,425)	(209)	(80)	(2,536)

Notes to the Financial Statements (continued)

for the year ended 31 March 2017

2016	General Needs Housing £'000	Supported Housing £'000	Residential Care Homes £'000	Shared Ownership Accommodation £'000	Total £'000
Rent receivable net of identifiable service charges, net of voids	110,604	23,144	684	5,097	139,529
Service charge income	5,539	15,682	4	955	22,180
Amortised Government Grants (Accrual model)	6,089	1,819	17	225	8,150
Net Rental Income	**122,232**	**40,645**	**705**	**6,277**	**169,859**
Other income	273	4,322	-	17	4,612
Turnover from Social Housing Lettings	**122,505**	**44,967**	**705**	**6,294**	**174,471**
Management	14,811	14,285	945	1,494	31,535
Service charge costs	6,712	17,014	255	726	24,707
Routine maintenance	17,227	4,726	61	81	22,095
Planned maintenance	5,724	912	18	3	6,657
Major repairs expenditure	2,837	1,562	21	16	4,436
Impairment of housing properties	80	-	-	-	80
Depreciation of housing properties	17,814	2,332	14	621	20,781
Bad debts	1,695	602	27	3	2,327
Holiday pay accrual	61	30	3	3	97
Pension deficit	5,266	3,720	35	321	9,342
Operating Costs on Social Housing Lettings	**72,227**	**45,183**	**1,379**	**3,268**	**122,057**
Operating Surplus on Social Housing Lettings	**50,278**	**(216)**	**(674)**	**3,026**	**52,414**
Void losses	(997)	(2,276)	(40)	(14)	(3,327)

Comparative surpluses have been restated in order to reflect changes made to cost drivers used to apportion central costs across the operating directorate, which has been simplified with a single Operations directorate to deliver efficiencies, but also a more consistent quality of service to customers.

These adjustments ensure items are correctly classified as social housing activities in line with current social housing reporting requirements.

The impact of the above restatement is as follows: general needs housing operating surplus reduced by £6,239k, supported housing operating surplus increased by £4,196k, residential care homes operating surplus increased by £462k, shared ownership housing operating surplus reduced by £13k and other social housing activities operating surplus increased by £1,594k.

Notes to the Financial Statements (continued)

for the year ended 31 March 2017

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

2017	Turnover £'000	Operating Costs £'000	Surplus on disposals £'000	Operating Surplus/(Deficit) £'000
Social Housing Lettings	**175,382**	**108,020**	**-**	**67,362**
Other Social Housing Activities:				
Community regeneration activities	140	410	-	(270)
Development services and costs not capitalised	-	70	-	(70)
Surplus from 1st tranche shared ownership sales	6,112	5,356	-	756
Surplus on properties developed for outright sale	-	-	-	-
Other income	1,021	278	-	743
Total	**7,273**	**6,114**	**-**	**1,159**
Activities other than Social Housing Lettings:				
Charges for Support Services	20,741	23,035	-	(2,294)
Student lettings	244	176	-	68
Nursing Homes	490	708	-	(218)
Commercial	338	246	-	92
NHS	517	774	-	(257)
Surplus on disposal of property plant and equipment	-	-	2,666	2,666
Other	-	758	-	(758)
Total	**22,330**	**25,697**	**2,666**	**(701)**
Total from Social and Non-Housing Activities	**204,985**	**139,831**	**2,666**	**67,820**

2016	Turnover £'000	Operating Costs £'000	Surplus on disposals £'000	Operating Surplus/(Deficit) £'000
Social Housing Lettings	**174,471**	**122,118**	**-**	**52,353**
Other Social Housing Activities:				
Community regeneration activities	-	315	-	(315)
Development services and costs not capitalised	-	59	-	(59)
Surplus from 1st tranche shared ownership sales	6,801	5,897	-	904
Surplus on properties developed for outright sale	735	631	-	104
Other income	1,114	1,709	-	(595)
Total	**8,650**	**8,611**	**-**	**39**
Activities other than Social Housing Lettings:				
Charges for Support Services	21,816	22,734	-	(918)
Student lettings	237	135	-	102
Nursing Homes	557	708	-	(151)
Commercial	351	258	-	93
NHS	930	1,273	-	(343)
Surplus on disposal of property plant and equipment	-	-	3,417	3,417
Other	-	588	-	(588)
Total	**23,891**	**25,696**	**3,417**	**1,612**
Total from Social and Non-Housing Activities	**207,012**	**156,425**	**3,417**	**54,004**

Notes to the Financial Statements (continued)

for the year ended 31 March 2017

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

Particulars of turnover and operating expenditure from Social Housing Lettings

2017	General Needs Housing £'000	Supported Housing £'000	Residential Care Homes £'000	Shared Ownership Accommodation £'000	Total £'000
Rent receivable net of identifiable service charges, net of voids	110,964	21,935	39	4,619	137,557
Service charge income	5,814	15,767	4	1,084	22,669
Amortised Government Grants (Accrual model)	6,112	1,208	2	254	7,576
Net Rental Income	**122,890**	**38,910**	**45**	**5,957**	**167,802**
Other income	788	6,221	3	568	7,580
Turnover from Social Housing Lettings	**123,678**	**45,131**	**48**	**6,525**	**175,382**
Management	14,209	14,936	220	1,277	30,642
Service charge costs	6,471	15,292	249	1,002	23,014
Routine maintenance	15,928	4,799	63	133	20,923
Planned maintenance	4,834	878	54	5	5,771
Major repairs expenditure	2,328	1,733	27	14	4,102
Impairment of housing properties	-	-	-	-	-
Depreciation of housing properties	18,336	2,543	13	475	21,367
Bad debts	1,642	663	(11)	10	2,304
Holiday pay accrual	(20)	(78)	(2)	(3)	(103)
Pension deficit	-	-	-	-	-
Operating Costs on Social Housing Lettings	**63,728**	**40,766**	**613**	**2,913**	**108,020**
Operating Surplus on Social Housing Lettings	**59,951**	**4,365**	**(564)**	**3,612**	**67,362**
Void losses	(822)	(1,425)	(209)	(80)	(2,536)

