midland heart
housing, care and opportunity

Financial Statements and Strategic Report 2015/16

Midland Heart is a leading UK **housing care** and **support** business – we **transform lives** and **communities** through **housing, care** and **opportunity**.

Founded in 1925 we deliver housing, care and opportunity by providing 33,000 high quality affordable homes to over 70,000 customers across 55 local authority areas. We also deliver care and support services to 7,000 customers helping people to live independently.

Contents

Chairman’s Foreword

There is little doubt that the political changes introduced in 2015/2016 have led to the greatest challenges this sector has faced in a generation. It is pleasing to see that, as we enter these turbulent times, Midland Heart has continued to perform very strongly: delivering high quality services, maintaining a strong balance sheet for the future and achieving a healthy surplus, all of which will be reinvested for the benefit of our customers.

The challenges of austerity coupled with ongoing welfare reform remain with us. In addition we saw other major policy changes emerge as the new Government began to implement their manifesto commitments. We knew that “Right to Buy” would be a priority following the election result. However the rent reduction introduced as part of the July Emergency Budget came as a shock to the sector and when coupled with further welfare changes presented a real challenge for Midland Heart. It was clear to the Board that, if we were to continue to deliver high quality homes and services to our customers, then we would need to adapt our strategy and ways of working.

Our new strategy, built on a revised vision and set of values for Midland Heart, will ensure that we can continue to thrive in this new and challenging environment. Helping people to live independent lives speaks to our customers, our partners and stakeholders and to all of us at Midland Heart about our priorities.

The Fit for the Future programme, developed as our response to the challenges we face, will reach into all parts of the business. We want to engage with our customers in whatever way they prefer, providing the services they require. We are undertaking a fundamental review of our Care and Support Business to ensure it is sustainable to 2020 and beyond. We are also reviewing our development programme to ensure we build the right homes in the right place, making our contribution to delivering much needed new homes in a variety of tenures.

I want to pay tribute to all colleagues at Midland Heart for their commitment to supporting our customers each and every day. My thanks also to fellow Board Members for all they do to ensure that we hold true to our values, whilst we adapt to a changing environment.

John Edwards CBE
Chairman

Chief Executive Officer's Foreword to the Financial Statements

We signed off our 2015 financial statements in July last year, only days after the budget. At that time, it was clear that our operating environment was about to change rapidly, and that has certainly proved to be the case in the months since the budget. We have seen a range of policy announcements and proposals impacting on almost every part of our business.

And inevitably, that has meant that we have needed to revisit our plans. Our new corporate strategy, Fit for the Future, was signed off by the Board in September 2015, and sets out how Midland Heart will respond to the new environment and continue to grow and thrive. We have ambitious plans to continue to improve services to existing customers, while delivering the new homes that this country so desperately needs. In conjunction with this, we will continue to deliver first class care and support services, with a particular focus on developing best in class solutions for retirement living as well as a range of services for those who are or who have been homeless.

We have made good progress in delivering our objectives. In the early part of the year, we opened Saltbrook Place, a flagship development for those who have been homeless, where accommodation and support services work together to help people back into settled accommodation. Also in Dudley, we saw the opening of Lime Gardens, the third in a series of award-winning extra care developments in partnership with Dudley MBC. For existing customers, we have fundamentally changed the way in which we respond to housing management issues through the creation of People and Place teams, who focus both on supporting customers and on creating great neighbourhoods.

We have continued to invest in both new and existing properties, delivering our largest ever programme of planned investment, while building 261 new homes across a range of tenures. We have also done significant amounts of work to ensure that we can support government's plans to extend the right to buy to housing association tenants, and going forward, have clear plans to increase the number of properties we develop for outright sale.

These plans could not have been achieved without the support of our various partners, and our thanks go to them and particularly to our staff, who in a year of huge change have continued to deliver great services to all of our customers.

Ruth Cooke

Ruth Cooke
Chief Executive Officer

Board of Directors

Our Board comprises the following members:

John Edwards
Chair,
Non-executive member

Ruth Cooke
Executive member

John Edwards CBE

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 2000 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 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 four 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 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.

Ruth Cooke

Ruth has been CEO of Midland Heart since 2012 and was previously Finance Director. She is passionate about Midland Heart's desire to work with those in the greatest need, and is a firm advocate of Midland Heart's housing, regeneration and care services. A qualified accountant and corporate treasurer, she is also a Board member at Marketing Birmingham, Chair of Herefordshire Housing and is the Vice Chair of the Social Housing Pension Scheme Committee.

Board of Directors *continued*

Peter
Pawsey
Non-executive
member

Karl
George
Non-executive
member

Peter Pawsey, CEng. FICE. FCHIT. FCMI

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 Non-Executive Chairman, Robert West Consulting Engineers.

Until April 2015 he served a four 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.

Karl George MBE

Karl, 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 business man and experienced non executive director, 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 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 UK. 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.

Board of Directors *continued*

Anna East
Non-executive
member

Anna East

Anna 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 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 and the Pensions sub committee.

Julian Healey
Non-executive
member

Julian Healey

Julian is a Chartered Surveyor with over 35 years experience of Asset & Property Management. Julian was head of the Asset & Property Management division in one of the UK's national surveying practices for over 20 years and subsequently 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 a trained arbitrator specialising in landlord & tenant matters and an accredited expert witness.

Kathy McAteer
Non-executive
member

Kathy McAteer

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.

Martin Tiplady
Non-executive
member

Martin Tiplady OBE

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 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.

Board of Directors *continued*

Greg
Croydon
Non-executive
member

Robert
Lake
Non-executive
member

Greg Croydon

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.

Robert Lake

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.

Name		Appointed	Resigned
John Edwards CBE	Chair of the Board	14/05/2014	
Ruth Cooke		17/04/2012	
Greg Croydon	Chair of Finance & New Business Committee Chair of Customer & Communities Committee (to 26/05/2016)	24/09/2010	
Anna East	Chair of Audit & Risk Committee	28/05/2010	
Karl George MBE	Chair of Governance & Search Committee	04/02/2011	
Julian Healey		23/09/2013	
Robert Lake	Chair of Care & Support Committee	26/09/2008	
Susannah Leggatt		24/09/2011	16/07/2015
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 (from 26/05/2016)	29/09/2014	

Executive Board

Name	Position
Ruth Cooke	Chief Executive Officer
Sara Beamand	Executive Director of Care and Support
Andrew Foster	Executive Director of Governance and Contracts
Glenn Harris MBE	Executive Director of Corporate Resources
Carl Larter	Executive Director of Assets
Joe Reeves	Executive Director of Corporate Affairs
David Taylor	Executive Director of Customer and Communities (appointed 15 April 2015)

Registered Office: 20 Bath Row, Birmingham, B15 1LZ

A registered society under the Co-operative and Community Benefit Societies Act 2014 No. 30069R
Registered with the Homes and Communities Agency under the Housing Act 1996 No. L4466

Midland Heart Limited is an Exempt Charity (unregistered)

VAT Registration Number: 880 9861 74

Auditors:	**KPMG LLP** One Snow Hill Snow Hill Queensway Birmingham B4 6GH
Clearing Bankers:	**Lloyds TSB** 125 Colmore Row Birmingham B3 2DS
Treasury Advisors:	**TradeRisks Limited** 21 Great Winchester Street London EC2N 2JA

Executive Board *continued*

The Board is supported by an Executive Management Board led by Ruth Cooke, the Chief Executive Officer:

Ruth Cooke
Chief Executive Officer

Carl Larter
Executive Director of Assets

Ruth Cooke

Ruth has been CEO of Midland Heart since 2012 and was previously Finance Director. She is passionate about Midland Heart's desire to work with those in the greatest need, and is a firm advocate of Midland Heart's housing, regeneration and care services. A qualified accountant and corporate treasurer, she is also a Board member at Marketing Birmingham, Chair of Herefordshire Housing and is the Vice Chair of the Social Housing Pension Scheme Committee.

Carl Larter

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

Carl is a Chartered Surveyor and has 19 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 at Cross Keys Homes in Peterborough.

Joe Reeves
Executive Director of Corporate Affairs

Glenn Harris
Executive Director of Corporate Resources

Joe Reeves

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.

Glenn Harris MBE

Glenn 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 & 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.

Executive Board *continued*

Andrew Foster
Executive Director of Governance and Contracts

Sara Beamand
Executive Director of Care and Support

Andrew Foster

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 & Audit, Insurance, Policy, Facilities and Health & Safety. He is a board member of Worcestershire Telecare which is part of the Community Housing Group.

Sara Beamand

Prior to Sara's current role she was Head of Older People's Services within Midland Heart. Sara has over 25 years within the care and support environment, and prior to this worked within general needs housing services. She is the organisational lead for safeguarding and chairs a national housing and support training organisation.

For 12 years she has headed up the Older Persons Services within Midland Heart, responsible for care and support services delivered to over 4500 residents living within or receiving services from us either in our 116 retirement schemes, 23 extra care schemes or through services delivered by our support services.Sara has been responsible for the last three years for the delivery of Care and Support Services within Midland Heart for the homeless, older persons and young people. Sara manages an annual turnover in excess of £60m and employs over 1,400 staff.

David Taylor
Executive Director of Customer and Communities

David Taylor

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 Neighbourhood and Tenancy related services including income collection, community engagement, estate services, community safety, lettings and sales as well as the customer service centre.

midland heart
housing, care and opportunity

Midland Heart At a Glance

Midland Heart's mission is to be a **leading provider of housing and care, helping people to live independently**.

We do this by providing housing, care and opportunity to our customers;

- owning and managing 33,000 homes across the West and East Midlands
- providing and maintaining homes for over 70,000 people
- delivering care and support services to 15,000 customers
- supporting those who need help to live independently
- assisting in the regeneration of communities

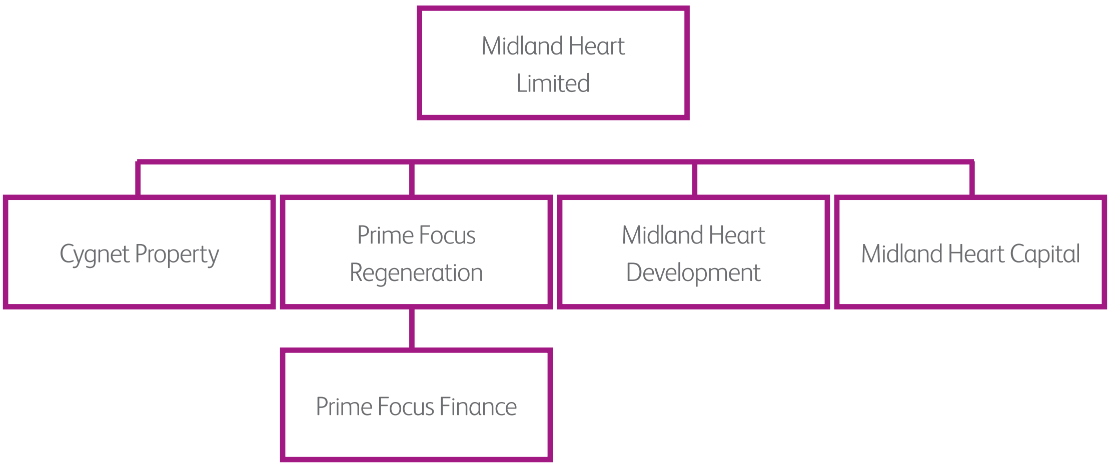
Operating Model
Midland Heart's operations are carried out in two core areas:

- Customer and Communities, which manages general needs housing and also our commercial operations
- Care and Support

Both receive a full range of services, including asset management and property development, IT, finance, HR, business development, communications, procurement and legal services.

Company Structure – as at 31 March 2016
Midland Heart Ltd is the parent company. It owns all social housing assets, is the employer of all staff and has five subsidiaries:

- Cygnet Property Management plc - has 115 properties for market rent and access to its own funding sources.
- Midland Heart Development Ltd - provides construction related services.
- Midland Heart Capital plc - hosts capital market bonds issued on behalf of the company.
- Prime Focus Regeneration Group - provides Head Office accommodation for Midland Heart.
- Prime Focus Finance Ltd - a special purpose borrowing vehicle.



Strategic Report

Review of the year

Strong Financial and Operational Performance

Midland Heart posted an overall surplus of £27.5m for 2015-16, after taking account of a pension deficit charge of £9.3m as a result of the triennial SHPS valuation in 2014. On like for like trading activity, excluding the pension deficit, the surplus would have risen to £36.8m, an uplift on the £32.1m (restated) for 2014-15, showing a continued and established upward trend in operational performance.

Our operational margin remains strong (over 29% excluding pension deficit), and our balance sheet shows that we are currently well placed with high levels of cash and secured funds to meet all commitments, whilst also operating well within lender covenants. Our key operational indicators have all seen year on year improvements, with re-let days improving to 20 (from 25 in 2014-15), and further improvements to both Customer Satisfaction and Routine Repairs completed on time.

261 new homes were completed during the year (215 for affordable / social rent, 46 shared ownership) continuing Midland Heart's commitment to this tenure type. A record investment in our existing properties has also taken place during the year, with £23.7m invested (2014-15: £15.2m).

Review of Strategy – Fit for the Future

In July 2015, The Chancellor's budget announced a number of changes to the future operating environment that will affect Registered Providers of social housing, including Midland Heart. These include introducing a -1% deflator year on year to rents, effective from April 2016 for the next four years, and further changes to the welfare system.

The Board of Midland Heart took stock of these announcements, and following modelling and analysis of the impact, developed a new Corporate Plan for the organisation, called 'Fit for the Future', which is aimed at ensuring a strong financial performance is maintained, with long term capacity and commitment to developing new homes, alongside high quality sustainable services.

As part of this, an efficiency savings programme of £10m was identified, which is to be fully in place by 1 April 2017. During 2015-16 work has centred on identifying and developing the delivery plans around 'Fit for the Future', and more detail can be found in the VFM section later in this report.

There are four key elements to the revised Corporate Plan;

- Customer First
- Care and Support Review
- Right Homes in the Right Places
- New Ways of Working

Further detail on what these four elements mean, and the financial and operational expectations are contained on page 20 to 34 within the value for money section of this report.

Following the results of the referendum to leave the EU, we will continue to monitor financial markets and impact on development closely but at this stage have identified nothing that requires action or change in the short term.

Review of the year *continued*

Financial highlights

	2016	2015
Financial Performance		
Turnover (£m)	207.9	198.5
Operating Surplus (£m)*	60.8	57.6
Operating Margin (%)*	29.2	29.0
Surplus for the year (exc. pension deficit) (£m)	36.8	32.1
Surplus for the Year (£m)	27.5	32.1
Interest Cover (%)	255	275
Balance Sheet		
Housing Properties (net of depreciation) (£m)	1461.6	1446.3
Gearing (%)	60	64
Operational Indicators		
Total Housing stock	33,062	32,902
Current Tenant Arrears (%)	4.75	4.75
Average re-let time (days)	20	25
Routine Repairs on time (%)	94.1	89.4
Customer Satisfaction (%)	86.6	84.7

*This excludes pension contribution of £9.3m

First Year Implementation of FRS 102 – Key Points to Note

The introduction of FRS 102 for the accounting year 2015-16 has resulted in a number of changes to the accounting treatment which are detailed fully in the notes to the accounts (pages 65 to 112).

The key issues to understand from an Income & Expenditure perspective are (when compared to prior UK GAAP accounting treatment):

- Social Housing Grant is treated as a long term creditor and released over the life of the asset through the I&E. This equates to an increase in turnover of £8.2m in 2015-16.
- Depreciation of housing assets has consequently increased as a result of no longer netting off the grant. This is an increase of £6.3m in operating costs in 2015-16.

Financial highlights

- Pension deficits are now treated as a long term creditor in the balance sheet, rather than an annual expense through the I&E account. In 2015, the outcome of the triennial valuation in 2014 of the SHPS scheme results was communicated and a further deficit, £9.3m has been provided and therefore charged to the I&E. The pension deficit adjustment is not an annual charge, and will see a gain or loss only in the year when a valuation takes place. For Midland Heart, this will be in 2018-19. That said, annual cash payments of pension deficits of £2.2m in 2015-16 are no longer included in expenditure.
- FRS 102 requires that we show any movements on our hedged future liabilities arising from our derivative portfolio. As we use derivatives to fix our variable rate debt, falls in prevailing interest rates have led to us having to reserve for higher future payments over the term of the derivatives. This movement in the value of hedged cash flow derivatives was £5.2m in 15-16.

