Financial Statements
2022/2023

midland heart

Contents

Foreword from the Chair

Eight years ago, we decided to simplify our organisation and focus on our core purpose to provide quality affordable homes across the Midlands.

Our focus has resulted in a steady improvement in tenant satisfaction, increased investment in the comfort and safety of our homes, and being on target to build and acquire 4,000 affordable homes by 2025.

We enter the final years of our current corporate plan, 'Making What Matters Brilliant', with tenant satisfaction around 90%, having retained our G1 V1 status from the Regulator of Social Housing and maintaining our Moody's A1 rating.

These results, my last as Chairman, provide a reflection point for me personally but also several other members of the Board who are also at the end of their time with Midland Heart. I would like to thank them and our fellow Board members for their support and hard work.

We have taken the decisions we have because they were right for our organisation and more importantly our tenants who have, and always will, be at the centre of our decision-making process.

This report is the first in four years that was not affected by some kind of restriction or disruption caused by the pandemic. These results show the value of the work we have done to stay ahead of the disruption to services and to adapt quickly to continue our first-class landlord services.

> **This year we have invested over £20.7m of capital spend on improving the comfort and safety of our homes. We have fitted over 1,700 new kitchens and bathrooms and continued our £1.1m investment in our intervention schemes with over 120 General Needs schemes having seen improvements in issues like anti-social behaviour over the corporate plan period.**
>
> It has been clear for some time now that alongside the need to focus attention and investment on providing safe, decent and secure homes we must also face the challenge of reducing our carbon footprint and improving the energy efficiency of our tenants' homes.
>
> **JOHN EDWARDS CBE**
> CHAIR,
> MIDLAND HEART

As we approach our 100th year with pre-First World War terrace homes in inner-city Birmingham, the task of meaningfully improving their energy efficiency was always going to be one that would provide us with a unique challenge. That is why, when others have announced headline grabbing plans, we committed to a sensible and deliverable one.

We have committed to all our homes having an EPC rating of D or higher by 2025 and having no homes with an EPC lower than C by 2030. We are well on track to meet this target with 68% of our homes already at EPC C or higher by incrementally retrofitting our properties to improve their energy efficiency.

Over 45,000 people a month, many of whom are families on lower incomes, visit our website looking for an affordable place to call home so it is vital that we continue to provide new, high quality affordable rented homes.

That is why this year alone we have spent over £100m on new homes for our tenants. Over 650 families have been given the keys to a new affordable home ensuring we remain on track to deliver our goal of building and acquiring 4,000 affordable homes by 2025.

I truly believe this set of results show an organisation concentrating on the issues that matter most to its tenants and the challenges it must face in the future. I leave Midland Heart in the firm belief that it will continue to stay ahead of the curve and focused on its core purpose to be a first-class landlord that provides safe, decent and secure homes across the Midlands.

Finally, I want to thank everyone at Midland Heart for their support, hard work and determination over the last nine years. As a result, we are an organisation that looks to the future in strong financial health combined with operational clarity.

Foreword from the Chief Executive

We have continued to focus our investment and attention on what matters most to our tenants: the quality and safety of their homes.

We visit every one of our tenants in their home each year as we complete our annual safety checks. We also sit down every month with tenants from across the region to hear directly what we could make better and what we do that makes things easier for them.

The one thing we hear time and again is that our repairs service is the single most important thing we do, it is also the biggest service we provide as a landlord. So, for the second year in a row, we have increased the number of Multi-Trade Operatives in our In-House Maintenance Team to ensure we can get to tenants' homes quicker and stay longer to make sure the work is to the level both we and the tenant expect. We have also launched a pilot of repairs reporting on our tenant app which we will roll-out to everyone during summer 2023. The app will allow tenants to book a repair 24 hours a day, seven days a week and choose an appointment time and date to suit them. As a result, tenant satisfaction with our repairs has remained at circa 91%.

We have also created a colleague app to ensure that we capture vital information about the wellbeing of our tenants and the condition of their home when we visit to complete repairs and safety checks. Our HomeChecker app, which all colleagues fill out when they have visited one of our homes, allows us to see when some of our homes need us to spend a little more time and money on them. It also provides us with a view as to whether our tenant needs a little more help than they currently have.