Notes to the Financial Statements (continued)

for the year ended 31 March 2017

2016	General Needs Housing £'000	\Supported Housing £'000	Residential Care Homes £'000	Shared Ownership Accommodation £'000	Total £'000
Rent receivable net of identifiable service charges, net of voids	110,604	23,144	684	5,097	139,529
Service charge income	5,539	15,682	4	955	22,180
Amortised Government Grants (Accrual model)	6,089	1,819	17	225	8,150
Net Rental Income	**122,232**	**40,645**	**705**	**6,277**	**169,859**
Other income	273	4,322	-	17	4,612
Turnover from Social Housing Lettings	**122,505**	**44,967**	**705**	**6,294**	**174,471**
Management	14,844	14,310	946	1,496	31,596
Service charge costs	6,712	17,014	255	726	24,707
Routine maintenance	17,227	4,726	61	81	22,095
Planned maintenance	5,724	912	18	3	6,657
Major repairs expenditure	2,837	1,562	21	16	4,436
Impairment of housing properties	80	-	-	-	80
Depreciation of housing properties	17,814	2,332	14	621	20,781
Bad debts	1,695	602	27	3	2,327
Holiday pay accrual	61	30	3	3	97
Pension deficit	5,266	3,720	35	321	9,342
Operating Costs on Social Housing Lettings	**72,260**	**45,208**	**1,380**	**3,270**	**122,118**
Operating Surplus on Social Housing Lettings	**50,245**	**(241)**	**(675)**	**3,024**	**52,353**
Void losses	(997)	(2,276)	(40)	(14)	(3,327)

Comparative surpluses have been restated in order to reflect changes made to cost drivers used to apportion central costs across the operating directorate, which has been simplified with a single Operations directorate to deliver efficiencies, but also a more consistent quality of service to customers.

These adjustments ensure items are correctly classified as social housing activities in line with current social housing reporting requirements.

The impact of the above restatement is as follows: general needs housing operating surplus reduced by £6,239k, supported housing operating surplus increased by £4,196k, residential care homes operating surplus increased by £462k, shared ownership housing operating surplus reduced by £13k and other social housing activities operating surplus increased by £1,594k.

Notes to the Financial Statements (continued)

for the year ended 31 March 2017

4. Directors' Emoluments

	2017 £'000	2016 £'000
Aggregate Emoluments payable to Directors (including pension contributions and benefits in kind)	1,245	1,082
Emoluments (excluding pension contributions) payable to the Chief Executive who was also the highest paid Director	266	225

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

There were 4 Directors in the Group's pension scheme described in note 25 (2016: 6). Two other directors (including the Chief Executive) received contributions paid as a supplement to their salary.

For the purposes of this note, Directors are defined as members of the Board of Management and the Executive Board. Included in the above are the emoluments in respect of the Directors' services in connection with the affairs of subsidiary undertakings.

The members of the Executive Board were remunerated as follows:

Director	Position	Date of Appointment	Date of Resignation	Salaries £'000	Taxable benefits £'000	Pension £'000	Total 2017 £'000	Total 2016 £'000
Ruth Cooke	Chief Executive Officer	17/04/2012		220	46	-	266	242
Glenn Harris	Executive Director of Corporate Resources	02/07/2012		151	16	-	167	152
Carl Larter	Executive Director of Assets	29/01/2008		124	9	10	143	146
David Taylor	Executive Director of Operations	15/04/2015		122	9	10	141	135
Andrew Foster	Executive Director of Governance & Contracts, & Company Secretary	23/11/2012		118	10	10	138	137
Sara Beamand	Executive Director of Care and Support	22/03/2013	02/01/2017	229	22	-	251	137
Joe Reeves	Executive Director of Corporate Affairs	08/07/2013		125	9	5	139	133

Notes to the Financial Statements (continued)
for the year ended 31 March 2017
4. Directors' Emoluments (continued)

The aggregate amount of Directors' Pensions recognised within these financial statements for the year ended 31 March 2017 is £35k (2016: £67k).

The post of Director of Care and Support was made redundant on 2 January 2017, and compensation for loss of office of £137k was included within the payments during the year.

The aggregate compensation for loss of office of key management personnel was £ 137k (2016: Nil)
Twenty-eight members of the Board of Management, subsidiary Boards and Committees received emoluments totalling £148,000 (2016: £147,000).
The 10 Board members listed below are the highest remunerated over financial years 2016 & 2017.

They have been remunerated as follows:

		2017 £'000	2016 £'000
Greg Croydon		11	11
Anna East		11	11
John Edwards		25	25
Karl George		11	11
Julian Healey		9	9
Robert Lake		11	11
Susannah Leggatt	Resigned 16/07/2015	-	4
Kathleen McAteer		8	9
Peter Pawsey		9	9
Martin Tiplady		11	11

5. Employee Information

	Group		Association	
	2017 Number	2016 Number	2017 Number	2016 Number
Average number of employees expressed as full time equivalents	**1,520**	**1,803**	**1,520**	**1,803**

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

Staff Costs (for the above persons)

	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Wages & Salaries	40,435	44,375	40,435	44,375
Social Security Costs	3,643	3,752	3,643	3,752
Other Pension Costs	1,065	3,653	1,065	3,653
	45,143	**51,780**	**45,143**	**51,780**

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	2017 Number	2016 Number
£260,000 to £270,000	1	-
£250,000 to £260,000	1	-
£240,000 to £250,000	-	1
£230,000 to £240,000	-	-
£220,000 to £230,000	-	-
£210,000 to £220,000	-	-
£200,000 to £210,000	-	-
£190,000 to £200,000	-	-
£180,000 to £190,000	-	-
£170,000 to £180,000	1	-
£160,000 to £170,000	1	-
£150,000 to £160,000	-	1
£140,000 to £150,000	3	1
£130,000 to £140,000	2	4
£120,000 to £130,000	2	-
£110,000 to £120,000	-	-
£100,000 to £110,000	1	3
£90,000 to £100,000	6	3
£80,000 to £90,000	7	5
£70,000 to £80,000	11	15
£60,000 to £70,000	15	7
	51	**40**