A full analysis of the accounting changes arising from FRS 102 is detailed in note 33.

The net impact of these changes is a reduction in the surplus for the year of £4.8m from the result that would have been declared under UK GAAP accounting. If UK GAAP was used surpluses would have risen from £29.7m to £32.3m for Midland Heart, an increase of £2.6m (8.8%) over the previous year.

Statement of Comprehensive Income

- Turnover of £207.9m, shows an increase of £9.4m (4.8%) over the previous year as a result of an increase in social housing lettings income from a full year rental of the properties completed in 2014-15, and new properties handed over during the year.
- Operating surplus has increased by £3.2m to £60.8m (excluding pension deficit). This represents an operating margin of 29.2%, and continues the trend of operational performance improvement.
- Surplus for the year of £27.5m represents a fall from the previous year, primarily because of the pension deficit accounting policy change. Without the pension change, surpluses at £36.8m would have risen 14.75% (from the previous restated year.

	Turnover		Operating Surplus (excluding pension deficit)	
	2016 £m	2015 £m	2016 £m	2015 £m
Social Housing Lettings	174.5	165.8	59.6	57.0
1st tranche Shared Ownership	6.8	7.0	0.9	0.9
Outright sales	0.7	0.9	0.1	0.1
Care Contract Income	21.8	20.9	(1.1)	(0.9)
Other Social Housing	1.1	1.3	0.4	0.1
Other Income	3.0	2.6	0.9	0.4
Total	**207.9**	**198.5**	**60.8**	**57.6**

Growth in turnover and operating surplus is clearly driven from Social Housing Lettings with first tranche of shared ownership sales performing consistently with the previous year.

During 2015, we have carried out a strategic review of our Care & Support activities, as revenue contracts in particular have come under greater pressure. Our Care contracts make a positive direct contribution, but, taking account of attributable overheads, make a loss of £1.1m. By 2017-18 we expect all Care contracts to be covering overhead costs and this is a major strand to our Fit for The Future programme. We will seek to improve or exit any loss making contracts, and strengthen the performance anchored to our accommodation services, focusing on retirement living and homeless services.

Interest costs of £29.4m are £0.3m higher than 2014-15. No new debt was issued during the year and the increase reflects a reduction in the level of interest capitalised on a reduced level of development during the year.

Balance Sheet

The gross cost of housing properties has increased to £1.68bn (£1.65bn in 2014-15). This is a result of expenditure of £26.3m on new homes and a further £19.2m invested in capital improvements to existing properties, the latter being a record year of investment for Midland Heart. Properties with a cost of £11.7m were disposed of during the year.

Social Housing Grant (SHG) has reduced by £3.6m to £825.1m on an unamortised basis. This reflects that 2015 was the final year of a major five year government funded programme, and we are now in a period of development with reduced grant, largely funded through surpluses generated by the business.

Other fixed assets show an increase of £1.8m to £28.2m, the majority of this being investment in upgrading IT systems including a new Finance and Procurement system for the Group.

Debtors reduced from £13.2m to £13.1m due to prepayments and Social Housing Grant due of £1.6m and £2.1m respectively offset by an increase in rent and service charge arrears of £3.6m. Rent arrears of 4.75 % remained on parity with 2015.

Cash at bank and in hand decreased to £38.6m (2014-15: £52.5m). The Association remains in a strong cash position, allied to a deep ready access to secured loan facilities which ensures that all current commitments are fully funded.

Creditors of less than one year remained at a similar level (£56.8m), with a reduction in trade creditors of £3.7m to £0.6m and accruals and deferred income also reducing by £3.4m being the most significant items. Housing loans due within one year of £15.9m have increased from £11.4m in the previous year.

Longer term creditors have decreased to £1,364.1m (2014-15: £1,385.9m). No new debt was issued during the year and the amortisation of various loans during the year is the principal reason for this.

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. The Board believes that the financial covenants entered into are appropriate for a registered provider.

During the year Midland Heart extended the availability of £75m of facilities and repaid and converted a £9m debt to a revolving credit facility for future drawdown.

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 committed development spend. As at 31 March 2016 Midland Heart had £103m available in undrawn fully secured facilities and £38.6m in cash. This is sufficient to fully fund our current development pipeline.

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

	2016 £m	2015 £m
In one year or less	16.0	11.6
Between one and two years	35.0	15.9
Between two and five years	60.3	84.0
In five years or more	450.6	469.9
Total	**561.9**	**581.4**

Midland Heart has diversified our funder base, such that there is now an almost equal split in our portfolio between bank and capital market funding. As at 31 March 2016, 51% of our debt came from the capital markets and 49% from banks and building societies.

Financial Instruments

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

Midland Heart uses embedded instruments (such as fixed rate bank loans and bond issues) and stand alone 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 2016 this amounted to £73.5m.

During the year, to take advantage of low rates and to provide certainty on cashflows, Midland Heart took out a further £50m of interest rate swaps. As at 31 March 2016 our debt portfolio was 88% Fixed (2015: 78%); 10% Variable (2015: 20%) and 2% Inflation Linked (2015: 2%).

As at 31 March 2016, Midland Heart held an A1 rating with stable outlook from Moody's Investors Services, maintaining our leading credit status as one of the highest in the sector. Following the Brexit vote Moody's has changed its outlook to negative in common with other providers and state backed entities.

Value for Money (VFM)

Our new strategic direction ultimately places even greater focus on Value for Money (VFM). A fundamental VFM principle at Midland Heart is that as a not-for-profit organisation we aim to deliver social gain to our customers and their communities.

In order to deliver social value we need to be financially sound and make the most of our resources to deliver the services and homes that our customers need. We also need to provide assurance to our lenders and funders.

We take responsibility for our impact on the environment in which we operate. We recognise how important it is to get the balance right between three key drivers (social, financial and environmental) so that we have the means to deliver our new strategic direction as efficiently as possible.

More detail can be found in our VFM Self Assessment 2015-16 www.midlandheart.org.uk/VFM.

What drives our costs (regression analysis)?

In June 2016, the Homes and Communities Agency (HCA, our regulator) published their regression analysis findings on cost variation in the social housing sector. The key points are:

- The HCA findings show significant variations in unit costs between providers and that a half of this variation cannot be explained by factors such as supported housing. The HCA argue that some of the unexplained variation is due to differences in operational efficiencies.
- Specifically they compared Midland Heart's performance (from the 2015 HCA Global Accounts) to upper, median and lower quartiles. This is detailed in the table following.
- Whilst our 'headline social housing costs per unit' (£4,040) at face value appears to be above median (£3,550) according to the HCA analysis, the reality is much different. Our headline costs are actually £3,107per unit (23% less than the HCA figure) which is below the lower quartile (£3,190) (all other things being constant) as a result of two main reasons:
    - » The HCA headline social housing costs include costs of revenue contracts which are covered by income that is not dependent upon rent. These costs should therefore be excluded. For Midland Heart care and support costs are very important cost drivers. We have costs that are not directly linked to property. For example, our Care & Support charge for support services (c£17.3m) largely covers staff salary costs (£18.1m total costs). These costs are however carried in the total operating costs in the HCA Global Accounts. This skews figures and artificially inflates operating costs per unit.

Value for Money (VFM) *continued*

» To obtain a cost per unit, the HCA divide overall costs by the number of units we manage (30,437 units). However, this excludes those properties that we 'own but are managed by others', the cost for which (£10.3m) are included in our books. For Midland Heart this primarily relates to c1,100 units which are currently managed by ExtraCare Charitable Trust. These costs should therefore also be excluded.

In addition to the above, the HCA method, as they have also recognised, does not take into account stock condition (as this is difficult to measure systematically across all providers) and is no doubt an important reason for cost variation across the sector.

2015 Global Accounts	Headline social housing costs per unit (CPU)
Midland Heart (HCA findings)	£4,040
Less Care & Support Contract Costs	(£595)
Less costs of properties that we 'own but do not manage'	(£338)
Actual Midland Heart Costs (2014/15)	£3,107
Actual Midland Heart Costs UK GAAP (2015/16)	£3,232
Upper Quartile	£4,300
Median	£3,550
Lower Quartile	£3,190

The following contextual information was also provided by the HCA:

	% Supported housing	% Housing with Older Persons
Midland Heart	6.6 %	10.6 %
Upper Quartile	4 %	15 %
Median	1 %	8 %
Lower Quartile	0 %	4 %

- In order to better understand the underlying factors which influence operating costs, we had developed our own in-house multiple regression model in advance of the HCA findings. Regression analysis is a statistical tool which allows us to investigate the relationship between operating costs and possible drivers of those costs. Our regression model looked at 43 measures and the impact they had on operating costs. The final model was found to work best for 15 measures and could explain 70 % of the differences in operating costs across the sector.

  The most significant items to affect operating costs were found to be:

  - Proportion of Supported Housing
  - General needs rent levels
  - Proportion of general needs as % of total stock

Value for Money (VFM) *continued*

- Level of deprivation within which a provider operates
- Proportion of 1 bed units and bedsits
- Levels of development

Aligning our new corporate direction to VFM

We developed our new mission in 2015/16 "To be a leading housing and care business, helping people to live independently". This is about helping to support people to live independently, whatever their level of need and to support aspiration.

In addition, our new Corporate Plan sets out a number of key strategic objectives to 2020. Those that directly link to managing resources economically, efficiently and effectively to provide quality services and homes and delivering ongoing improvements are included in our new VFM strategy. Key objectives to 2020 from the VFM strategy include:

- Deliver consistently high levels of customer satisfaction for our landlord services (90% target) and provide quality Care and Support services (95% target on quality inspections).
- Provide more efficient methods for customers to make service requests. At least 50% of all customer transactions are done online.
- Reduce the preventable (e.g. abandonments) ending of tenancies to 10%.
- Deliver our efficiency savings target per annum from April 2017 (£13m for 2017/18).
- Reduce management costs in General Needs so that we are top quartile in our corporate benchmarking group.
- Our Care & Support business will be anchored in our accommodation, be financially secure and subsidy free by 2020. The current Care & Support 2020 review (see below) will aim to provide an additional £2m increase in net contribution. A further c£1m by 2020 will be needed to be subsidy free.
- 90% of key back office transactions with frontline staff are automated (paperless).

A Strong VFM Culture - Our new values

As a result of our new strategic direction, we have engaged with both customers and staff in helping to re-shape our values. These were launched at our staff conference in February 2016. Our new values, particularly 'professional', mean that we have explicitly included a value that encompasses VFM. This is being translated into behaviours and our broader culture through a number of key routes e.g. our new behaviours and standards framework, recruitment and selection and our new leadership & management development programme which was launched in May 2016.

How are we performing?

We continue to make sure we measure our VFM performance in a clear and transparent way, using a set of core indicators year on year. This is set out in the table below (excluding pension deficit) using the new Financial Reporting Standards (FRS 102 numbers).

Value for Money (VFM) *continued*

Measure	2015–16	2014–15
Operating costs per unit (General Needs only)	£3,221	£3,010
Management costs per unit (General Needs)	£945	£930
Management costs(social housing lettings) as % of turnover	19.6%	19.3%
Operating costs as % of turnover	70. 8%	71%
Operating margin (excluding pension deficit) %	29.2%	29.0%
Current tenant arrears %	4.75%	4.75%
Average re-let days	19.7	25
% Routine repairs completed on time	94.1%	89.4%
Customer satisfaction	86.6%	84.7%
Return on Assets (operating surplus + property surpluses)/property Net Book Value %)	4. 47%	4.1%
Assets – Total General Needs cost per unit (capital and revenue)	£4,061	£3,433

It is important to note that in 2015-16 we undertook a number of investment initiatives aimed to reduce cost in future years. As per our Fit for the Future Corporate Plan (see further detail below), we have already 'banked' £7.6m in 2016-17 (expected to save £8.2m in total) with further planned savings of £13m in 2017-18.

How do we compare to others?

Midland Heart is leading and developing a new performance improvement and benchmarking model for the sector with Vantage Business Solutions. They will provide strategic financial analysis; including a strong focus on a number of segmented cost ratios e.g. general needs management costs per unit rather than on just 'headline social housing costs' (HCA cost per unit definition) and on key cost drivers. This will provide an invaluable layer of detail as well as more robust comparisons against business critical KPIs, both historic and forward looking. This approach is now being adopted by a number of other organisations.

Value for Money (VFM) *continued*

A key aim is to analyse the performance of the largest c200 providers on an annual basis through publically available information, in particular from Financial Accounts, Customer Annual Reports and VFM Statements. This will be undertaken in the autumn of each year once these documents are published.

We currently 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 and have notable Care and Support operations as well as those which have an in-house maintenance team (DLO).

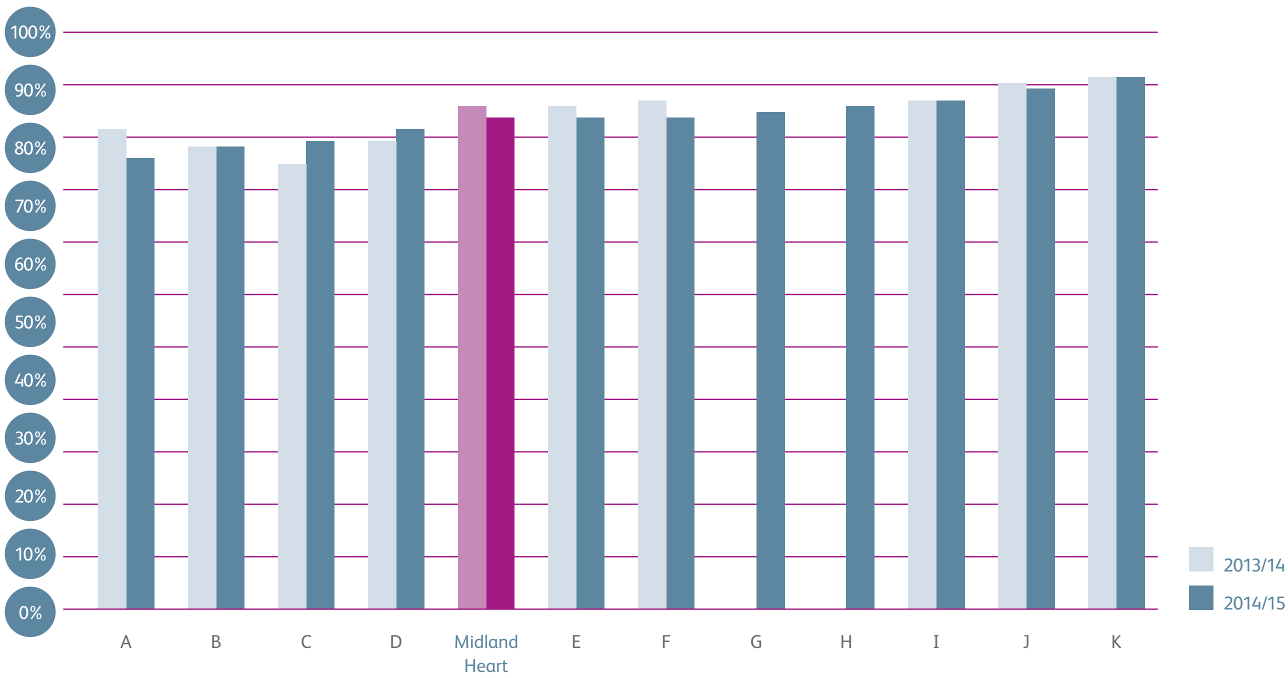
Our benchmarking group consists of:

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

The results are detailed in the graphs below. The latest information available relates to 2014-15 (UK GAAP). We have inserted the 2015-16 equivalents on the same UK GAAP basis for comparison purposes.

Overall, we are showing strong rates of improvement year on year and in comparison to other organisations, for example, on re-let days.

Overall customer satisfaction (%)



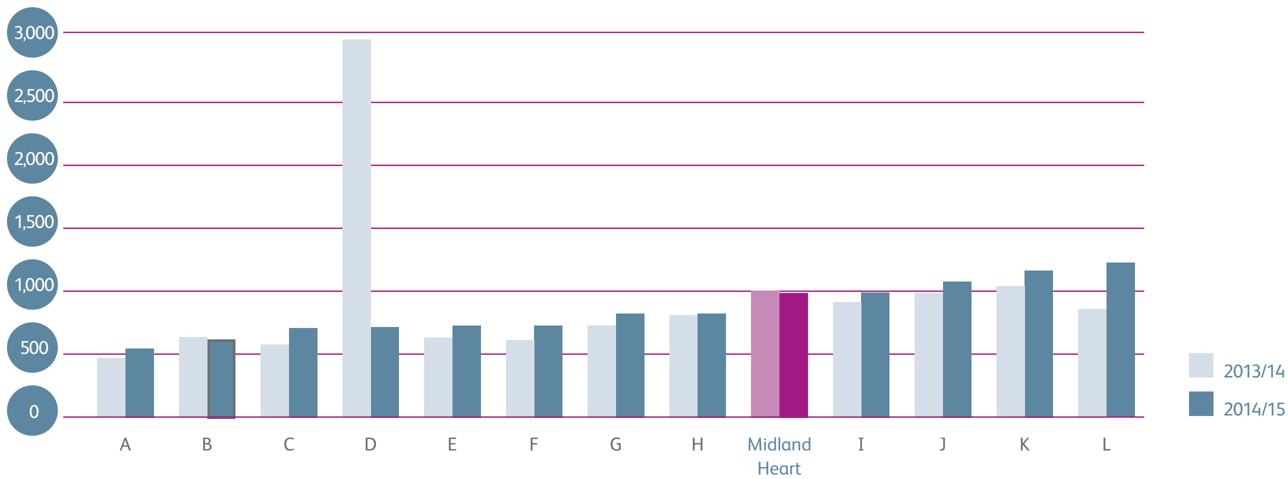
In 2014-15 we ranked 8 out of 12. Based on our 2015-16 results (86.6 %) we would rank 5 out of 12 (all things being equal).

Value for Money (VFM) *continued*

Group operating margin (%)

We ranked 6 out of 13 in 2014-15. Based on our 2015-16 results 28.5 % our ranking would stay the same (all things being equal).

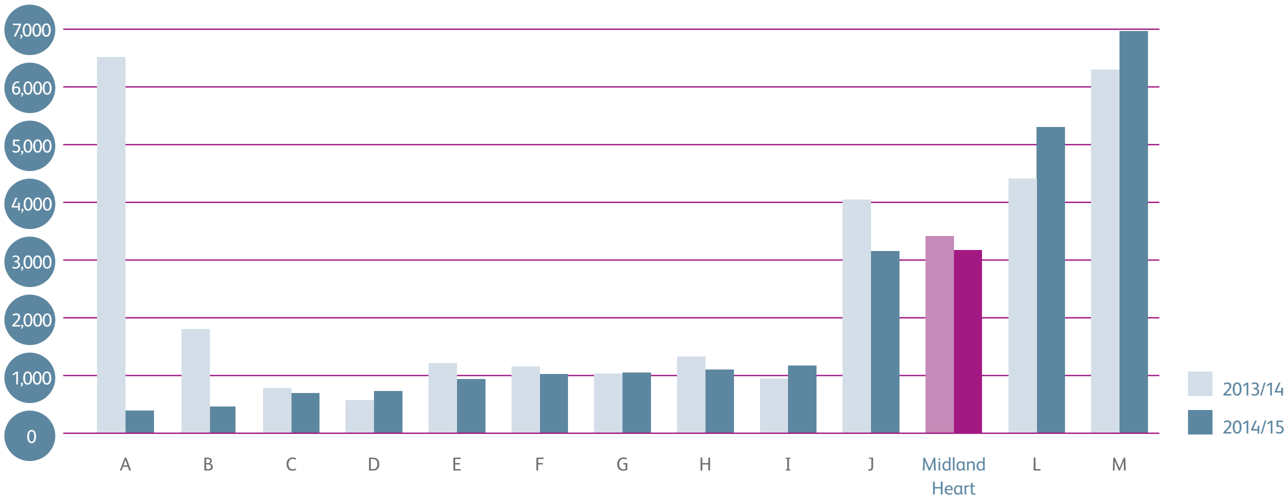
General needs management costs per unit (£)



We ranked 9 of 13 in 2014-15. Our management costs per unit fell by £19 between 2013-14 and 2014-15. There was an average increase of £94 per unit over the same period (excluding organisation D). As a housing and care provider, more complex businesses require higher levels of central costs. This factor is a clear driver of higher costs (see section 4.2 below – regression analysis). Based on our 2015-16 results (£1,013 per unit) we would continue to rank 9 out of 13 (all things being equal).

Value for Money (VFM) *continued*

Care & Support management costs per unit (£)



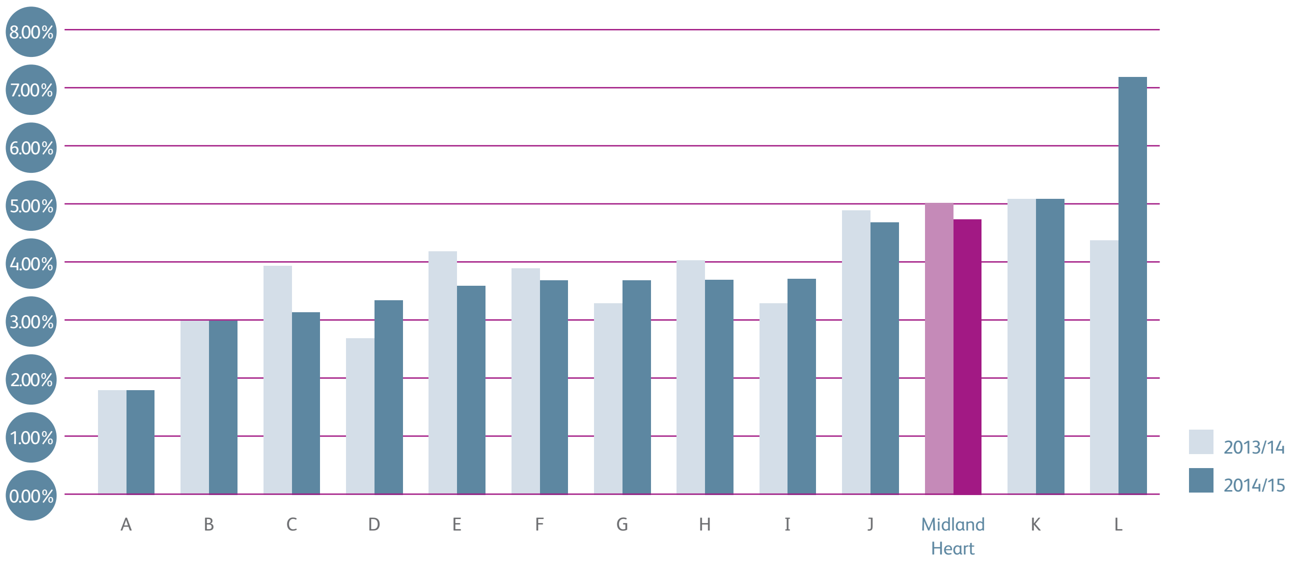
We ranked 11 out of 13. It is worth noting that different care and support providers will have different costs based on the types of clients they serve e.g. more intensive and therefore higher costs are associated with mental health and learning difficulties. However, we recognise there is some work to do in this area, hence our current Care and Support Review (see below). Based on our 15-16 results £3,510 per unit, we would continue to rank 11 out of 13 (all things being equal).

Total costs of Assets per unit (maintenance and capitalised components) (£)

We ranked 7 out of 13. Our Asset costs per unit increased by 10% from 2013-14 to 2014-15 compared to 2% for the group (excluding organisations A and B). Based on our 15-16 results of £3,847 per unit, we would rank 4 out of 13 (all things being equal).

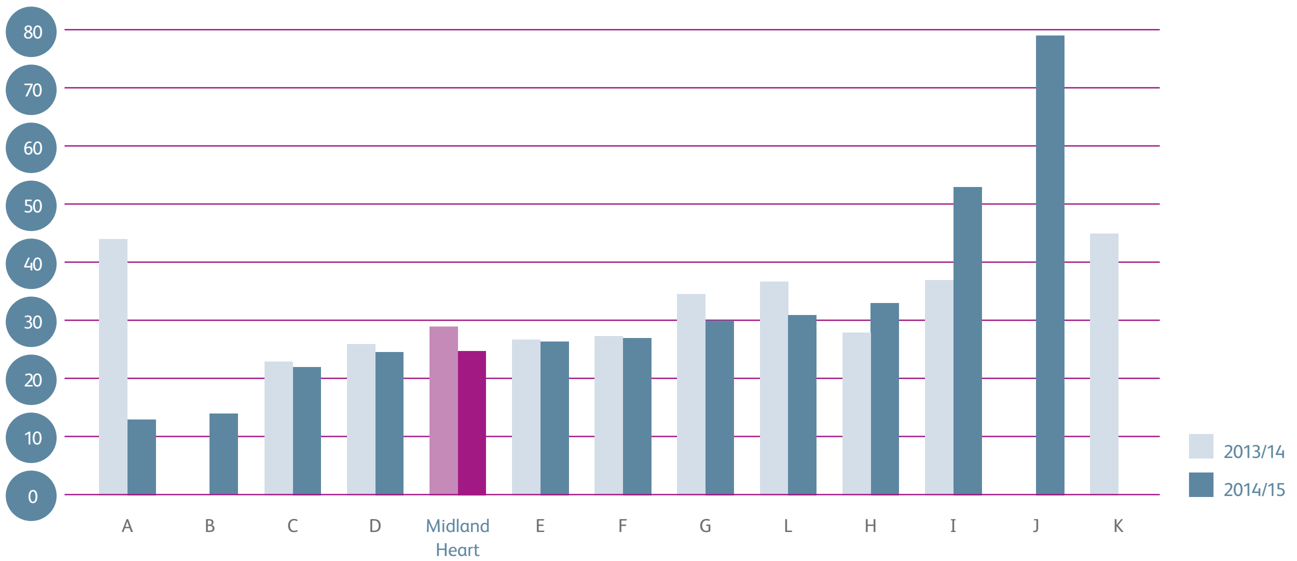
Value for Money (VFM) *continued*

Published current tenant arrears (%)



We ranked 11 of 13. However our CTA measure does not include notional balances i.e. expected housing benefit payments from Local Authorities. Our arrears decreased by 0.28% between 2013-14 and 2014-15, the average for the group increased by 0.14%. Our CTAs stayed the same at March 2016 and hence our ranking.

Average re-let times (days)



We ranked 5 of 13, we saw the largest improvement of the group over the period, a 17% reduction (excluding organisation A). Based on our 15-16 results (19.7 days), we would rank 3 out of 13 (all things being equal).

In addition, we also share information through the 'M6 Group' (large Midlands based providers) and are members of 'Super BOB', an externally run back office benchmarking group. We have consistently remained top quartile.

FIT FOR THE FUTURE

Fit for the Future – Our Corporate Plan

Our corporate strategy is designed to ensure that Midland Heart can continue to survive and thrive between now and 2020 and can become truly 'Fit for the Future'.

We are a strong business, we are financially stable and we provide quality services. We are built on the strong foundations of our legacy and have a history of adapting to change ever since 1925. This is an excellent platform from which our Fit for the Future plans have been developed and means we remain very much in control of our own destiny.

Our revised financial plan was submitted to the Homes and Communities Agency in October 2015 which showed that we will deliver £10m of savings from April 2017. In fact, we have now identified savings of £13m, £7.6m of which has already been 'banked'.

Moody's (our credit rating agency) has said that by making savings early and upfront we will be ahead of the curve and that this ensures we are well placed to continue to thrive. Our credit rating continues to be assessed externally by Moody's and we currently enjoy an investment grade of A1 which is one of the highest in the sector. The overall shape of the savings is set out in the table following and is tracked at Board of Management level:

What	2016-17	2017-18
Re-shaping our community investment & efficiency savings in our Customer & Communities Directorate	£1,080,000	£1,080,000
Customer First Programme	–	£490,000
Voids and Mutual Exchanges	£100,000	£750,000
Office estate rationalisation	–	£350,000
Treasury management and re-financing	£1,425,500	£2,251,500
Planned changes to asset management programmes	£3,800,000	£3,800,000
Care & Support strategic review	–	£2,000,000
Procurement	£300,000	£800,000
Changes to support services and infrastructure	£880,000	£880,000
Sickness absence	£150,000	£150,000
Care and Support service charge and void Improvements	£450,000	£450,000
Total	**£8,185,500**	**£13,001,500**

Our Fit for the Future programme consists of four key areas:

- Customer First: This is a fundamental change to our operating model in Customer & Communities that will help deliver VFM. This will also include creation of a Customer Hub and more specialist teams e.g. repairs reporting & diagnosis responsibility will transfer to a team within Asset Management, whereby all contractors and Midland Heart staff will work together (in the Hub) to improve VFM and customer service. In addition, there will also be a rationalisation of our offices and the creation of new touchdown points for regional officers so that they are closer to customers and our stock. This will improve our customer (more officers on patch), environmental and financial outcomes.

Fit for the Future – Our Corporate Plan *continued*

- Care & Support Review: Our aim to 2020 is to anchor our care and support services in our accommodation, for this to be financially secure, safe and well led, as well as to be subsidy free. This involves a complete review of our Care & Support business including, where appropriate, exiting loss making schemes, reviewing our key processes such as voids and staff rotas, appraising our commercial services such as catering and assessing what this means for our overheads and future operating model.
- Right Homes in the Right Places: This includes planning for and exiting of those properties which incur high management and maintenance costs (c1,600 homes identified as part of our Strategic Asset Management System (SAMS) appraisal). All sales proceeds will be used to fund new homes. We aim to build up to 4,500 homes to 2020 and will continue to build homes for affordable rent. This will be dependent upon Right to Buy volumes. We are also seeking to expand our Property Care division (DLO) to deliver improved VFM by April 2017. This followed a robust options appraisal to Board which included an analysis of the opportunity cost.
- New ways of working: Ensuring we have the right supporting infrastructure and people in place to deliver our programme of change e.g. implementing our new Total Rewards strategy, E-Learning, leadership and management programme as well as our Business Intelligence strategy.

In order to bring the above to life, we have highlighted a number of case studies. Further detail is provided in our 2015-16 VFM Self Assessment which can be found at www.midlandheart.org/VFM. At a high level, these are shown in the table below:

Customer First	VFM Benefits
Customer First programme which sets us up for further digital services	£490k of savings in 2017-18
Lean voids review in General Needs	Void loss reduction of £373k in 2015-16 against a forecasted target of £240k
Mutual Exchanges	£750k savings per annum from 2017-18
Money Advice	£521k additional income raised for customers in Care & Support & £1.7m of additional benefits for General Needs customers, £665k of this relates to Housing Benefit

Care & Support Review	VFM Benefits
Maximising income in Extra Care Services	Increased service charge income by over £350k per annum due to the re-negotiation of care payment schedules with 4 Local Authorities
Lean voids review in Care & Support	The number of empty properties in 2015-16 fell by 102 to 302
Tackling negative contributing schemes	We have started to exit loss making schemes
Transfer of 14 Extra Care Schemes to Midland Heart	We expect to increase our surplus generated by this transfer arrangement by almost £2m per annum

Fit for the Future – Our Corporate Plan *continued*

Right Homes in the Right Places	VFM Benefits
Identifying poorly performing properties (high management and maintenance costs)	Planning and exiting of c1,600 homes from 2016-17. Sales proceeds will be used to fund new homes
Expanding Property care (in-house maintenance team)	Savings of £5.3m over 10 years
Re-procured Cyclical Decorations Contract	Savings of £1,530,000 over the contract duration

New Ways of Working	VFM Benefits
Rationalising our offices and creating new touchdown points	Savings of £350k in 2017-18 and recurring thereafter
Lean Recruitment	A complete redesign and automation of how we recruit, saving in time for HR and managers and improved candidate experience
Treasury management and re-financing	Savings of £1.4m in 2016-17 and £2.25m in 2017-18
Procurement	Savings of £300k in 2016-17

Delivering social value

How we demonstrate Social & Environmental value

Our work to provide high quality housing, care and support services is underpinned by our continued commitment to deliver social value; that means joining with local partners to provide a collective benefit to the communities in which we operate.