Notes to the Financial Statements (continued)

for the year ended 31 March 2017

6a. Surplus on Sale of Fixed Assets - Group

	2017			2016		
	Proceeds £'000	Cost of Sales £'000	Surplus £'000	Proceeds £'000	Cost of Sales £'000	Surplus £'000
Staircasing on Shared Ownership	5,683	3,859	1,824	7,747	5,751	1,996
Other Property Sales	8,860	8,022	838	4,998	3,512	1,486
	14,543	**11,881**	**2,662**	**12,745**	**9,263**	**3,482**

6b. Surplus on Sale of Fixed Assets - Association

	2017			2016		
	Proceeds £'000	Cost of Sales £'000	Surplus £'000	Proceeds £'000	Cost of Sales £'000	Surplus £'000
Staircasing on Shared Ownership	5,683	3,859	1,824	7,747	5,751	1,996
Other Property Sales	8,864	8,022	842	4,933	3,512	1,421
	14,547	**11,881**	**2,666**	**12,680**	**9,263**	**3,417**

7. Interest receivable and similar income

	Group		Association	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Interest receivable on financial assets measured at amortised cost:				
Interest on investments	361	442	361	442
Equity Investment realisation	287	689	287	689
	648	**1,131**	**648**	**1,131**

Notes to the Financial Statements (continued)

for the year ended 31 March 2017

8. Interest and Financing costs

	Group		Association	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Interest payable on financial liabilities measured at amortised cost:				
Housing loans	20,176	21,064	20,114	20,925
Discounted bonds	1,377	1,343	1,377	1,343
Interest on finance leases	622	636	622	636
Notional interest on Recycled Capital Grant Fund	34	47	34	47
Interest on derivatives treated as fair value hedging instruments:	**22,209**	**23,090**	**22,147**	**22,951**
Interest payable on loan swap arrangements	6,448	5,880	6,448	5,880
Interest capitalised	(423)	(547)	(423)	(547)
Loan fees	825	794	758	733
Unwinding of discount on Social Housing Pension Scheme liability	544	377	544	377
Change to measurement of net finance cost on Social Housing Pension Scheme liability	777	(181)	777	(181)
Total interest and financing costs	**30,380**	**29,413**	**30,251**	**29,213**

Interest was capitalised at an average rate of 5.0% (2016: 5.2%).

Our focus, more than ever, is on delivering truly transformational services.

Notes to the Financial Statements (continued)

for the year ended 31 March 2017

9. Surplus before Taxation

	Group		Association	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Surplus before Taxation is stated after charging:				
Depreciation of housing property fixed assets	21,355	20,838	21,355	20,838
Depreciation on non-housing property fixed assets	2,693	3,905	2,495	3,703
Impairment loss on housing properties	-	80	-	80
Auditors' remuneration - Audit fees				
Group fees	110	107	110	107
Other Group services	49	50	49	50
Payments under Operating Leases				
Plant	102	96	102	96
Office	115	100	115	100

10. Taxation on Surplus on Ordinary Activities

a) Analysis of charge in the period (Group & Association):	2017 £'000	2016 £'000
United Kingdom Corporation Tax on surplus of the period	100	-
Adjustments in respect of prior years	-	-
	100	-
Deferred tax	-	-
	100	-

Factors affecting the tax charge for the year

The Corporation Tax charge is lower (2016: lower) than that resulting from applying the standard rate of Corporation Tax of 20% (2016: 20%) to the surplus before taxation. The differences are explained below:

	Group		Association	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Surplus on ordinary activities before tax	**39,884**	**27,463**	**38,217**	**25,922**
Tax payable at 20% (2016: 20%) thereon	**7,977**	**5,493**	**7,643**	**5,184**
Expenses not deductible for tax purposes	-	-	-	-
Income not taxable for tax purposes	(237)	(177)	-	-
Amounts charged/(credited) directly to equity or otherwise transferred	(4)	-	-	-
Current tax charged/(credited) directly to equity	4	-	-	-
Fixed Asset differences	16	(6)	-	-
Capital gains/(losses)	-	13	-	-
Adjust closing deferred tax to average rate	3	3	-	-
Adjust opening deferred tax to average rate	(3)	-	-	-
Exemption due to charitable status	(7,647)	(5,325)	(7,643)	(5,184)
Deferred tax not recognised	(9)	(1)	-	-
Total tax charge	100	-	-	-

Notes to the Financial Statements (continued)

for the year ended 31 March 2017

11. Investment Properties held for letting: Group

Year ended 31 March 2017

	2017 £'000	2016 £'000
Valuation:		
At 1 April 2016	11,300	10,455
Additions during the year	1,993	-
Gain in valuation	1,170	845
At 31 March 2017	**14,463**	**11,300**

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 abililty 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.

Notes to the Financial Statements (continued)

for the year ended 31 March 2017

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 2016	1,581,683	12,146	83,247	1,845	1,678,921
Additions	609	17,547	-	9,474	27,630
Improvements	13,024	-	-	-	13,024
Interest capitalised	-	274	-	149	423
Transferred on completion	9,371	(9,371)	2,287	(2,287)	-
Change of tenure	(5,230)	-	5,230	-	
Transfer to current assets	-	-	(2,351)	(3,144)	(5,495)
Transfer from current assets	-	-	274	-	274
Disposals	(8,122)	-	(3,776)	-	(11,898)
At 31 March 2017	**1,591,335**	**20,596**	**84,911**	**6,037**	**1,702,879**
Depreciation and impairment					
At 1 April 2016	209,287	-	8,025	-	217,312
Charge for the year	20,851	-	504	-	21,355
Impairment charged in year	-	-	-	-	-
Change of tenure	(323)	-	323	-	-
Transfer to current assets	-	-	(140)	-	(140)
Eliminated on disposal	(3,482)	-	(424)	-	(3,906)
At 31 March 2017	**226,333**	**-**	**8,288**	**-**	**234,621**
Net Book Value					
At 31 March 2017	**1,365,002**	**20,596**	**76,623**	**6,037**	**1,468,258**
At 31 March 2016	1,372,396	12,146	75,222	1,845	1,461,609