In 2014 Midland Heart was awarded a £4m contract to deliver Supported People (SP) services in Birmingham. As part of this we signed up to the Birmingham Business Charter for Social Responsibility. Our social value work is delivered within the principles of the Charter. Key outcomes include:

98
Provided 98 new work placements supporting people into work

91
Supported 91 customers with money & debt advice or to open a bank account

Committed to making social value a part of our procurement processes

7
Created 7 apprenticeships and 5 traineeships

6
Provided 6 events which supported 272 disadvantaged individuals

24.6%
Reduced our office carbon footprint by 24.6% per staff member

9
Released 9 staff members to mentor in Birmingham schools

Paid the living wage to employees of Birmingham City Council contracts

Achieved Investors in People gold award

Social Enterprise Value

We measure our Social Enterprise Value (SEV) which is the difference between the rents we charge to our customers and the equivalent market rates. In 2015-16 our average social rents were 68% of market rents (2014-15: 72%) across our 23,072 socially rented properties, demonstrating a proportional retained performance since 2014-15. By translating this into an annual saving to our customers, we can report £51m savings (2014-15: £42m).

How we demonstrate Social & Environmental value *continued*

We fund this saving to our customers from grants received from the Government combined with the operating surpluses that we have generated during the previous years.

Demonstrating Environmental Value

Midland Heart continues to be a member of SHIFT (Sustainable Homes Index for Tomorrow) where we benchmark against environmental and sustainability activity. We achieved silver status in our last SHIFT submission and target an improvement in our next submission due in 2016.

We have been active in achieving improved energy efficiency for our offices and customer homes by implementing environmental and sustainability awareness activities e.g. annual green week, new training programmes (including e-learning) for our staff, recognising waste management improvements for our offices (recycling facilities and no waste going to landfill), reviewing and improving the offer of transport activities for our contractors and staff (travel wise schemes) and accessing government funding (£1.6m) to undertake solid and cavity wall insulations to over 3,000 of our customers' homes. This improves energy efficiency and has the potential to cut CO_2 emissions and reduce utility costs for our customers.

Recently, we have rewritten our Environmental and Sustainability Strategy that is now more flexible towards government policies and obligations. The strategy also has a strong focus on behavioural change programmes.

Our developments

2015-2016 saw the continuation of Midland Heart's programme, part of which received funding from the Homes and Communities Agency via the Affordable Homes Guarantees Programme (AHGP). 261 homes were completed of which 215 were for rent and 46 for shared ownership.

Some of the schemes developed are detailed below.

Howat Road, Golden Eagle, Keresley

This is a Design and Build opportunity that was brought to us by the Contractor UK Construction. The development, which formerly housed the Golden Eagle Pub, started in March 2014 and completed in May 2015 with the construction of 15 new affordable homes at a cost of £1.6m.

These consist of 4 x 1 bedroom apartments, 3 x 2 bedroom apartments and 8 x 3 bedroom houses. The scheme has been funded by Midland Heart and the Homes and Communities Agency.

Stow Heath Lane, Wolverhampton

Midland Heart took handovers in September 2015 at the development in Stow Heath Lane, with final handovers in October 2015.

This development has been built on the site of a former public house to provide 30 new homes for rent (18 Houses and 12 apartments) with accompanying car parking and external areas. The scheme is 2 miles south east of Wolverhampton city centre with the surrounding area being mostly residential. The street is called Larkspur Close in keeping with the surrounding street names' floral theme.

The development works were carried out by Galliford Try on a design and build basis at a cost of £3.1m. Midland Heart has maintained access to a public open space at the rear of the site instead of making S106 commuted sum payments.

Grove Lane, Nuneaton

The development, working in partnership with Westleigh, provides 52 new homes (41 for affordable rent and 11 for shared ownership).

There are 2 x 2 bed bungalows, 4 x 2 bed flats, 20 x 2 bed houses, and 26 x 3 bed houses with a total scheme cost of £3.5m.

All phases achieved 'golden brick' stage in November 2014, at which point all of the land ownership transferred to Midland Heart. The scheme had phased handovers commencing June 2015 and final handovers were in November 2015.

City Wharf, Davidson Road, Lichfield

This development adjacent to Lichfield City train station was constructed by Galliford Try for Midland Heart with a total cost of £2.5m. It consists of 20 one and two bedroom flats and 4 x 2 bedroom houses. The location is close to the town centre and the amenities it has to offer. Construction started in the summer of 2014 and handed over in November 2015.

One of the streets is named Robert Davies Walk. This is named after nineteen-year-old Private Robert Davies who was shot dead by the IRA at Lichfield City Railway Station 20 years ago. He was waiting for a train making his way back home to Pontarddulais in Wales after completing his first 12 weeks of training.

Chatham Road, Birmingham, Phase 2

Chatham Road, Northfield is a land, design and build package introduced to Midland Heart by Saxonby Affordable Housing, which handed over in February 2016. These homes have been built on formerly disused land, at the top of Chatham Road, which is an existing Midland Heart scheme.

The 12 unit scheme comprises 5 x 1 bedroom houses and 7 x 2 bedroom houses all for Affordable Rent. The total scheme cost is £1.4m.

Charnwood Grove, Loughborough

This scheme which was built on the site of the former Shelthorpe Recreation Club, handed over in March 2016. This scheme forms part of the 13-17 AHGP programme with scheme cost at just over £2m.

Our developments *continued*

Lying on the southern edge of the town within easy walking distance of the centre, the development provides 19 Affordable homes for rent comprising 5 x 1 bedroom flats, a 1 bedroom bungalow, 2 x 2 bedroom flats, 5 x 2 bedroom houses and 6 x 3 bedroom houses.

The development which was supported by the Local Authority and received grant from the Homes and Communities Agency was built for Midland Heart by Kaby Developments of Milton Keynes and the land was acquired from their Holding Company, Greenspace Developments.

Scraptoft, Leicestershire

This is a development of 111 new homes in total in the village of Scraptoft, The development was introduced to Midland Heart by Persimmon to enter into an "Off the Shelf" purchase of 29 Affordable units with a total cost of just under £2.7m. The scheme is located in the area of Harborough District Council.

The scheme comprises 4 bungalows and 13 houses for rent and 12 houses for Shared Ownership. The breakdown is: Rent: 4 x 2 bed bungalows, 4 x 2 bed houses, 9 x 3 bed houses and Shared Ownership Unit Mix: 6 x 2 bed houses, 6 x 3 bed houses.

The scheme started on site in December 2013 and completed in April 2015.

Fir Tree School (Chestnut Street), Walsall

This scheme is built on the former Fir Tree School site and will have 20 units once completed by Persimmon and will be known as Chestnut Street. The scheme will compromise 6 x 2 bed flats and 4 x 3 bed houses for Social Rent, also 7 x 3 bed and 3 x 2 bed houses for Shared Ownership. The development started on site in June 2015 and has had phased handovers which will complete in June 2016. The total scheme cost will be approximately £2m.

Hunts Lane, Desford, Leicestershire

This scheme is a Section 106 opportunity for 54 homes, with a total cost of £4.5m, presented to us direct by Bellway Homes East Midlands on a larger private site of 180 homes in the village of Desford which lies within the Hinckley and Bosworth Borough Council area.

40 units will be for Affordable Rent and 14 will be for Shared Ownership. There is a mix of one and two bedroom flats; two, three and four bedroom houses, and two bedroom bungalows.

The scheme started on site in April 2014 and is due for completion in October 2016.

Woodington Road, Birmingham

Birmingham City Council is disposing of two sites in Sutton Coldfield and these have been secured by Bellway West Midlands Ltd (Tamworth Office) for the purpose of new residential development.

The Council has linked the two sites in respect of the provision of the S106 affordable homes obligation. The first site at Lindridge Road will not directly provide any Affordable homes. The 12 Affordable homes required for both sites are being provided on the Woodington Road site. The remainder of the Woodington Road site will be developed to provide 15 Affordable rented family houses supported by Homes and Communities Agency (HCA) grant in the AHGP 2013-2017 Programme with a total cost of £3.4m.

Halford Court, Tamworth

This scheme is built on land already owned by the organisation which was previously Touchstone offices. Midland Heart also has another scheme on the same road which is a Care and Support scheme.

Halford Court started on site, with Harpers, in February 2015 and completed in January 2016 with a scheme cost of £1.1m. The development provides 10 flats for Affordable Rent.

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 Inability to deliver services within reducing funding envelope arising from sector changes from Government rent controls, housing policies and welfare reform.	Robust long term financial planning, budgetary control, cash flow and debt management systems. Financial stress testing. VFM reviews. Effective sustainable allocations policy and income collection. Money advice to customers
Care and Support operations become financially unviable or unsustainable.	Robust controls on new business/extensions via New Business Group. Strong financial contract management. Service charging model implemented. Strategic review of Care and Support business undertaken by PWC.
Breaking Loan Covenants.	Robust treasury management systems. Adherence to Finance "Golden Rules". Prepare and approve Asset/Liability Register. Carry out stress testing on Financial Plan.
Assets Inability to optimise asset portfolio including the impact arising from sector changes, such as right to buy, local housing allowance.	Robust strategic asset management systems, planned and reactive maintenance programmes, annual stock condition surveys, regular benchmarking of performance of in-house maintenance function (Property Care). Effective abandonment and void management systems. Modelling possible impacts of Right to Buy based on available information. Robust programme management of new build schemes. Effective governance oversight and approval.

Risk management *continued*

Risk Factor	Management Actions to Mitigate Risk
Compliance	
Inadequate governance arrangements and insufficient compliance regime to maintain a good rating against HCA regulatory standards.	Clear governance structures and terms of reference for Board, Committees and Executive. Governance and Control Framework (Standing Orders) in place. Compliance with regulatory standards. Effective Board and Executive succession recruitment, retention and succession planning. Annual review of Board and Committee effectiveness. Robust staff engagement and workforce planning control systems in place. Monthly KPIs and quarterly HR dashboard monitoring. Robust risk management and assurance framework in place, including Corporate Risk Management Group (CRMG), risk workshops and Audit and Risk Committee deep dive review of selected risks. Robust project management and governance systems including Programme Management Board oversight of major proposals. Formalised benefits realisation/VfM assessments. Effective sickness management and performance reporting systems. HR Business Partner oversight. Robust policy and assurance operating model. Robust procurement and contract management systems and controls. Effective contract management framework including regular compliance monitoring and reporting. In-house procurement team advice and guidance. KPI reporting. Clear procedures for managing complaints, compliments and feedback established and approved. Business continuity management policy, systems and procedures in place. Maintain CQC compliance of registered schemes by ongoing application of Care and Support assurance framework.
Change	
Failure to effectively assess, respond and manage the Fit for the Future programme, the impact of changes in government legislation or local policies which are detrimental to the organisation's objectives.	Robust horizon scanning systems in External Affairs. Executive level monitoring of the external environment to assess new and emerging risks and respond accordingly. Effective policy consultation controls. External Affairs Strategy. Robust programme management, reporting and governance arrangement in place for Fit for the Future Programme. Staff engagement/workforce planning. Project team in place to manage the phased handover repatriation of schemes currently managed by agent. Robust IT strategy in place to rationalise the number of applications via effective project steering groups and Programme Board.
Care	
Serious harm or neglect to Care and Support 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, tailored to assessed need. OSKA system gives visibility and monitoring of compliance. Annual internal inspections, service improvement plans and external inspections.
Health & Safety	
Potential fatal or serious injury to customer, staff, contractor or third party.	Robust health and safety management system including training supported and monitored by a qualified H&S team. Health and safety policy and procedures, including health and safety risk assessments established. Contractor health and safety management compliance systems in place within Assets. Assets compliance programme – addresses risk related to Gas; Fire; Asbestos; Legionella; Electrical. Fire Risk Assessment Team – established in Assets. Oversight by Health and Safety Committees including oversight of KPI compliance reporting. Health and safety survey. RoSPA Accreditation. Proactive management of commercial tenants supported by external agents and the legal team. Tenants reminded of their H&S responsibilities under their leases and ongoing inspections.

Risk management *continued*

Risk Factor	Management Actions to Mitigate Risk
Growth Lack of sufficient and available resources to exploit new business and merger and acquisition opportunities.	Robust growth strategy, mergers and acquisitions strategy. Ongoing review of markets in the light of sector changes. Operation of strategic relationship management tool. Effective oversight of new business via Finance and New Business Group. Performance tracking of benefits and VFM in place. Effective due diligence.
Reputation	
	Robust KPI reporting in place, quality assurance frameworks, communications strategy in place to proactively manage situations where reputation may be at risk.
	Effective Data Governance – robust data protection policy and procedures in place. Data Protection Act training. Ongoing DPA awareness campaign.
	Effective Information Security compliance: annual penetration testing of Citrix access gateway/ mobile device management/anti virus software/firewalls/ new ICT strategy. Training and e-learning advice and campaigns.
MHL brand is damaged.	Positive relationship management with Regulators and Commissioners. Changes in regulations monitored to ensure ongoing compliance with regulations.
	Robust media contact controls in place, External Affairs and Communications Strategy. Project level evaluations to showcase and evidence social value.
	Robust corporate performance monitoring and reporting.
	Effective in-house litigation team providing advice and guidance on compliance with law and regulation. Annual review of litigation risks. High risk legal work is outsourced to law firm experts. Panel firms provide updates on legal risks to Midland Heart staff.

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 Corporate Risk Management Group meets 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.

Corporate Governance

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 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 has been updated and was 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, Deloitte.

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 2016, there were ten Board Members, of whom nine are non-executives and one 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.

Corporate Governance Report *continued*

During 2015, the Board commissioned an in depth independent review of the effectiveness of its governance which was delivered by Deloitte. DeloItte looked at the effectiveness of both the Board and the overall governance system within Midland Heart and concluded that:

1. The Board is led by a strong leadership team and is comprised of high calibre individuals who bring a range of skills and experience that are well matched to the organisation's strategy, risk and opportunities.
2. The Board demonstrates many of the features of a highly effective Board and is delivering on its governance responsibilities

As part of our Fit for the Future change programme the Board has commissioned PWC to advise on whether any changes are required to board composition and governance structures to optimise the governance of the programme in the period to 2020.

At 31 March 2016 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
- Data Protection
- Directorate Assurance Planning
- Review of Standing Orders

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:

- Implementations of changes to IFRS
- 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

Corporate Governance Report *continued*

- Checking covenant compliance
- Detailed review of long term Financial Plan, including assessing adequacy of stress testing of plan
- Overseeing delivery of our Development programme and targets

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:

- Oversight of plans to change staff terms and conditions
- Review of long term pensions liabilities and options for mitigating associated risks
- Appraisal of CEO and Executive team
- Annual pay review for CEO and Exec team
- Plans for gender pay reporting

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

- 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 structure required to support delivery of Corporate Strategy

It is chaired by Karl George.

Corporate Governance Report *continued*

Customer and Communities Committee

The Committee's prime purpose is 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.

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

- Safeguarding effectiveness
- Complaints
- Review of customer service performance
- Approach to assuring Fire safety
- Customer access strategy
- Implementation plans for Right to Buy
- Assessing impact of imposition of Local Housing Allowance rent cap

It is chaired by Martin Tiplady.

Care and Support Committee

The Committee's prime purpose is 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.

Some of the areas considered by the Committee were

- Risk management
- Customer involvement
- Quality assurance inspections
- Complaints
- Voids performance

It is chaired by Robert Lake.

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.

Corporate Governance Report *continued*

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 local scrutiny panels attended by our customers for all areas of our business which directly impact customers. Customers are also involved in some procurement activity and decision making. 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.

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

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 focus on the significant risks that threaten the Group's ability to meet its strategic objectives. Such systems can only provide reasonable assurance against material financial misstatement or loss.

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

Control system	Contribution
Governance arrangements	The Group's governance arrangements as described in this report provide regular and significant oversight and scrutiny over the business.
Terms of Reference for the Audit and Risk Committee	Provides for a detailed system of scrutiny and checking 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, together with any necessary remedial measures. This includes monitoring of delivery against targets included in our Fit for the Future change programme.
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, who in turn report 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.

Statement on Internal Control *continued*

Control system	Contribution
Quality assurance reports	These look at specific areas of operational performance in the two customer facing business units, and the outcome of these are reviewed at Executive Board and Audit and Risk Committee.
Directorate assurance plans	Each Directorate produces an annual plan which sets out the key risks faced and the plans it has for managing and mitigating such risks. The plan – and performance against the plan – is overseen by Audit and Risk Committee.
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.

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

- The internal auditors who expressed this opinion in the 2015-16 Internal Audit Annual Report.
- The external auditors who gave an unqualified opinion on the 2015-16 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 2015-16 which delivered a greater than budgeted surplus.
- There being 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.

Statement on Internal Control *continued*

- 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
  - Homes and Communities Agency annual audit of development programme
  - External funding reviews and financial/governance reviews by credit rating agencies
  - Internal quality assurance frameworks
  - Health & Safety risk assessments and inspection outcomes
  - RoSPA/British Safety Council (BSC) audits of Health and Safety management system
  - 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 performance of staff 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. 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 2016. 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.

Statement on Internal Control *continued*

HCA Regulatory Standards Compliance

For financial years from 1 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 confirms that it has approved a resolution to enter into a voluntary agreement with Government to implement the Government's Right to Buy policy. It is anticipated that the Right to Buy offer will be made available to eligible tenants from September 2016. The Board has decided that it intends to replace RtB properties sold to tenants on a 1:1 basis.

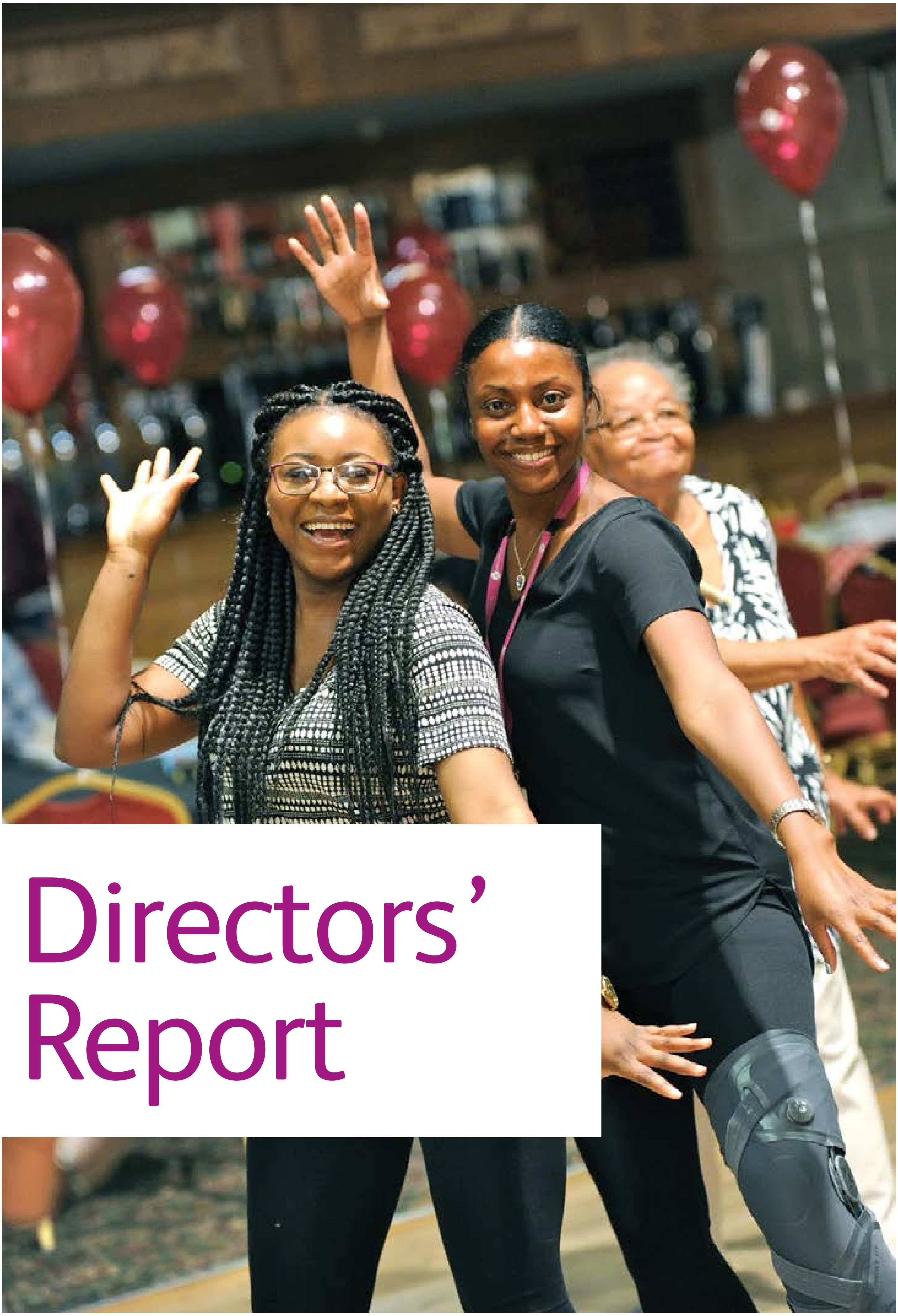
Mergers and Partnerships

The Board decided in February 2016 to adopt the NHF Merger Code. This is a voluntary code which sets out ten 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 in achieving this corporate objective.
- 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 will arise with fellow housing associations within the greater Midlands.
- 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

Directors' Report

The Board of Directors present their report, together with the audited financial statements for the year ended 31 March 2016.

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.

Business review

A review of the operational and financial performance of Midland Heart for the year ended 31 March 2016 can be found in the strategic review on pages 12 to 19.

Income and surplus for the year

The Group's activities generated turnover for the period of £207.9m (2015: £198.5m) on which a surplus of £27.5m (2015: £32.1m) was achieved.

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 and through our single Equality Scheme seek 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". We also positively provide additional support and training for disadvantaged groups, for example people with disabilities, who may have special requirements to undertake their work.

Directors' Report *continued*

Modern Slavery Act

This statement sets out Midland Heart's actions with regards to the Modern Slavery Act 2015 for the financial year 2015–2016. The actions outlined below have taken place since the Home Office Practical Guide: Transparency in Supply Chains was issued in October 2015.

We have taken a number of steps to combat slavery and human trafficking, the details of which are provided below.

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. Our approach to prevent slavery and human trafficking is now included in this key document to demonstrate our commitment to our obligations.

The following policies have undergone review in 2015-2016 in relation to the Modern Slavery Act and will be launched in financial year 2016–2017.

- Code of Conduct
- Recruitment and Selection Policy (which covers Agency Staff)
- Single Equality Scheme
- Whistleblowing Policy

Due Diligence: Mitigating Risk in Supply Chains

As part of our initiative to identify and mitigate risk in supply chains we have updated our Procurement Pre-Qualification Questionnaire to include questions related to modern slavery and human trafficking. We have also made amendments to our standard Terms and Conditions requiring suppliers to agree to a modern slavery clause.

Effectiveness

Our Contract Management Framework is the means by which we monitor and performance manage our contractors. As part of this framework we have updated our Contract Management Meeting Report to ensure that we make recurring checks related to slavery and human trafficking in our suppliers' operations.

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.

Training

The updates to the key documents and frameworks noted in this statement have been formally communicated to staff. We have also started developing training for staff in relation to the Modern Slavery Act which we expect to be rolled out in this financial year.

Midland Heart's health and safety management system won the Healthcare Industry Sector award in the Royal Society for the Prevention of Accidents 2015 awards.

Directors’ Report *continued*

Health and Safety

Midland Heart is wholly 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 of our Health & Safety Policy and Management System, by training and raising awareness of Health & 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. During 2015, we set up a specialist unit to carry out Fire Risk Assessments on our properties and to ensure that any work identified in such assessments is carried out in a timely way and prioritised on the basis of risk.

The Executive Board together with the Audit and Risk Committee and Board receive regular reports on 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.

Midland Heart’s health and safety management system won the Healthcare Industry Sector award in the Royal Society for the Prevention of Accidents 2015 awards.

Investment for the Future

Midland Heart is committed to investing in our properties and the communities which we serve. During the year we invested £23.7m (2015: £15.2m) on planned improvements and major repairs to our properties. Our asset management strategy also provides for the disposal of a number of properties which sit outside 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.

Directors' Report *continued*

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.

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 28 September 2016. 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 56.

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.

The Government's announcements in July 2015 impacting on the future income of the Group have led to a reassessment of the Group's business plan as well as an assessment of imminent or likely future breach in borrowing covenants.

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 SORP 2014 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 FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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

In preparing these financial statements, the 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 Foster	**John Edwards CBE**
Company Secretary	*Chairman*
22 July 2016	*22 July 2016*

Independent auditor's report to Midland Heart Limited

We have audited the financial statements of Midland Heart Limited for the year ended 31 March 2016 set out on pages 59 to 112. 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 56, 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.

Independent auditor's report to Midland Heart Limited *continued*

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 2016 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
22 July 2016

Group Statement of Comprehensive Income

for the year ended 31 March 2016

	Note	2016 £'000	2015 £'000
Turnover	3	207,922	198,490
Operating expenditure	3	(147,162)	(140,886)
Operating costs - pension deficit		(9,342)	–
Operating Surplus	3	**51,418**	**57,604**
Surplus on disposal of property, plant and equipment	6	3,482	2,383
Interest receivable	7	1,131	1,162
Interest and financing costs	8, 25	(29,413)	(29,160)
Surplus / deficit on revaluation of investment properties	11	845	85
Surplus before Tax	9	**27,463**	**32,074**
Taxation	10	–	–
Surplus for the year		**27,463**	**32,074**
Other comprehensive income			
Movement in fair value of cash flow hedged financial instruments	24	(5,230)	(30,879)
Total comprehensive income for the year		**22,233**	**1,195**

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

These financial statements were approved by the Board of Directors on 22 July 2016 and signed on its behalf by:

Member
John Edwards

Member
Anna East

Member
Ruth Cooke

midland heart
housing, care and opportunity

Association Statement of Comprehensive Income

for the year ended 31 March 2016

	Note	2016 £'000	2015 £'000
Turnover	3	207,012	197,862
Operating costs	3	(147,083)	(140,742)
Operating costs - pension deficit		(9,342)	–
Operating Surplus	3	**50,587**	**57,120**
Surplus on disposal of property, plant and equipment	6	3,417	2,364
Interest receivable	7	1,131	1,162
Interest and financing costs	8, 25	(29,213)	(28,887)
Surplus before Tax	9	**25,922**	**31,759**
Gift Aid receivable		695	485
Taxation	10	–	–
Surplus for the year		**26,617**	**32,244**

Other comprehensive income			
Movement in fair value of cash flow hedged financial instruments	24	(5,230)	(30,879)
Total comprehensive income for the year		**21,387**	**1,365**

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

These financial statements were approved by the Board of Directors on 22 July 2016 and signed on its behalf by:

Member
John Edwards

Member
Anna East

Member
Ruth Cooke

Group Statement of Financial Position

as at 31 March 2016

	Note	2016 £'000	2015 £'000
Fixed Assets			
Tangible Assets:			
Housing properties	12	1,461,609	1,446,304
Investment properties	11	11,300	10,455
Other Fixed Assets	13	28,182	26,412
Fixed Asset investments	14	3,639	4,343
Total Fixed Assets		**1,504,730**	**1,487,514**
Current Assets			
Debtors	16	13,174	13,237
Investments	17	632	632
Properties for sale and work in progress	18	2,171	4,872
Cash and cash equivalents	19	38,628	52,524
		54,605	**71,265**
Creditors: Amounts falling due within one year	20	(56,764)	(56,602)
Net Current (Liabilities)/Assets		**(2,159)**	**14,663**
Total Assets less Current Liabilities		**1,502,571**	**1,502,177**
Creditors: Amounts falling due after more than one year	21	(1,364,065)	(1,385,904)
Total Net Assets		**138,506**	**116,273**
Reserves			
Revenue reserves		212,012	184,549
Cash flow hedge reserve		(73,506)	(68,276)
Total Reserves		**138,506**	**116,273**

These financial statements were approved by the Board of Directors on 22 July 2016 and signed on its behalf by:

Member
John Edwards

Member
Anna East

Member
Ruth Cooke

Association Statement of Financial Position

as at 31 March 2016

	Note	2016 £'000	2015 £'000
Fixed Assets			
Tangible Assets:			
Housing properties	12	1,465,358	1,450,020
Other Fixed Assets	13	19,435	17,519
Investments	14	3,639	4,343
Investments in subsidiaries	15	6,067	6,067
Total Fixed Assets		**1,494,499**	**1,477,949**
Current Assets			
Debtors	16	13,880	13,302
Investments	17	632	632
Stock and Work in Progress	18	2,171	4,872
Cash and cash equivalents	19	37,307	51,910
		53,990	**70,716**
Creditors: Amounts falling due within one year	20	(57,655)	(57,463)
Net Current (Liabilities)/Assets		**(3,665)**	**13,253**
Total Assets less Current Liabilities		**1,490,834**	**1,491,202**
Creditors: Amounts falling due after more than one year	21	(1,355,217)	(1,376,972)
Total Net Assets		**135,617**	**114,230**
Reserves			
Revenue reserves		209,123	182,506
Cash flow hedge reserve		(73,506)	(68,276)
Total Reserves		**135,617**	**114,230**

These financial statements were approved by the Board of Directors on 22 July 2016 and signed on its behalf by:

Member
John Edwards

Member
Anna East

Member
Ruth Cooke

Group Cash Flow Statement

for the year ended 31 March 2016

	Note	2016 £'000	2015 £'000
Cash flows from Operating Activities			
Operating Surplus		**51,418**	**57,604**
Adjustments for:			
Depreciation & Impairment charges		24,823	22,894
Amortisation of grant		(8,150)	(7,979)
Interest received		1,131	1,162
Interest and financing costs (including capitalised interest)		(30,162)	(29,226)
(Increase)/Decrease in debtors		(2,002)	(1,499)
(Increase)/Decrease in stock		(4,556)	(1,287)
Increase/(Decrease) in creditors		4,472	(12,010)
Net Cash flow from Operating Activities		**(14,444)**	**(27,945)**
Cash Flows from Investing Activities			
Acquisition and construction of housing properties		(47,003)	(78,594)
Social Housing Grant received		1,550	14,273
Sales of housing properties		20,095	19,144
Net decrease in investments and loans to other associations		704	1,128
Purchase of other tangible fixed assets		(5,682)	(4,095)
(Increase)/Decrease in short term deposits		–	(55)
Net Cash flow from Investing Activities		**(30,336)**	**(48,199)**
Cash Flows from Financing Activities			
Loan advances received		350	52,725
Loan principal repayments		(20,884)	324
Net Cash flow from Financing Activities		**(20,534)**	**53,049**
Net (Decrease)/Increase in cash & cash equivalents	32	**(13,896)**	**34,509**
Cash and cash equivalents at the start of the year		52,524	18,015
Cash and cash equivalents at the end of the year		**38,628**	**52,524**

Group and Association Statement of Movements in Reserves

for the year ended 31 March 2016

Group

	Income and Expenditure Reserves £'000	Cash flow hedge reserve £'000	Total reserves £'000
At 1 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**

Association

	Income and Expenditure Reserves £'000	Cash flow hedge reserve £'000	Total reserves £'000
At 1 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**

Notes to the Financial Statements
for the year ended 31 March 2016

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

(a) 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 (FRS 102) 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 group transitioned from UK GAAP to FRS 102 as at 1 April 2014. An explanation of how the transition to FRS 102 has affected financial position and financial performance of the Company is provided in Note 33. 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 the transition date, 31 March 2015 and 31 March 2016. 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. During the year the government announced a change in rent policy which resulted in a material impact on the net income expected to be collected in the future for housing properties and the Group have assessed that this represents a trigger for impairment review. Further details are given in note 12d.

(b) Basis of consolidation

The consolidated financial statements incorporate the results of Midland Heart Limited and all of its subsidiary undertakings as at 31 March 2016 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.

(c) 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.

(d) 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.

The Government’s announcements in July 2015 impacting on the future income of the Group have led to a reassessment of the Group’s business plan as well as an assessment of imminent or likely future breach in borrowing covenants.

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.

Notes to the Financial Statements *continued*

for the year ended 31 March 2016

(e) 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.

(f) 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 after operating surplus has been determined, but before interest.

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 2016, interest has been capitalised at an average rate of 5.2% (2015:4.5%) that reflects the weighted average effective interest rate on the Group's borrowings required to finance housing property developments.

(g) Other tangible fixed assets

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

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

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

(h) 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.

(i) 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.

Notes to the Financial Statements *continued*

for the year ended 31 March 2016

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.

(j) 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.

(k) 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.

(l) 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.

(m) 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.

(n) 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.

(q) 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.

(r) 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; an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

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).

During the year the government announced a change in rent policy which resulted in a material impact on the net income expected to be collected in the future for housing properties and the Group have assessed that this represents a trigger for impairment review.

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

(s) 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.

(t) 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.

(v) 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.

Sales of properties developed for outright sale are included in Turnover and Cost of Sales.

(w) 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.

(x) 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.

(y) 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.