Notes to the Financial Statements (continued)

for the year ended 31 March 2017

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 2016	1,585,432	12,146	83,247	1,845	1,682,670
Additions	609	17,547	-	9,474	27,630
Improvements	13,024	-	-	-	13,024
Interest capitalised	-	274	-	149	423
Transferred on completion	9,371	(9,371)	2,287	(2,287)	-
Change of tenure	(5,230)	-	5,230	-	
Transfer to current assets	-	-	(2,351)	(3,144)	(5,495)
Transfer from current assets	-	-	274	-	274
Disposals	(8,122)	-	(3,776)	-	(11,898)
At 31 March 2017	**1,595,084**	**20,596**	**84,911**	**6,037**	**1,706,628**
Depreciation and impairment					
At 1 April 2016	209,287	-	8,025	-	217,312
Charge for the year	20,851	-	504	-	21,355
Impairment charged in year	-	-	-	-	-
Change of tenure	(323)	-	323	-	-
Transfer to current assets	-	-	(140)	-	(140)
Eliminated on disposal	(3,482)	-	(424)	-	(3,906)
At 31 March 2017	**226,333**	**-**	**8,288**	**-**	**234,621**
Net Book Value					
At 31 March 2017	**1,368,751**	**20,596**	**76,623**	**6,037**	**1,472,007**
At 31 March 2016	1,376,145	12,146	75,222	1,845	1,465,358

Notes to the Financial Statements (continued)

for the year ended 31 March 2017

12c. Housing Properties

Expenditure on works to existing properties

	Group		Association	
	2017 £'000	**2016 £'000**	**2017 £'000**	**2016 £'000**
Components capitalised	13,024	19,239	13,024	19,239
Amounts charged to the Income and Expenditure account	4,102	4,436	4,102	4,436
	17,126	**23,675**	**17,126**	**23,675**

Completed housing properties book value, net of depreciation and impairment

	Group		Association	
	2017 £'000	**2016 £'000**	**2017 £'000**	**2016 £'000**
Freehold land and buildings	1,327,421	1,331,809	1,330,873	1,335,258
Leasehold land and buildings	114,204	115,809	114,501	116,109
Total Net Book Value	**1,441,625**	**1,447,618**	**1,445,374**	**1,451,367**

Notes to the Financial Statements (continued)

for the year ended 31 March 2017

13. Other Tangible Fixed Assets - Group

	Office Premises £'000	Furniture & Equipment £'000	Total £'000
Cost:			
At 1 April 2016	13,547	24,748	38,295
Additions	832	4,216	5,048
Disposals	(1,013)	(7)	(1,020)
At 31 March 2017	**13,366**	**28,957**	**42,323**
Depreciation:			
At 1 April 2016	3,096	7,017	10,113
Charge for the year	230	2,463	2,693
Eliminated on disposal	(577)	(7)	(584)
At 31 March 2017	**2,749**	**9,473**	**12,222**
Net Book Value			
At 31 March 2017	**10,617**	**19,484**	**30,101**
At 31 March 2016	10,451	17,731	28,182

Other Tangible Fixed Assets - Association

	Office Premises £'000	Furniture & Equipment £'000	Total £'000
Cost:			
At 1 April 2016	3,137	24,532	27,669
Additions	832	4,232	5,064
Disposals	(1,013)	(7)	(1,020)
At 31 March 2017	**2,956**	**28,757**	**31,713**
Depreciation:			
At 1 April 2016	1,315	6,919	8,234
Charge for the year	62	2,433	2,495
Eliminated on disposal	(577)	(7)	(584)
At 31 March 2017	**800**	**9,345**	**10,145**
Net Book Value			
At 31 March 2017	**2,156**	**19,412**	**21,568**
At 31 March 2016	1,822	17,613	19,435

Notes to the Financial Statements (continued)

for the year ended 31 March 2017

14. Fixed Asset Investments - Group and Association

	2017 £'000	2016 £'000
Investments - Mutuals	3,017	3,639
Investments - Joint venture	-	-
Investments - Social Homebuy initiative - equity investment	132	132
Investments - SH initiative - grant	(132)	(132)
	3,017	**3,639**

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

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

15. Investment in Subsidiaries - Association

	£'000
Investment at 1 April 2016	6,067
Investment at 31 March 2017	**6,067**

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

16. Debtors

	Group		Association	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Gross rent and service charge arrears	12,498	14,121	12,474	14,093
Less: provision for bad and doubtful debts	(7,485)	(7,175)	(7,464)	(7,158)
Net rent arrears	**5,013**	**6,946**	**5,010**	**6,935**
Social Housing Grant receivable	3,036	368	3,036	368
Amounts due from Group undertakings	-	-	71	695
Prepayments and other debtors	4,963	5,860	4,963	5,882
	13,012	**13,174**	**13,080**	**13,880**

Notes to the Financial Statements (continued)

for the year ended 31 March 2017

17. Current Asset Investments - Group and Association

	2017 £'000	2016 £'000
Short term deposits	595	632

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

	2017 £'000	2016 £'000
Stock and work in progress	1,266	795
Schemes developed for shared ownership disposal	1,596	1,376
	2,862	**2,171**

19. Cash and Cash Equivalents

	Group		Association	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Bank Accounts	67,855	38,582	66,894	37,261
Cash in hand	84	46	84	46
Cash equivalents	67,939	38,628	66,978	37,307
Total Cash and Cash Equivalents	**67,939**	**38,628**	**66,978**	**37,307**

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.