(z) Financial Instruments

Midland Heart accounts for its financial instruments under FRS 102. This became effective from the Transition date of 1 April 2014.

Financial Instruments which meet the criteria of a basic financial instrument as defined in Section 11 of FRS 102 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 FRS 102 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.

Notes to the Financial Statements *continued*

for the year ended 31 March 2016

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.

Any ineffective portion of a gain or loss on cash flow hedges is recognised in profit or loss.

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 2016

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

	2016			2015		
	Turnover £'000	Operating costs £'000	Operating Surplus/ (Deficit) £'000	Turnover £'000	Operating costs £'000	Operating Surplus/ (Deficit) £'000
Social Housing Lettings	**174,471**	**124,239**	**50,232**	**165,783**	**108,731**	**57,052**
Other Social Housing Activities:						
Community regeneration activities	–	315	(315)	–	592	(592)
Development services and costs not capitalised	–	59	(59)	–	138	(138)
Charges for support services (SP income)	21,816	22,910	(1,094)	20,884	21,796	(912)
Surplus from 1st tranche shared ownership sales	6,801	5,897	904	7,046	6,171	875
Surplus on properties developed for outright sale	735	631	104	884	779	105
Other income	1,068	339	729	1,292	468	824
Total	**30,420**	**30,151**	**269**	**30,106**	**29,944**	**162**
Activities other than Social Housing Lettings:						
Market rent lettings	956	358	598	868	485	383
Student lettings	237	98	139	222	144	78
Nursing Homes	557	538	19	616	550	66
Commercial	351	270	81	384	254	130
NHS	930	850	80	487	754	(267)
Other	–	–	–	24	24	–
Total	**3,031**	**2,114**	**917**	**2,601**	**2,211**	**390**
Total from Social and Non-Housing Activities	**207,922**	**156,504**	**51,418**	**198,490**	**140,886**	**57,604**

Notes to the Financial Statements *continued*

for the year ended 31 March 2016

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

Particulars of turnover and operating expenditure from Social Housing Lettings

	2016					2015				
	General Needs Housing £'000	Supported Housing £'000	Residential Care Homes £'000	Shared Ownership Accommodation £'000	Total £'000	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	28,425	684	5,097	144,810	105,232	26,831	652	4,949	137,664
Service charge income	5,539	10,401	4	955	16,899	5,254	8,690	3	1,000	14,947
Amortised Government Grants (Accrual model)	6,089	1,819	17	225	8,150	5,922	1,803	13	241	7,979
Net Rental Income	**122,232**	**40,645**	**705**	**6,277**	**169,859**	**116,408**	**37,324**	**668**	**6,190**	**160,590**
Other income	273	4,322	–	17	4,612	262	4,842	57	32	5,193
Turnover from Social Housing Lettings	**122,505**	**44,967**	**705**	**6,294**	**174,471**	**116,670**	**42,166**	**725**	**6,222**	**165,783**
Management	21,638	17,091	483	1,507	40,719	21,128	15,419	711	1,143	38,401
Service charge costs	6,712	10,012	255	726	17,705	6,273	8,256	262	672	15,463
Routine maintenance	17,227	4,726	61	81	22,095	17,489	5,117	32	(26)	22,612
Planned maintenance	5,724	912	18	3	6,657	4,718	1,093	24	7	5,842
Major repairs expenditure	2,837	1,562	21	16	4,436	2,451	3,169	7	(4)	5,623
Impairment of housing properties	80	–	–	–	80	123	–	–	–	123
Depreciation of housing properties	17,814	2,332	14	621	20,781	14,763	3,590	34	660	19,047
Bad debts	1,695	602	27	3	2,327	1,529	227	(13)	(6)	1,737
Holiday pay accrual	61	30	3	3	97	(74)	(35)	(4)	(4)	(117)
Pension deficit	5,266	3,720	35	321	9,342	–	–	–	–	–
Operating Costs on Social Housing Lettings	**79,054**	**40,987**	**917**	**3,281**	**124,239**	**68,400**	**36,836**	**1,053**	**2,442**	**108,731**
Operating Surplus on Social Housing Lettings	**43,451**	**3,980**	**(212)**	**3,013**	**50,232**	**48,270**	**5,330**	**(328)**	**3,780**	**57,052**
Void losses	(997)	(2,276)	(40)	(14)	(3,327)	(1,431)	(1,911)	(44)	(12)	(3,398)

Notes to the Financial Statements *continued*

for the year ended 31 March 2016

3c. Association Turnover, Operating Costs, Operating Expenditure and Operating Surplus *(continued)*

	2016			2015		
	Turnover £'000	Operating costs £'000	Operating Surplus/ (Deficit) £'000	Turnover £'000	Operating costs £'000	Operating Surplus/ (Deficit) £'000
Social Housing Lettings	**174,471**	**124,300**	**50,171**	**165,783**	**108,847**	**56,936**
Other Social Housing Activities:						
Community regeneration activities	–	315	(315)	–	592	(592)
Development services and costs not capitalised	–	59	(59)	–	143	(143)
Charges for support services (SP income)	21,816	22,910	(1,094)	20,884	21,795	(911)
Surplus from 1st tranche shared ownership sales	6,801	5,897	904	7,046	6,171	875
Surplus on properties developed for outright sale	735	631	104	884	779	105
Other income	1114	557	557	1,531	689	842
Total	**30,466**	**30,369**	**97**	**30,345**	**30,169**	**176**
Activities other than Social Housing Lettings:						
Student lettings	237	98	139	222	144	78
Nursing Homes	557	538	19	616	550	66
Commercial	351	270	81	384	254	130
NHS	930	850	80	487	754	(267)
Other	–	–	–	25	24	1
Total	**2,075**	**1,756**	**319**	**1,734**	**1,726**	**8**
Total from Social and Non-Housing Activities	**207,012**	**156,425**	**50,587**	**197,862**	**140,742**	**57,120**

Notes to the Financial Statements *continued*

for the year ended 31 March 2016

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

Particulars of turnover and operating expenditure from Social Housing Lettings

	2016					2015				
	General Needs Housing £'000	Supported Housing £'000	Residential Care Homes £'000	Shared Ownership Accommodation £'000	Total £'000	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	28,425	684	5,097	144,810	105,232	26,831	652	4,949	137,664
Service charge income	5,539	10,401	4	955	16,899	5,254	8,690	3	1,000	14,947
Amortised Government Grants (Accrual model)	6,089	1,819	17	225	8,150	5,922	1,803	13	241	7,979
Net Rental Income	**122,232**	**40,645**	**705**	**6,277**	**169,859**	**116,408**	**37,324**	**668**	**6,190**	**160,590**
Other income	273	4,322	–	17	4,612	262	4,842	57	32	5,193
Turnover from Social Housing Lettings	**122,505**	**44,967**	**705**	**6,294**	**174,471**	**116,670**	**42,166**	**725**	**6,222**	**165,783**
Management	21,671	17,116	484	1,509	40,780	21,202	15,454	714	1,147	38,517
Service charge costs	6,712	10,012	255	726	17,705	6,273	8,256	262	672	15,463
Routine maintenance	17,227	4,726	61	81	22,095	17,489	5,117	32	(26)	22,612
Planned maintenance	5,724	912	18	3	6,657	4,718	1,093	24	7	5,842
Major repairs expenditure	2,837	1,562	21	16	4,436	2,451	3,169	7	(4)	5,623
Impairment of housing properties	80	–	–	–	80	123	–	–	–	123
Depreciation of housing properties	17,814	2,332	14	621	20,781	14,763	3,590	34	660	19,047
Bad debts	1,695	602	27	3	2,327	1,529	227	(13)	(6)	1,737
Holiday pay accrual	61	30	3	3	97	(74)	(35)	(4)	(4)	(117)
Pension deficit	5,266	3,720	35	321	9,342	–	–	–	–	–
Operating Costs on Social Housing Lettings	**79,087**	**41,012**	**918**	**3,283**	**124,300**	**68,474**	**36,871**	**1,056**	**2,446**	**108,847**
Operating Surplus on Social Housing Lettings	**43,418**	**3,955**	**(213)**	**3,011**	**50,171**	**48,196**	**5,295**	**(331)**	**3,776**	**56,936**
Void losses	(997)	(2,276)	(40)	(14)	(3,327)	(1,431)	(1,911)	(44)	(12)	(3,398)

Notes to the Financial Statements *continued*

for the year ended 31 March 2016

4. Directors' Emoluments

	2016 £'000	2015 £'000
Aggregate Emoluments payable to Directors (including pension contributions and benefits in kind)	1,082	1,367
Emoluments (excluding pension contributions) payable to the Chief Executive who was also the highest paid Director	225	206

The Chief Executive is an ordinary member of the Group's pension scheme described in note 25. No enhanced or special terms apply to her membership and she has no other pension arrangement to which the Association contributes. There were 6 Directors in the pension scheme (2015: 7).

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 2016 £'000	Total 2015 £'000
Ruth Cooke	Chief Executive Officer	17/04/12		212	13	17	242	224
Glenn Harris	Executive Director of Corporate Resources	02/07/12		142	10	–	152	137
Carl Larter	Executive Director of Assets	29/01/08		124	10	12	146	136
Michelle Musgrave	Executive Director of Customer and Communities	23/03/09	15/01/15	–	–	–	–	245
David Taylor	Executive Director of Customer and Communities	15/04/15		116	8	11	135	–
Janice Smith	Executive Director of Strategy and Business Support	01/04/06	31/12/14	–	–	–	–	244
Andrew Foster	Executive Director of Governance & Contracts, & Company Secretary	23/11/12		116	10	11	137	127
Sara Beamand	Executive Director of Care and Support	22/03/13		116	10	11	137	130
Joe Reeves	Executive Director of Corporate Affairs	08/07/13		119	9	5	133	124

The aggregate amount of Directors' Pensions recognised within these financial statements for the year ended 31 March 2016 is £67k (2015: £63k). The aggregate compensation for loss of office of key management personnel was £ Nil (2015: £266k).

Notes to the Financial Statements *continued*

for the year ended 31 March 2016

Thirty-four members of the Board of Management, subsidiary Boards and Committees received emoluments totalling £147,000 (2015: £154,000). The 14 Board members listed below are the highest remunerated over financial years 2015 & 2016.

They have been remunerated as follows:

		2016 £'000	2015 £'000
Basil Clarke	Resigned 29/09/2014	0	6
Greg Croydon		11	11
Anna East		11	11
John Edwards		25	16
Karl George		11	11
Julian Healey		9	9
Anthony Jones	Resigned 29/09/2014	0	6
Robert Lake		11	11
Susannah Leggatt	Resigned 16/07/2015	4	10
Kathleen McAteer		9	9
Lord William Morris of Handsworth	Resigned 29/09/2014	0	13
Peter Pawsey		9	9
Ranvir Sahota	Resigned 29/09/2014	0	5
Martin Tiplady		11	6

Notes to the Financial Statements *continued*

for the year ended 31 March 2016

5. Employee Information

	Group		Association	
	2016 Number	2015 Number	2016 Number	2015 Number
Average number of employees expressed as full time equivalents	**1,803**	**1,660**	**1,803**	**1,656**

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

Staff Costs (for the above persons)

	Group		Association	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Wages & Salaries	44,375	41,905	44,375	41,808
Social Security Costs	3,752	3,464	3,752	3,455
Other Pension Costs	3,653	3,421	3,653	3,418
	51,780	**48,790**	**51,780**	**48,681**

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):

The comparatives have been restated to include pension contributions due to a change in the requirements of the Accounting Direction 2015.

Salary range	2016 Number	2015 Number
£240,000 to £250,000	1	2
£230,000 to £240,000	–	–
£220,000 to £230,000	–	1
£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	–	–
£160,000 to £170,000	–	–
£150,000 to £160,000	1	–
£140,000 to £150,000	1	–
£130,000 to £140,000	4	2
£120,000 to £130,000	–	3
£110,000 to £120,000	–	–
£100,000 to £110,000	3	1
£90,000 to £100,000	3	4
£80,000 to £90,000	5	7
£70,000 to £80,000	15	11
£60,000 to £70,000	7	6
	40	**37**

6a. Surplus on Sale of Fixed Assets - Group

	2016			2015		
	Proceeds £'000	Cost of Sales £'000	Surplus £'000	Proceeds £'000	Cost of Sales £'000	Surplus £'000
Staircasing on Shared Ownership	7,747	5,751	1,996	5,759	4,703	1,056
Other Property Sales	4,998	3,512	1,486	6,453	5,126	1,327
	12,745	**9,263**	**3,482**	**12,212**	**9,829**	**2,383**

6b. Surplus on Sale of Fixed Assets - Association

	2016			2015		
	Proceeds £'000	Cost of Sales £'000	Surplus £'000	Proceeds £'000	Cost of Sales £'000	Surplus £'000
Staircasing on Shared Ownership	7,747	5,751	1,996	5,759	4,702	1,057
Other Property Sales	4,933	3,512	1,421	6,433	5,126	1,307
	12,680	**9,263**	**3,417**	**12,192**	**9,828**	**2,364**

7. Interest receivable and similar income

	Group		Association	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Interest receivable on financial assets measured at amortised cost:				
Interest on investments	442	330	442	330
Equity Investment realisation	689	832	689	832
	1,131	1,162	1,131	1,162
Other interest receivable	–	–	–	–
Total interest receivable and similar income	**1,131**	**1,162**	**1,131**	**1,162**

Notes to the Financial Statements *continued*

for the year ended 31 March 2016

8. Interest and Financing costs

	Group		Association	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Interest payable on financial liabilities measured at amortised cost:				
Housing loans	21,064	19,973	20,925	19,815
Discounted bonds	1,343	1,312	1,343	1,312
Interest on finance leases	636	642	636	642
Notional interest on Recycled Capital Grant Fund	47	41	47	41
	23,090	**21,968**	**22,951**	**21,810**
Interest on derivatives treated as fair value hedging instruments:				
Interest payable on loan swap arrangements	5,880	5,986	5,880	5,986
Interest capitalised	(547)	(1,281)	(547)	(1,281)
Loan fees	794	849	733	734
Unwinding of discount on Social Housing Pension Scheme liability	377	608	377	608
Change to measurement of net finance cost on Social Housing Pension Scheme liability	(181)	1,030	(181)	1,030
Total interest and financing costs	**29,413**	**29,160**	**29,213**	**28,887**

Interest was capitalised at an average rate of 5.2% (2015: 4.5%).

9. Surplus on Ordinary Activities before Taxation

	Group		Association	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Surplus on Ordinary Activities before Taxation is stated after charging:				
Depreciation of housing property fixed assets	20,838	19,088	20,838	19,088
Depreciation on non-housing property fixed assets	3,905	3,685	3,703	3,491
Impairment loss on housing properties	80	123	80	123
Auditors' remuneration – Audit fees				
Group fees	107	84	107	84
Other Group services	50	54	50	54
Payments under Operating Leases				
Plant	96	94	96	94
Office	100	49	100	49

Notes to the Financial Statements *continued*

for the year ended 31 March 2016

10. Taxation on Surplus on Ordinary Activities

(a) Analysis of charge in the period (Group & Association):

	2016 £'000	2015 £'000
United Kingdom Corporation Tax on surplus of the period	–	–
Adjustments in respect of prior years	–	–
	–	**–**
Deferred tax	–	–
	–	**–**

Factors affecting the tax charge for the year

The Corporation Tax charge is lower (2015: lower) than that resulting from applying the standard rate of Corporation Tax of 20% (2015: 21%) to the surplus before taxation. The differences are explained below:

	Group		Association	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Surplus on ordinary activities before tax	**27,282**	**33,104**	**25,741**	**32,788**
Tax payable at 20% (2015: 21%) thereon	**5,456**	**6,952**	**5,148**	**6,885**
Expenses not deductible for tax purposes	–	–	–	–
Income not taxable for tax purposes	(177)	(12)	–	–
Fixed Asset differences	(6)	25	–	–
Capital gains/(losses)	13	1	–	–
Adjust closing deferred tax to average rate	3	1	–	–
Adjust opening deferred tax to average rate	–	(1)	–	–
Exemption due to charitable status	(5,288)	(6,966)	(5,148)	(6,885)
Deferred tax not recognised	(1)	–	–	–
Total tax charge	–	–	–	–

Notes to the Financial Statements *continued*

for the year ended 31 March 2016

11. Investment Properties held for letting: Group

	2016 £'000	2015 £'000
Valuation:		
At 1 April 2015	10,455	10,370
Additions during the year	–	–
Gain in valuation	845	85
Disposals during the year	–	–
At 31 March 2016	**11,300**	**10,455**

Investment properties are valued annually by Savills who are professionally qualified external valuers. The valuation of properties was undertaken in accordance with the Royal Institute 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 and 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 2016

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 2015	1,537,737	23,423	84,546	2,302	1,648,008
Additions	57	20,217	2	6,029	26,305
Improvements	19,239	–	–	–	19,239
Interest capitalised	–	466	–	81	547
Transferred on completion	32,277	(32,277)	3,092	(3,092)	–
Transferred for re-development	(471)	471	–	–	–
Change of tenure	(757)	–	757	–	–
Transfer to current assets	–	(154)	(361)	(3,475)	(3,990)
Transfer from current assets	–	–	557	–	557
Disposals	(6,399)	–	(5,346)	–	(11,745)
At 31 March 2016	**1,581,683**	**12,146**	**83,247**	**1,845**	**1,678,921**
Depreciation and impairment					
At 1 April 2015	193,816	–	7,888	–	201,704
Depreciation charge for the year	20,210	–	628	–	20,838
Impairment charged in year	80	–	–	–	80
Change of tenure	(63)	–	63	–	–
Transfer to current assets	–	–	(26)	–	(26)
Transferred for re-development	–	–	–	–	–
Eliminated on disposal	(4,756)	–	(528)	–	(5,284)
At 31 March 2016	**209,287**	**–**	**8,025**	**–**	**217,312**
Net Book Value					
At 31 March 2016	**1,372,396**	**12,146**	**75,222**	**1,845**	**1,461,609**
At 31 March 2015	**1,343,921**	**23,423**	**76,658**	**2,302**	**1,446,304**

Depreciation Charge: 2014-15 (Group and Association): The total depreciation charge for 2014-15 was £19,088k.

Notes to the Financial Statements *continued*

for the year ended 31 March 2016

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 2015	1,541,453	23,423	84,546	2,302	1,651,724
Additions	57	20,250	2	6,029	26,338
Improvements	19,239	–	–	–	19,239
Interest capitalised	–	466	–	81	547
Transferred on completion	32,310	(32,310)	3,092	(3,092)	–
Transferred for re-development	(471)	471	–	–	–
Change of tenure	(757)	–	757	–	–
Transfer to current assets	–	(154)	(361)	(3,475)	(3,990)
Transfer from current assets	–	–	557	–	557
Disposals	(6,399)	–	(5,346)	–	(11,745)
At 31 March 2016	**1,585,432**	**12,146**	**83,247**	**1,845**	**1,682,670**
Depreciation and impairment					
At 1 April 2015	193,816	–	7,888	–	201,704
Depreciation charge for the year	20,210	–	628	–	20,838
Impairment charged in year	80	–	–	–	80
Change of tenure	(63)	–	63	–	–
Transfer to current assets	–	–	(26)	–	(26)
Transferred for re-development	–	–	–	–	–
Eliminated on disposal	(4,756)	–	(528)	–	(5,284)
At 31 March 2016	**209,287**	**–**	**8,025**	**–**	**217,312**
Net Book Value					
At 31 March 2016	**1,376,145**	**12,146**	**75,222**	**1,845**	**1,465,358**
At 31 March 2015	**1,347,637**	**23,423**	**76,658**	**2,302**	**1,450,020**

Notes to the Financial Statements *continued*

for the year ended 31 March 2016

12c. Housing Properties

Expenditure on works to existing properties

	Group		Association	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Components capitalised	19,239	9,607	19,239	9,607
Amounts charged to the Income and Expenditure account	4,436	5,623	4,436	5,623
	23,675	**15,230**	**23,675**	**15,230**

Completed housing properties book value, net of depreciation and impairment

	Group		Association	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Freehold land and buildings	1,331,809	1,292,727	1,335,258	1,296,108
Leasehold land and buildings	115,809	127,852	116,109	128,187
Total Net Book Value	**1,447,618**	**1,420,579**	**1,451,367**	**1,424,295**

12d. Impairment

An impairment review was undertaken on our general needs stock as a consequence of the government decision to impose a 1% reduction in rents for the period from March 2016 to March 2020. In carrying out the review we assessed impairment on the smallest identifiable group of assets. This is termed the cash generating unit and was either on a scheme basis, or if not in a scheme on an individual property basis.

The carrying amount of properties was calculated as the net book value of the asset or cash generating unit. This was the cost less depreciation and any unamortised grant in the Statement of Financial Position relating to the asset or cash generating unit. As these properties are not held solely for their cash flows but also for their service potential, then the value in use for their service potential was used to estimate their recoverable amount. The recoverable amount on this basis was the depreciated replacement cost of the asset. These costs were estimated by our development team based on current costs for size and property type together with an estimate of 10% for on costs which covers items like cost of capital, supervisory, advisory and administration costs. These values were adjusted down to account for depreciation and were compared to the carrying amount to assess whether any impairment should be recognised.

There were 6 units affected by the review that were subject to an impairment of £80k in total. The carrying value of these properties prior to the impairment was £722k in total. The accumulated impairment recognised in the accounts for the entire portfolio is £1,618k.

Notes to the Financial Statements *continued*

for the year ended 31 March 2016

13. Other Tangible Fixed Assets - Group

	Office Premises £'000	Furniture & Equipment £'000	Total £'000
Cost:			
At 1 April 2015	13,539	23,197	36,736
Additions	8	5,674	5,682
Disposals	–	(4,123)	(4,123)
At 31 March 2016	**13,547**	**24,748**	**38,295**
Depreciation:			
At 1 April 2015	2,850	7,474	10,324
Charge for the year	246	3,659	3,905
Eliminated on disposal	–	(4,116)	(4,116)
At 31 March 2016	**3,096**	**7,017**	**10,113**
Net Book Value			
At 31 March 2016	**10,451**	**17,731**	**28,182**
At 31 March 2015	**10,689**	**15,723**	**26,412**

Other Tangible Fixed Assets - Association

	Office Premises £'000	Furniture & Equipment £'000	Total £'000
Cost:			
At 1 April 2015	3,129	23,037	26,166
Additions	8	5,618	5,626
Disposals	–	(4,123)	(4,123)
At 31 March 2016	**3,137**	**24,532**	**27,669**
Depreciation:			
At 1 April 2015	1,239	7,408	8,647
Charge for the year	76	3,627	3,703
Eliminated on disposal	–	(4,116)	(4,116)
At 31 March 2016	**1,315**	**6,919**	**8,234**
Net Book Value			
At 31 March 2016	**1,822**	**17,613**	**19,435**
At 31 March 2015	**1,890**	**15,629**	**17,519**

Notes to the Financial Statements *continued*

for the year ended 31 March 2016

14. Fixed Asset Investments - Group and Association

	2016 £'000	2015 £'000
Investments - Mutuals	3,639	4,292
Investments - Joint venture	–	51
Investments - Social Homebuy initiative - equity investment	132	132
Investments - SH initiative - grant	(132)	(132)
	3,639	**4,343**

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

	2016 £'000	2015 £'000
Investment at 1 April 2015	6,067	6,067
Investments during the year	–	–
Investment at 31 March 2016	**6,067**	**6,067**

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

16. Debtors

	Group		Association	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Gross rent and service charge arrears	14,121	10,237	14,093	10,221
Less: provision for bad and doubtful debts	(7,175)	(6,884)	(7,158)	(6,871)
Net rent arrears	**6,946**	**3,353**	**6,935**	**3,350**
Social Housing Grant receivable	368	2,432	368	2,432
Amounts due from Group undertakings	–	–	695	485
Prepayments and other debtors	5,860	7,452	5,882	7,035
	13,174	**13,237**	**13,880**	**13,302**

Notes to the Financial Statements *continued*

for the year ended 31 March 2016

17. Current Asset Investments - Group and Association

	2016 £'000	2015 £'000
Short term deposits	632	632

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

	2016 £'000	2015 £'000
Stock and work in progress	795	1,348
Schemes developed for shared ownership disposal	1,376	3,524
	2,171	**4,872**

19. Cash and Cash Equivalents

	Group		Association	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Bank Accounts	38,582	52,479	37,261	51,865
Cash in hand	46	45	46	45
Cash equivalents	38,628	52,524	37,307	51,910
Total Cash and Cash Equivalents	**38,628**	**52,524**	**37,307**	**51,910**

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 2016

20. Creditors: Amounts falling due within one year

	Group		Association	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Housing loans	15,892	11,428	10,888	6,640
Rents received in advance	2,916	3,104	2,916	3,081
Obligations due under finance leases	148	149	148	149
Trade creditors	579	4,252	579	4,252
Amounts due to Group undertakings	–	–	7,436	8,403
Recycled Capital Grant and Disposals Proceeds Fund	5,792	4,369	5,792	4,369
Other taxation and social security costs	1,028	998	1,028	1,014
UK Corporation Tax	–	–	–	–
Accruals and deferred income	19,082	22,508	17,541	19,761
Deferred social housing grant	8,150	7,665	8,150	7,665
Social Housing Pension Scheme Liability (Note 25)	3,177	2,129	3,177	2,129
	56,764	**56,602**	**57,655**	**57,463**

Amounts due to group undertakings for the Association include Loans due to group undertakings of £4,546k (2015: £4,330k).

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

	Group		Association	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Housing loans	529,787	553,632	225,094	244,285
Discounted bonds	11,905	11,905	11,905	11,905
Obligations due under finance leases	4,143	4,249	4,143	4,249
Premium on bond issues	11,082	11,827	11,082	11,827
Loan and bond arrangement fees	(5,246)	(5,284)	(5,173)	(5,187)
Amounts due to Group undertaking	-	-	295,772	300,318
Deferred social housing grant	709,834	718,874	709,834	718,874
Derivative financial instruments designated as hedges of variable interest rate risk (note 24)	73,506	68,276	73,506	68,276
Social Housing Pension Scheme Liability (Note 25)	24,902	18,673	24,902	18,673
	1,359,913	1,382,152	1,351,065	1,373,220
Recycled Capital Grant and Disposal Proceeds Fund	4,152	3,752	4,152	3,752
	1,364,065	**1,385,904**	**1,355,217**	**1,376,972**

Notes to the Financial Statements *continued*

for the year ended 31 March 2016

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	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
By instalments:				
In one year or less	11,562	11,198	6,558	6,410
Between one and two years	12,042	11,627	6,810	6,624
Between two and five years	38,134	37,350	20,958	20,927
In five years or more	265,286	298,485	136,076	163,290
	327,024	**358,660**	**170,402**	**197,251**
Lump Sum Repayments:				
In one year or less	4,330	230	4,330	230
Between one and two years	22,785	4,100	22,785	4,100
Between two and five years	21,677	46,225	18,602	43,500
In five years or more	181,768	167,750	31,768	17,750
	230,560	**218,305**	**77,485**	**65,580**

	Group		Association	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Finance lease liabilities:				
Total of future minumum lease payments:				
In one year or less	148	149	148	149
Between one and two years	148	149	148	149
Between two and five years	444	447	444	447
In five years or more	3,551	3,653	3,551	3,653
	4,291	**4,398**	**4,291**	**4,398**

Fixed rate financial liabilities bear a weighted average interest rate of 6.63% and are fixed for a weighted average period of 19 years. Including swaps the average weighted interest rate is 5.34%.

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 2016 was:

	Variable rate £'000	Fixed rate £'000	Total £'000
Instalment loans	235,512	95,804	331,316
Non-instalment loans	18,075	212,484	230,559
	253,587	**308,288**	**561,875**

As at 31 March 2016, 51% (£288,526k) of the above debt came from the capital markets and 49% (£273,351k) from banks and building societies.

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

	Group		Association	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Opening SHG at transition	–	813,481	–	810,441
Opening SHG cumulative amortisation	–	(94,236)	–	(91,196)
Opening Balance of SHG received/receivable	726,539	719,245	726,539	719,245
SHG received during the year	1,550	19,096	1,550	19,096
SHG recycled	(2,184)	(3,823)	(2,184)	(3,823)
Surplus on sale of Fixed Asset adjustment	229	–	229	–
Cumulative total of Social Housing Grant received or receivable	726,134	734,518	726,134	734,518
Less grant amortised in the year	(8,150)	(7,979)	(8,150)	(7,979)
Amount held as deferred income at the date of the Statement of Financial Position	**717,984**	**726,539**	**717,984**	**726,539**
Social Housing Grant under UKGAAP				
Opening SHG at transition (above)	–	813,481	–	810,441
Opening SHG	828,689	–	825,714	–
SHG received net of recycling	(634)	15,273	(634)	15,273
less investment property	–	(65)	–	–
less eliminated on disposal	(2,975)	–	–	–
	(3,609)	**15,208**	**(634)**	**15,273**
Closing SHG	**825,080**	**828,689**	**825,080**	**825,714**

Notes to the Financial Statements *continued*

for the year ended 31 March 2016

21c. Creditors

Discounted Bonds:

	Group		Association	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Amount Advanced:				
5% Debenture Stock 2027	9,000	9,000	9,000	9,000
In issue at 31 March 2016	**9,000**	**9,000**	**9,000**	**9,000**
Loan discount amortised	2,905	2,905	2,905	2,905
Net Value at 31 March 2016	**11,905**	**11,905**	**11,905**	**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.

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 2015	**7,754**	**367**	**8,121**
Grants recycled	1,581	198	1,779
Interest accrued	42	2	44
Allocated to new build developments	–	–	–
Repayment of grant	–	–	–
Balance at 31 March 2016	**9,377**	**567**	**9,944**
Amounts outstanding at 31 March 2016 for three years or longer which are potentially repayable to the Homes and Communities Agency	3,207	–	3,207

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

Notes to the Financial Statements *continued*

for the year ended 31 March 2016

23. Financial Instruments

The carrying amounts of the financial assets and liabilities include:

	Group		Association	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Liabilities measured at amortised cost				
Loans	563,421	583,508	554,115	574,118
Finance Leases	4,291	4,398	4,291	4,398

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.

Midland Heart has entered into £200m standalone interest rate swap contracts to fix the rates of £200m of its borrowing portfolio until various dates up to 2038. The negative fair value of these swap contracts as at 31 March 2016 was £73.5m (2015 £68.3m). 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 2016.

The total change in fair value during the year ended 31 March 2016 of £5.23m (14/15: £30.88m) 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	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Barclays Swap £20m 4.815% 2038	12,252	11,404	12,252	11,404
Barclays Swap £30m 5.01% 2037	18,778	17,664	18,778	17,664
Barclays ex-European Cancellable Swap with Double Up £10m 4.24% 2031	7,444	6,712	7,444	6,712
Credit Suisse Swap £10m 1.405% 2020	218	–	218	–
Credit Suisse Swap £40m 1.19% 2020	783	–	783	–
Credit Suisse Swap £40m 2.345% 2020	2,847	2,488	2,847	2,488
Lloyds Swap £50m 5.432% 2034 (ex-Bermudan)	31,184	30,008	31,184	30,008
Fair values of financial instruments designated as hedging instruments	**73,506**	**68,276**	**73,506**	**68,276**

Notes to the Financial Statements *continued*

for the year ended 31 March 2016

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:

	2016						2015					
	Carrying amount £'000	Expected cash flows £'000	1 year or lesss £'000	1 to <2 years £'000	2 to <5 years £'000	5 years and over £'000	Carrying amount £'000	Expected cash flows £'000	1 year or lesss £'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	150,000	53,483	1,231	1,759	8,368	42,125

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

24b . Financial Instruments: Hedges

	Description of the hedge	Description of the financial instruments designated as hedging instruments	Nature of the risks being hedged including a description of the hedged item	Fair values of financial instruments designated as hedging instruments £'000
Barclays Swap £20m 4.815% 2038	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 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 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.	12,252
Barclays Swap £30m 5.01% 2037	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 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 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.	18,778
Barclays ex-European Swap with Double Up £10m 4.24% 2031	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 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 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.	7,444

Notes to the Financial Statements *continued*

for the year ended 31 March 2016

<table>
<tr><th></th><th>Description of the hedge</th><th>Description of the financial instruments designated as hedging instruments</th><th>Nature of the risks being hedged including a description of the hedged item</th><th>Fair values of financial instruments designated as hedging instruments £'000</th></tr>
<tr><td>Credit Suisse Swap £10m 1.405% 2020</td><td>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.</td><td>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.</td><td>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.</td><td>218</td></tr>
<tr><td>Credit Suisse Swap £40m 1.19% 2020</td><td>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.</td><td>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.</td><td>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.</td><td>783</td></tr>
<tr><td>Credit Suisse Swap £40m 2.345% 2020</td><td>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.</td><td>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.</td><td>The variability of cash flows stemming from the interest payments of the Nationwide £130m Fl Loan 2036 due to movements in the 1 Month LIBOR rate.</td><td>2,847</td></tr>
<tr><td rowspan="2">Lloyds Swap £50m 5.432% 2034 (ex-Bermudan)</td><td>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.</td><td>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.</td><td>The variability of cash flows stemming from the interest payments of the Nationwide £130m Fl Loan 2036 due to movements in the 1 Month LIBOR rate.</td><td rowspan="2">31,184</td></tr>
<tr><td>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.</td><td>The interest rate swap, Lloyds Swap £50m 5.432% 2034 (ex-Bermudan). The counterparty to the swap is Lloyds and the credit risk associated with this counterparty is considered to be low. The credit risk is reflected in the Credit Valuation Adjustment amount to the risk free fair value of the derivative instrument.</td><td>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.</td></tr>
</table>

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.