Notes to the Financial Statements (continued)

for the year ended 31 March 2017

20. Creditors: Amounts falling due within one year

	Group		Association	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Housing loans (Note 21a)	36,011	15,892	30,779	10,888
Rents received in advance	3,349	2,916	3,335	2,916
Obligations due under finance leases (Note 21a)	129	148	129	148
Trade creditors	1,369	579	1,369	579
Amounts due to Group undertakings	-	-	7,829	7,436
Recycled Capital Grant and Disposals Proceeds Fund (Note 22)	3,494	5,792	3,494	5,792
Other taxation and social security costs	1,798	1,028	1,802	1,028
UK Corporation Tax	100	-	-	-
Accruals and deferred income	16,965	19,082	14,435	17,541
Deferred social housing grant	8,205	8,150	8,205	8,150
Social Housing Pension Scheme Liability (Note 25)	3,319	3,177	3,319	3,177
	74,739	**56,764**	**74,696**	**57,655**

Amounts due to group undertakings for the Association include interest bearing loans due to group undertakings of £4,773k (2016: £4,546k). 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 £1,308k (2016: £1,233k).

Notes to the Financial Statements (continued)

for the year ended 31 March 2017

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

	Group		Association	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Housing loans	512,405	529,787	211,764	225,094
Discounted bonds	12,244	11,905	12,244	11,905
Obligations due under finance leases	3,995	4,143	3,995	4,143
Premium on bond issues	13,423	11,082	4,035	11,082
Loan and bond arrangement fees	(5,413)	(5,246)	(2,790)	(5,173)
Amounts due to Group undertaking	-	-	297,813	295,772
Deferred social housing grant	711,275	709,834	711,275	709,834
Derivative financial instruments designated as hedges of variable interest rate risk (note 24)	76,397	73,506	76,397	73,506
Social Housing Pension Scheme Liability (Note 25)	22,881	24,902	22,881	24,902
	1,347,207	1,359,913	1,337,614	1,351,065
Recycled Capital Grant and Disposal Proceeds Fund	2,902	4,152	2,902	4,152
	1,350,109	**1,364,065**	**1,340,516**	**1,355,217**

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

Housing Loans:

Housing loans are secured by specific or floating charges on the Group's housing properties and are repayable at varying maturity dates with interest at both fixed and variable rates.

The analysis for Association relates to bodies external to MH Group.

	Group		Association	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
By instalments:				
In one year or less	12,281	11,562	7,049	6,558
Between one and two years	12,190	12,042	6,719	6,810
Between two and five years	38,536	38,134	20,570	20,958
In five years or more	252,674	265,286	129,725	136,076
	315,681	**327,024**	**164,063**	**170,402**

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

	Group		Association	
	2017 £'000	**2016 £'000**	**2017 £'000**	**2016 £'000**
Lump Sum Repayments:				
In one year or less	23,730	4,330	23,730	4,330
Between one and two years	19,206	22,785	19,206	22,785
Between two and five years	2,702	21,677	(1,553)	18,602
In five years or more	199,341	181,768	49,341	31,768
	244,979	**230,560**	**90,724**	**77,485**

Finance lease liabilities Total of future minimum lease payments:	Group		Association	
	2017 £'000	**2016 £'000**	**2017 £'000**	**2016 £'000**
In one year or less	129	148	129	148
Between one and two years	148	148	148	148
Between two and five years	444	444	444	444
In five years or more	3,403	3,551	3,403	3,551
	4,124	**4,291**	**4,124**	**4,291**

Fixed rate financial liabilities bear a weighted average interest rate of 6.46% and are fixed for a weighted average period of 19 years. Including swaps the average weighted interest rate is 5.25%.

Interest rates on fixed rate borrowings range between 5% and 11.5%.

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

The interest rate profille of the groups' debt at 31 March 2017 was:

	Variable rate £'000	**Fixed rate £'000**	**Total £'000**
Instalment loans	228,090	91,716	319,806
Non-instalment loans	19,255	225,725	244,980
	247,345	**317,441**	**564,786**

As at 31 March 2017, 53% (£298,342k) of the above debt came from the capital markets and 47% (£266,444k) from banks and building societies.

21b. Creditors

Discounted Bonds:	Group		Association	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Amount Advanced:				
5% Debenture Stock 2027	9,000	9,000	9,000	9,000
In issue at 31 March 2017	9,000	9,000	9,000	9,000
Loan discount amortised	3,244	2,905	3,244	11,905
Net Value at 31 March 2017	**12,244**	**11,905**	**12,244**	**11,905**

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 £6,840k (2016: £7,179k).

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

	Group		Association	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Opening SHG cumulative amortisation	-	-	-	-
Opening Balance of SHG received/receivable	717,984	726,539	717,984	726,539
SHG received during the year	12,487	1,550	12,487	1,550
SHG recycled	(3,980)	(2,184)	(3,980)	(2,184)
Surplus on sale of Fixed Asset adjustment	565	229	565	229
Cumulative total of Social Housing Grant received or	727,056	726,134	727,056	726,134
Less grant amortised in the year	(7,576)	(8,150)	(7,576)	(8,150)
Amount held as	**719,480**	**717,984**	**719,480**	**717,984**
Social Housing Grant under UKGAAP				
Opening SHG	825,080	828,689	825,080	828,689
SHG received net of recycling	8,506	(634)	8,506	(634)
Less investment property	-	-	-	-
Less eliminated on disposal	-	(2,975)	-	-
	8,506	(3,609)	8,506	(634)
Closing SHG	**833,586**	**825,080**	**833,586**	**825,080**

Notes to the Financial Statements (continued)

for the year ended 31 March 2017

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

Group and Association	RCGF £'000	DPF £'000	Total £'000
Balance at 1 April 2016	9,377	567	9,944
Grants recycled	3,247	213	3,460
Interest accrued	31	2	33
Allocated to new build developments	(6,762)	(279)	(7,041)
Balance at 31 March 2017	**5,893**	**503**	**6,396**

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

23. Financial Instruments

The carrying amounts of the financial assets and liabilities include:	Group		Association	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Liabilities measured at amortised cost				
Loans	568,670	563,421	561,674	554,115
Finance Leases	4,124	4,291	4,124	4,291

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 profit or loss comprise nil.