Present Values of Provision	31 Mar 2016 £'000	31 Mar 2015 £'000
Present value of provision	27,857	20,610

Notes to the Financial Statements *continued*

for the year ended 31 March 2016

Reconciliation of Opening and Closing Provisions

	31 Mar 2016 £'000	31 Mar 2015 £'000
Provision at start of period	20,610	21,137
Unwinding of the discount factor (interest expense)	374	603
Deficit contribution paid	(2,238)	(2,152)
Remeasurements - impact of any change in assumptions	(178)	1,022
Remeasurements - amendments to the contribution schedule	9,289	–
Provision at end of period	**27,857**	**20,610**

Income and Expenditure Impact

	31 Mar 2016 £'000	31 Mar 2015 £'000
Unwinding of the discount factor (interest expense)	374	603
Remeasurements - impact of any change in assumptions	(178)	1,022
Remeasurements - amendments to the contribution schedule	9,289	–
Contributions paid in respect of future service	1,392	1,247
Costs recognised in income and expenditure account	**10,877**	**2,872**

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

	31 Mar 2016 £'000	31 Mar 2015 £'000
Operating costs (employer current year contributions)	–	–
Operating costs (pension deficit costs)	9,289	–
Interest and financing costs	196	1,625
	9,485	**1,625**

Assumptions

	31 Mar 2016 % per annum	31 Mar 2015 % per annum
Rate of discount	2.02	1.92

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.

Notes to the Financial Statements *continued*

for the year ended 31 March 2016

Deficit Contributions Schedule

Year ending	31 Mar 2016 £'000	31 Mar 2015 £'000
Year 1	3,177	2,238
Year 2	3,296	2,328
Year 3	3,419	2,422
Year 4	3,548	2,519
Year 5	3,190	2,621
Year 6	2,790	2,235
Year 7	2,886	1,807
Year 8	2,588	1,874
Year 9	2,256	1,545
Year 10	2,324	1,181
Year 11	1,197	1,217
Year 12	–	627

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.

25b. The Pensions Trust - The Growth Plan

The company participates in the above scheme, a multi-employer scheme which provides benefits to some 1300 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 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.

Present Values of Provision

	31 Mar 2016 £'000	31 Mar 2015 £'000
Present value of provision	222	192

Reconciliation of Opening and Closing Provisions

	31 Mar 2016 £'000	31 Mar 2015 £'000
Provision at start of period	192	201
Unwinding of the discount factor (interest expense)	3	5
Deficit contribution paid	(23)	(22)
Remeasurements - impact of any change in assumptions	(3)	8
Remeasurements - amendments to the contribution schedule	53	–
Provision at end of period	**222**	**192**

Income and Expenditure Impact

	31 Mar 2016 £'000	31 Mar 2015 £'000
Unwinding of the discount factor (interest expense)	3	5
Remeasurements - impact of any change in assumptions	53	–
Remeasurements - amendments to the contribution schedule	(3)	8
Costs recognised in income and expenditure account	**53**	**13**

Notes to the Financial Statements *continued*

for the year ended 31 March 2016

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

	31 Mar 2016 £'000	31 Mar 2015 £'000
Operating costs (pension deficit costs)	53	–
Interest and financing costs	–	13
	53	**13**

Assumptions

	31 Mar 2016 % per annum	31 Mar 2015 % per annum
Rate of discount	2.07	1.74

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	31 Mar 2016 £'000	31 Mar 2015 £'000
Year 1	23	23
Year 2	23	24
Year 3	24	25
Year 4	25	25
Year 5	26	26
Year 6	26	27
Year 7	27	28
Year 8	28	28
Year 9	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 2016

26. Share Capital

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

Allotted, called up and fully paid shares of £1 each:	2016 £
At end of year	55
	Number
At 1 April 2015	58
Issued	–
Cancelled	(3)
At 31 March 2016	**55**

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

27. Operating Leases - Group and Association

Total of future minimum lease payments under non-cancellable operating leases	2016 £'000	2015 £'000
Plant - Leases which expire:		
Within one year	75	77
Between one and two years	84	218
Between two and five years	–	–
Office premises - Leases which expire:		
Within one year	78	67
Between one and two years	142	84
Between two and five years	–	–
After more than 5 years	–	–
	379	**446**

During the year £196k was recognised as an expense in the profit and loss account in respect of operating leases (2015: £143k).

28. Capital Commitments - Group and Association

	2016 £'000	2015 £'000
Capital expenditure contracted not provided for	12,439	30,789
Capital expenditure authorised by the Board of Directors but not contracted for	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 borrowings: £26.2m (2015 £21.4m), which are available for draw-down on existing loan arrangements and £4.3m (2015 £9.4m) 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 (2015: NIL).

30. Housing Stock

	2016 Number	2015 Number
Under management at year end:		
General housing - Social rent	21,116	21,274
General housing - Affordable rent	1,783	1,436
Supported housing	3,113	3,068
Residential care homes	95	93
Shared ownership	1,984	2,018
Nursing homes	16	16
Accommodation managed on behalf of other organisations	1,701	1,699
Accommodation managed - service charge accounts	746	668
Lease Scheme for the elderly	160	165
Total social housing	**30,714**	**30,437**
Non-Social Housing Lettings:		
Market rent	115	115
Accommodation managed - service charge accounts	50	50
Commercial lettings	45	45
Total	**210**	**210**
Accommodation owned but managed by other bodies		
General needs housing accommodation	6	13
Supported housing accommodation	1,845	1,894
Residential care homes	128	131
Shared ownership	92	157
Student accommodation	60	60
Lease Scheme for the elderly	7	–
Total	**2,138**	**2,255**

Notes to the Financial Statements *continued*

for the year ended 31 March 2016

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	Yes	Provision of premises.
Midland Heart Capital plc	Companies House	Companies Act 2006	No	Treasury and financing services on behalf of Midland Heart Limited.
Touchstone Extracare Limited (Joint Venture, 51% shareholding)	Companies House	Companies Act 2006	No	The delivery of extra care schemes providing housing and care services to elderly people.

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 2016

32. Notes to the Cash Flow Statement

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

	2016 £'000	2015 £'000
(Decrease)/increase in cash	(13,896)	34,509
Cash flow from increase (decrease) in debt finance	20,195	(48,539)
Increase in short term deposits	–	55
Discounted bonds	–	–
	6,299	(13,975)
Net debt at beginning of year	(534,750)	(520,775)
Net debt at end of year	**(528,451)**	**(534,750)**

B- Analysis of changes in net debt

	At 1 April 2015 £'000	Cash flows £'000	At 31 March 2016 £'000
Cash at bank and in hand	52,524	(13,896)	38,628
	52,524	**(13,896)**	**38,628**
Short term deposits	632	–	632
Discounted bonds	(11,905)	–	(11,905)
Other loans due less than one year	(11,428)	(4,464)	(15,892)
Other loans due in more than one year	(553,632)	23,845	(529,787)
Finance lease	(4,398)	107	(4,291)
Premium on bond issue	(11,827)	745	(11,082)
Issue expenses	5,284	(38)	5,246
Net debt	**(534,750)**	**6,299**	**(528,451)**

Notes to the Financial Statements *continued*

for the year ended 31 March 2016

33. First time adoption of FRS 102

On adoption of FRS 102 the Group and Association have restated the comparatives (up to 31 March 2015). The total impact on the group's profit and loss account for the comparative period, and also for the year ended 31 March 2016, is as follows:

	Revenue Reserves as at transition date 1 April 2014 £'000	Total profit or loss Year ended 31 March 2015 £'000	Revenue Reserves as at 31 March 2015 £'000	Total profit or loss Year ended 31 March 2016 £'000	Revenue Reserves as at 31 March 2016 £'000
Group					
As previously stated under former UK GAAP	**156,047**	**29,393**	**185,440**	**32,291**	**217,731**
Consolidation adjustment	–	324	324	–	324
As restated under former UK GAAP	**156,047**	**29,717**	**185,764**	**32,291**	**218,055**
FRS 102 Transitional adjustments	(3,572)	2,357	(1,215)	(4,828)	(6,043)
Revenue Reserves as restated in accordance with FRS 102	**152,475**	**32,074**	**184,549**	**27,463**	**212,012**
Association					
As previously stated under former UK GAAP	**154,542**	**30,080**	**184,622**	**32,404**	**217,026**
FRS 102 Transitional adjustments	(4,280)	2,164	(2,116)	(5,787)	(7,903)
Revenue Reserves as restated in accordance with FRS 102	**150,262**	**32,244**	**182,506**	**26,617**	**209,123**

In addition, FRS 102 requires the group and association to establish a cash flow hedge reserve equal to the recognition in creditors of the fair value of its interest rate swaps.

This does not affect the profit and loss account.

	Note	Cash flow hedge reserve at transition date 1 April 2014 £'000	Other comprehensive income Year ended 31 March 2015 £'000	Cash flow hedge reserve at 31 March 2015 £'000	Other comprehensive income Year ended 31 March 2016 £'000	Cash flow hedge reserve at 31 March 2016 £'000
Group and Association	i	37,397	30,879	68,276	5,230	73,506

Notes to the Financial Statements *continued*

for the year ended 31 March 2016

The items relating to the Revenue Reserve movements are detailed below:

Group

	Note	Revenue Reserves as at transition date 1 April 2014 £'000	Total profit or loss Year ended 31 March 2015 £'000	Revenue Reserves as at 31 March 2015 £'000	Total profit or loss Year ended 31 March 2016 £'000	Revenue Reserves as at 31 March 2016 £'000
As previously stated under former UK GAAP		**156,047**	**29,393**	**185,440**	**32,291**	**217,731**
Consolidation adjustment		–	324	324	–	324
As restated under former UK GAAP		**156,047**	**29,717**	**185,764**	**32,291**	**218,055**
Transitional adjustments						
Adjustments affecting Operating Surplus						
Increase in depreciation of housing properties	a	(72,887)	(6,281)	(79,168)	(6,340)	(85,508)
Increase in amortisation of grants relating to housing properties	b	94,241	7,979	102,220	8,150	110,370
Inclusion of SHPS pension deficit	c	(21,338)	–	(21,338)	(9,342)	(30,680)
Revision to pension deficit	c	–	2,174	2,174	2,261	4,435
Impairment	e	–	–	–	(80)	(80)
Inclusion of holiday pay accrual	d	(255)	117	(138)	(97)	(235)
		(239)	3,989	3,750	(5,448)	(1,698)
Adjustments affecting Surplus before tax						
Pension scheme – unwinding of discount	c	–	(608)	(608)	(377)	(985)
Fair value adjustment for investment properties	f	(3,333)	85	(3,248)	845	(2,403)
Change to measurement of net finance cost on SHPS defined benefit pension scheme	h	–	(1,030)	(1,030)	181	(849)
Surplus on sales of tangible assets	g	–	(79)	(79)	(29)	(108)
		(3,333)	(1,632)	(4,965)	620	(4,345)
Total Transitional adjustments		**(3,572)**	**2,357**	**(1,215)**	**(4,828)**	**(6,043)**
Revenue Reserves as restated in accordance with FRS 102		**152,475**	**32,074**	**184,549**	**27,463**	**212,012**

Notes to the Financial Statements *continued*

for the year ended 31 March 2016

Association

	Note	Revenue Reserves as at transition date 1 April 2014 £'000	Total profit or loss Year ended 31 March 2015 £'000	Revenue Reserves as at 31 March 2015 £'000	Total profit or loss Year ended 31 March 2016 £'000	Revenue Reserves as at 31 March 2016 £'000
As previously stated under former UK GAAP		**154,542**	**30,080**	**184,622**	**32,404**	**217,026**
Transitional adjustments						
Adjustments affecting Operating Surplus						
Increase in depreciation of housing properties	a	(73,883)	(6,389)	(80,272)	(6,454)	(86,726)
Increase in amortisation of grants relating to housing properties	b	91,196	7,979	99,175	8,150	107,325
Inclusion of SHPS pension deficit	c	(21,338)	–	(21,338)	(9,342)	(30,680)
Revision to pension deficit	c	–	2,174	2,174	2,261	4,435
Impairment	e	–	–	–	(80)	(80)
Inclusion of holiday pay accrual	d	(255)	117	(138)	(97)	(235)
		(4,280)	3,881	(399)	(5,562)	(5,961)
Adjustments affecting Surplus before tax						
Pension scheme – unwinding of discount		–	(608)	(608)	(377)	(985)
Change to measurement of net finance cost on SHPS defined benefit pension scheme		–	(1,030)	(1,030)	181	(849)
Surplus on sales of tangible assets		–	(79)	(79)	(29)	(108)
		–	(1,717)	(1,717)	(225)	(1,942)
Total Transitional adjustments		**(4,280)**	**2,164**	**(2,116)**	**(5,787)**	**(7,903)**
Income and Expenditure Reserves as restated in accordance with FRS 102		**150,262**	**32,244**	**182,506**	**26,617**	**209,123**

FRS 102 Transitional adjustments
Notes of explanation

(a) Increase in depreciation of housing properties

FRS 102 requires that capital grant previously deducted from the cost of fixed assets, is treated as creditors where the fixed assets are carried at cost. The effect compared to UK GAAP is an increase to the carrying cost of housing properties resulting in an increase in the depreciation at transition

(b) Increase in amortisation of grants relating to housing properties

FRS 102 requires that government capital grant previously deducted from the carrying cost of housing properties is treated as a deferred capital grant creditor and released to the statement of comprehensive income over the useful life of the associated assets.

(c) Inclusion of SHPS pension deficit payment liability

FRS 102 requires that a liability is recognised for the contributions that arise from an agreement to fund a deficit in a multi-employer pension scheme. The effect is that a liability for the SHPS and Growth Fund pension payment plan has been recognised at the present value of the contributions payable using the discount rate specified in note 25.

(d) Inclusion of holiday pay accrual

FRS 102 requires that the cost of unused entitlement and short term employee benefits is measured and recognised in the reporting period. The effect is that unused holiday entitlement has now been recognised as an accrual at the reporting period date.

(e) Impairment

FRS 102 requires that following an impairment trigger, housing properties are subject to impairment review, as per Note 2r.

(f) Fair value adjustment for investment properties

FRS 102 requires properties that are held to earn commercial rentals or for capital appreciation, or both, to be treated as investment properties. Cygnet properties have been reclassified to investment properties, and as a result depreciation is no longer charged and the properties are held at fair value. This means a valuation is required every year. Urban Living Grant has been removed from the balance sheet and released to reserves.

(g) Surplus on sales of tangible assets

Following the above adjustments to grants and depreciation, adjsutments have been made to the Surplus on Sale of Fixed Assets based on recalculated depreciation and grant amortisation figures, which affect the carrying values of properties and thus the surplus calculations for disposed assets.

(h) Change to measurement of net finance cost on SHPS defined benefit pension scheme

The calculation of the financing cost of the SHPS pension scheme is derived from the discount rates for each year (shown in Note 25).

(i) Fair value adjustment for financial instruments

This adjustment relates to the recognition of the fair value of derivative financial instruments held by the Group as at 1 April 2014 and as at 31 March 2015. The Group uses derivative financial instruments to reduce exposure to interest rate movements. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. As these cash flow hedges are fully effective, a mark to market adjustment has been made to recognise the derivatives at fair value in the 14/15 opening figures (as at 31/03/2014), based on valuations by external advisors and a corresponding cash flow hedge reserve created.



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