24. 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.

Notes to the Financial Statements (continued)

for the year ended 31 March 2017

Midland Heart has entered into £210m standalone interest rate swap contracts to fix the rates of £210m of its borrowing portfolio until various dates up to 2038. The negative fair value of these swap contracts as at 31 March 2017 was £76.4m (2016 £73.5m). 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 2017.

The total change in fair value during the year ended 31 March 2017 of £2.89m (2016: £5.23m) was recognised in the statement of comprehensive income.

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

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

	Group		Association	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Barclays Swap £20m 4.815% 2038	12,904	12,252	12,904	12,252
Barclays Swap £30m 5.01% 2037	19,638	18,778	19,638	18,778
Barclays ex-European Cancellable Swap with Double Up £10m 4.24% 2031	8,082	7,444	8,082	7,444
Credit Suisse Swap £10m 1.405% 2020	249	218	249	218
Credit Suisse Swap £40m 1.19% 2020	861	783	861	783
Credit Suisse Swap £40m 2.345% 2020	2,535	2,847	2,535	2,847
Lloyds Swap £50m 5.432% 2034 (ex-Bermudan)	32,128	31,184	32,128	31,184
Fair values of financial instruments designated as hedging instruments	**76,397**	**73,506**	**76,397**	**73,506**

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

2017	Carrying amount £000	Expected cash flows £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 y ears and over £000
Interest rate swaps:						
Hedged items cashflows (liabilities)	210,000	37,496	1,349	1,679	5,051	29,417

2016	Carrying amount £000	Expected cash flows £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Interest rate swaps:						
Hedged items cashflows (liabilities)	200,000	46,473	1,748	1,962	6,870	35,893

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.

Notes to the Financial Statements (continued)

for the year ended 31 March 2017

24b. Financial Instruments: Hedges

Year ended 31 March 2017

	Barclays Swap £20m 4.815% 2038	Barclays Swap £30m 5.01% 2037	Barclays ex-European Swap with Double Up £10m 4.24% 2031	Credit Suisse Swap £10m 1.405% 2020
Description of the hedge	The objective of the hedge is to mitigate the variability of the cash flows stemming from the floating rate interest payments related to the Lloyds £75m Fl Loan 2043 loan, a floating rate loan entered into by Midland Heart against unfavourable movements in the 1 Month LIBOR rate.	The objective of the hedge is to mitigate the variability of the cash flows stemming from the floating rate interest payments related to the Lloyds £75m Fl Loan 2043 loan, a floating rate loan entered into by Midland Heart against unfavourable movements in the 1 Month LIBOR rate.	The objective of the hedge is to mitigate the variability of the cash flows stemming from the floating rate interest payments related to the Nationwide £130m Fl Loan 2036 loan, a floating rate loan entered into by Midland Heart against unfavourable movements in the 1 Month LIBOR rate.	The objective of the hedge is to protect the variability of the cash flows stemming from the floating rate coupon payments related to a debt instrument issued by the entity against unfavourable movements in the LIBOR 6-month rate.
Description of the financial instruments designated as hedging instruments	The interest rate swap, Barclays Swap £20m 4.815% 2038. The counterparty to the swap is Lloyds and the credit risk associated with this counterparty is considered to be low. The credit risk is reflected in the Credit Valuation Adjustment amount to the risk free fair value of the derivative instrument.	The interest rate swap, Barclays Swap £30m 5.01% 2037. The counterparty to the swap is Lloyds and the credit risk associated with this counterparty is considered to be low. The credit risk is reflected in the Credit Valuation Adjustment amount to the risk free fair value of the derivative instrument.	The interest rate swap, Barclays ex- European Cancellable Swap with Double Up £10m 4.24% 2031. The counterparty to the swap is Nationwide and the credit risk associated with this counterparty is considered to be low. The credit risk is reflected in the Credit Valuation Adjustment amount to the risk free fair value of the derivative instrument.	The interest rate swap, Credit Suisse Swap £10m 1.405% 2020. The counterparty to the swap is EIB GBP and the credit risk associated with this counterparty is considered to be low. The credit risk is reflected in the Credit Valuation Adjustment amount to the risk free fair value of the derivative instrument.
Nature of the risks being hedged including a description of the hedged item	The variability of cash flows stemming from the interest payments of the Lloyds £75m Fl Loan 2043 due to movements in the 1 Month LIBOR rate.	The variability of cash flows stemming from the interest payments of the Lloyds £75m Fl Loan 2043 due to movements in the 1 Month LIBOR rate.	The variability of cash flows stemming from the interest payments of the Nationwide £130m Fl Loan 2036 loan due to movements in the 1 Month LIBOR rate.	The variability of cash flows stemming from the interest payments of the EIB £10m 2031 Fl Loan due to movements in the 6 Month LIBOR rate.
Fair values of financial instruments designated as hedging instruments £'000	12,904	19,638	8,082	249

Notes to the Financial Statements (continued)
for the year ended 31 March 2017

	Credit Suisse Swap £40m 1.19% 2020	Credit Suisse Swap £40m 2.345% 2020	Lloyds Swap £50m 5.432% 2034 (ex-Bermudan)	
Description of the hedge	The objective of the hedge is to protect the variability of the cash flows stemming from the floating rate coupon payments related to a debt instrument issued by the entity against unfavourable movements in the LIBOR 1 month rate.	The objective of the hedge is to mitigate the variability of the cash flows stemming from the floating rate interest payments related to the Nationwide £130m FI Loan 2036 loan, a floating rate loan entered into by Midland Heart against unfavourable movements in the 1 Month LIBOR rate.	The objective of the hedge is to mitigate the variability of the cash flows stemming from the floating rate interest payments related to the Nationwide £130m FI Loan 2036 loan, a floating rate loan entered into by Midland Heart against unfavourable movements in the 1 Month LIBOR rate.	The objective of the hedge is to mitigate the variability of the cash flows stemming from the floating rate interest payments related to the Lloyds £75m FI Loan 2043 loan, a floating rate loan entered into by Midland Heart against unfavourable movements in the 1 Month LIBOR rate.
Description of the financial instruments designated as hedging instruments	The interest rate swap, Credit Suisse Swap £40m 1.19% 2020. The counterparties to the swap are Lloyds, AIB, Dexia, THFC and Nationwide GBP and the credit risk associated with this counterparty is considered to be low. The credit risk is reflected in the Credit Valuation Adjustment amount to the risk free fair value of the derivative instrument.	The interest rate swap, Credit Suisse Swap £40m 2.345% 2020. The counterparty to the swap is Nationwide and the credit risk associated with this counterparty is considered to be low. The credit risk is reflected in the Credit Valuation Adjustment amount to the risk free fair value of the derivative instrument.	The interest rate swap, Lloyds Swap £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, LloydsSwap £50m 5.432% 2034 (ex-Bermudan). The counterparty to the swap is Lloyds and the credit risk associated with this counterparty is onsidered 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, AIB, Dexia, THFC and Nationwide loans due to movements in the 1 Month LIBOR rate.	The variability of cash flows stemming from the interest payments of the Nationwide £130m FI Loan 2036 due to movements in the 1 Month LIBOR rate.	The variability of cash flows stemming from the interest payments of the Nationwide £130m FI Loan 2036 due to movements in the 1 Month LIBOR rate.	The variability of cash flows stemming from the interest payments of the Lloyds £75m FI Loan 2043 due to movements in the 1 Month LIBOR rate.
Fair values of financial instruments designated as hedging instruments £'000	861	2,535	32,128	

Pensions

Notes to the Financial Statements (continued)

for the year ended 31 March 2017

25a. Social Housing Pension Scheme (SHPS)

The company participates in the above scheme, a multi-employer scheme which provides benefits to some 500 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 with an effective date of 30 September 2014. This actuarial valuation was certified on 23 November 2015 and showed assets of £3,123m, liabilities of £4,446m and a deficit of £1,323m. To eliminate this funding shortfall, the trustees and the participating employers have agreed that additional contributions will be paid, in combination from all employers, to the scheme as follows:

Deficit Contributions

Tier 1	**£40.6m per annum**
From 1 April 2016 to 30 September 2020	(payable monthly and increasing by 4.7% each year on 1st April)
Tier 2	**£28.6m per annum**
From 1 April 2016 to 30 September 2023	(payable monthly and increasing by 4.7% each year on 1st April)
Tier 3	**£32.7m per annum**
From 1 April 2016 to 30 September 2026	(payable monthly and increasing by 3.0% each year on 1st April)
Tier 4	**£31.7m per annum**
From 1 April 2016 to 30 September 2026	(payable monthly and increasing by 3.0% each year on 1st April)

Note that the scheme's previous valuation was carried out with an effective date of 30 September 2011; this valuation was certified on 17 December 2012 and showed assets of £2,062m, liabilities of £3,097m and a deficit of £1,035m. To eliminate this funding shortfall, payments consisted of the Tier 1, 2 & 3 deficit contributions.

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.

Notes to the Financial Statements (continued)

for the year ended 31 March 2017

Present Vision of Provision	**2017 £'000**	**2016 £'000**
Present value of provision	25,989	27,857

Reconciliation of Opening and Closing Provisions	**2017 £'000**	**2016 £'000**
Provision at start of period	27,857	20,610
Unwinding of the discount factor (interest expense)	539	374
Deficit contribution paid	(3,177)	(2,238)
Remeasurements - impact of any change in assumptions	770	(178)
Remeasurements - amendments to the contribution schedule	-	9,289
Provision at end of period	**25,989**	**27,857**

Income and Expenditure Impact	**2017 £'000**	**2016 £'000**
Unwinding of the discount factor (interest expense)	539	374
Remeasurements - impact of any change in assumptions	770	(178)
Remeasurements - amendments to the contribution schedule	-	9,289
Contributions paid in respect of future service	-	1,392
Provision at end of period	**1,309**	**10,877**

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

	2017 £'000	**32016 £'000**
Operating costs (employer current year contributions)	-	-
Operating costs (pension deficit costs)	-	9,289
Interest and financing costs	1,309	196
	1,309	**9,485**

Notes to the Financial Statements (continued)

for the year ended 31 March 2017

25a. Social Housing Pension Scheme (SHPS) (continued)

Assumptions	2017	2016
Rate of discount	% per annum 1.33	% per annum 2.02

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.

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

Deficit Contributions Schedule Year Ending	**2017** **£'000**	**2016** **£'000**
Year 1	3,296	3,177
Year 2	3,419	3,296
Year 3	3,548	3,419
Year 4	3,190	3,548
Year 5	2,790	3,190
Year 6	2,886	2,790
Year 7	2,588	2,886
Year 8	2,256	2,588
Year 9	2,324	2,256
Year 10	1,197	2,324
Year 11	-	1,197
Year 12	-	-

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.

Notes to the Financial Statements (continued)

for the year ended 31 March 2017

25b. The Pensions Trust - The Growth Plan

The company participates in the above scheme, a multi-employer scheme which provides benefits to some 1,300 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 scheme.

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 with an effective date of 30 September 2011. This actuarial valuation showed assets of £781m, liabilities of £928m and a deficit of £148m. 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 2013 to 31 March 2023:	
£13.9m per annum	(payable monthly and increasing by 3% each on 1st April)

A full actuarial valuation for the scheme was carried out at 30 September 2014. This valuation showed assets of £793m, liabilities of £970m and a deficit of £177m. To eliminate this funding shortfall, the Trustee has asked the participating employers to pay additional contributions to the scheme 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.

Notes to the Financial Statements (continued)

for the year ended 31 March 2017

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

Present Vision of Provision	2017 £'000	2016 £'000
Present value of provision	211	222

Reconciliation of Opening and Closing Provisions	2017 £'000	2016 £'000
Provision at start of period	222	192
Unwinding of the discount factor (interest expense)	5	3
Deficit contribution paid	(23)	(23)
Remeasurements - impact of any change in assumptions	7	(3)
Remeasurements - amendments to the contribution schedule	-	53
Provision at end of period	**211**	**222**

Income and Expenditure Impact	2017 £'000	2016 £'000
Unwinding of the discount factor (interest expense)	5	3
Remeasurements - impact of any change in assumptions	-	53
Remeasurements - amendments to the contribution schedule	7	(3)
Costs recognised in income and expenditure account	**12**	**53**

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

Operating costs (pension deficit costs)	7	53
Interest and financing costs	5	-
	12	**53**

Notes to the Financial Statements (continued)

for the year ended 31 March 2017

Assumptions	2017	2016
Rate of discount	% per annum 1.32	% per annum 2.07

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.

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

Deficit Contributions Schedule Year Ending	**2017** **£'000**	**2016** **£'000**
Year 1	23	23
Year 2	24	23
Year 3	25	24
Year 4	26	25
Year 5	26	26
Year 6	27	26
Year 7	28	27
Year 8	29	28
Year 9	15	29
Year 10	-	15

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.

Notes to the Financial Statements (continued)

for the year ended 31 March 2017

26. Share Capital

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

	2017 £
Allotted, called up and fully paid shares of £1 each:	
At end of year	54

	Number
At 1 April 2016	55
Issued	-
Cancelled	(1)
At 31 March 2017	**54**

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

27. Operating Leases - Group and Association

Year ended 31 March 2017

Total of future minimum lease payments under non-cancellable operating leases	2017 £'000	2016 £'000
Plant - Leases which expire:		
Within one year	60	75
Between one and two years	23	84
Between two and five years	3	-
Office premises - Leases which expire:		
Within one year	54	78
Between one and two years	10	142
Between two and five years	-	-
After more than 5 years	-	-
	150	**379**

During the year £217k was recognised as an expense in the profit and loss account in respect of operating leases (2016: £196k).

Notes to the Financial Statements (continued)

for the year ended 31 March 2017

28. Capital Commitments - Group and Association

	2017 £'000	2016 £'000
Capital expenditure contracted not provided for	77,284	12,439
Capital expenditure authorised by the Board of Directors but not contracted for	11,095	18,071

The expenditure represents the total bids submitted to the Homes and Communities Agency and other bodies. Under Standing Orders approved by the Board, expenditure to certain levels may be authorised by appropriate officers, employees or sub-committees and such authorised expenditure is included above.

The above commitments will be funded primarily through cash and funds available for draw-down on existing loan arrangements and £2.2m (2016 £4.3m) funded by Social Housing Grant.

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

29. Contingent Liabilities

There are no contingent liabilities (2016: NIL).

Notes to the Financial Statements (continued)

for the year ended 31 March 2017

30. Housing Stock

Social Housing	2017 Number	2016 Number
- Social rent	20,886	21,123
- Affordable rent	2,049	1,783
Long leasehold	2,566	2,453
Supported housing and housing for older people	4,880	4,962
Residential care homes	170	223
Shared ownership accommodation	2,016	2,076
Lease Scheme for the elderly	165	167
Other	125	118
Total social housing	**32,857**	**32,905**

Non-Social Housing		
Registered nursing homes	-	16
Market rent	116	115
Commercial lettings	70	69
Leasehold	49	50
Student accommodation	61	61
Total non-social housing	**296**	**311**
Grand total	**33,153**	**33,216**

Being		
Owned and managed	28,340	28,505
Managed only	2,615	2,503
Owned but managed by others	2,198	2,208
Total	**33,153**	**33,216**

Notes to the Financial Statements (continued)

for the year ended 31 March 2017

31. Disclosure of Group Activity

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

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

The members of the Midland Heart Group are as follows:

Entity	Registration	Legal basis	HCA 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	No	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	Cygnet charges Midland Heart £152k per annum in respect of a fee for managing Midland Heart's Intermediate Market Rent and Rent To Home Buy properties.
Midland Heart - Midland Heart Development (MHDL)	A 3% charge on cost on all invoices recharged to Midland Heart is levied by MHDL. A 2.5% charge on cost on all MHDL invoices received is levied by Midland Heart to cover staff time and use of facilities.
Midland Heart - Prime Focus Regeneration Group (PFRG)	A £246k charge is levied by PFRG to Midland Heart to cover the costs of premises provided.
Midland Heart - Midland Heart Capital plc (MHC)	MHC recharges its interest and other loan administration costs to Midland Heart.
Midland Heart - Prime Focus Finance (PFF)	PFF recharges its interest and other loan administration costs to Midland Heart.

There has been no other cost apportionment within the Group.

Notes to the Financial Statements (continued)

for the year ended 31 March 2017

32. Notes to the Cash Flow Statement

A - Reconciliation of net cash flow to movement in net debt

	2017 £'000	2016 £'000
(Decrease)/increase in cash	29,311	(13,896)
Cash flow from increase (decrease) in debt finance	(4,744)	20,195
Increase in short term deposits	(37)	-
Discounted bonds	(339)	-
	24,191	6,299
Net debt at beginning of year	(528,451)	(534,750)
Net debt at end of year	**(504,260)**	**(528,451)**

B - Analysis of changes in net debt

	At 1 April 2016 £'000	Cash flows £'000	At 31 March 2017 £'000
Cash at bank and in hand	38,628	29,311	67,939
	38,628	**29,311**	**67,939**
Short term deposits	632	(37)	595
Discounted bonds	(11,905)	(339)	(12,244)
Other loans due less than one year	(15,892)	(20,119)	(36,011)
Other loans due in more than one year	(529,787)	17,382	(512,405)
Finance lease	(4,291)	167	(4,124)
Premium on bond issue	(11,082)	(2,341)	(13,423)
Issue expenses	5,246	167	5,413
Net debt	**(528,451)**	**24,191**	**(504,260)**

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