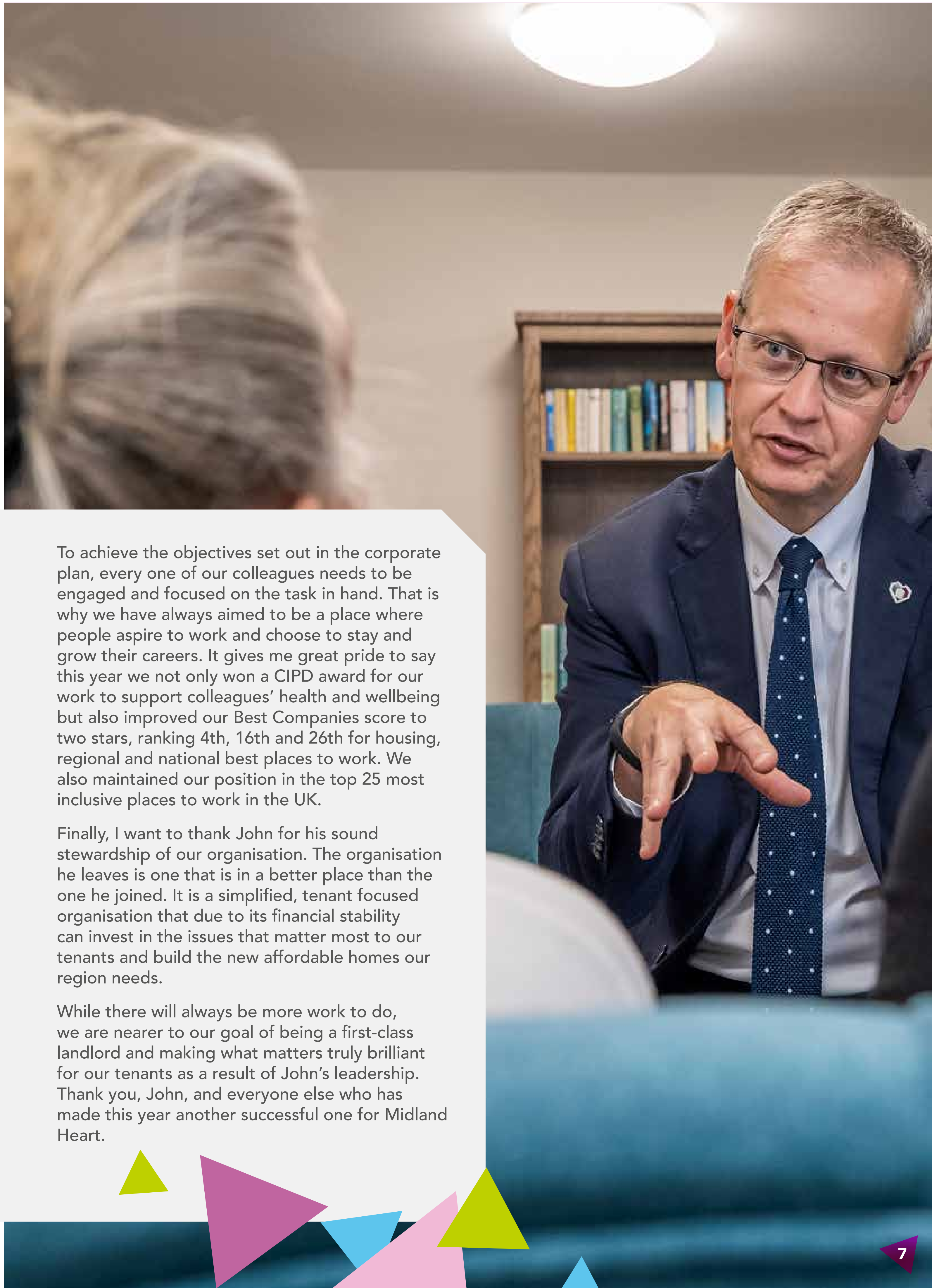
Our tenants have told us that issues in their neighbourhoods affect how they feel about their home and in many cases their safety. That is why last year we became the first Housing Association to launch its own All-Party Parliamentary Group (APPG) focused on Anti-Social Behaviour. The group has completed its first report on how to make communities safer with the support of over 20 Police and Crime Commissioners, several large housing associations, and leading victims' charities. We will now use this report to work with national, regional, and local government to champion the changes our tenants want to see on their streets.

> **Throughout our corporate plan, our aim is to be a first-class landlord providing high-quality homes and responsive services to our customers, every single time they contact us. That is and will remain our sole focus.**
>
> **GLENN HARRIS MBE**
> CHIEF EXECUTIVE, MIDLAND HEART

To achieve the objectives set out in the corporate plan, every one of our colleagues needs to be engaged and focused on the task in hand. That is why we have always aimed to be a place where people aspire to work and choose to stay and grow their careers. It gives me great pride to say this year we not only won a CIPD award for our work to support colleagues' health and wellbeing but also improved our Best Companies score to two stars, ranking 4th, 16th and 26th for housing, regional and national best places to work. We also maintained our position in the top 25 most inclusive places to work in the UK.

Finally, I want to thank John for his sound stewardship of our organisation. The organisation he leaves is one that is in a better place than the one he joined. It is a simplified, tenant focused organisation that due to its financial stability can invest in the issues that matter most to our tenants and build the new affordable homes our region needs.

While there will always be more work to do, we are nearer to our goal of being a first-class landlord and making what matters truly brilliant for our tenants as a result of John's leadership. Thank you, John, and everyone else who has made this year another successful one for Midland Heart.



Strategic annual review

Our fourth year of Making What Matters Brilliant has continued to demonstrate significant levels of investment in our new and existing homes to maintain a sharp focus on delivering quality homes for our customers.

We have continued to deliver a robust set of operational and financial results amidst an increasingly challenging operating and macro-economic environment. The sector is facing unprecedented demands and period of change.

Sector challenges

Government

Rent cap below CPI for 2023/24

Challenging public finances

Net Zero agenda

Economic Inflation

Inflationary pressures

Cost of living crisis continues for our colleagues and customers

Tight labour market for key skill sets

Higher borrowing costs

Regulation

New consumer standards

Housing Ombudsman investigating an increasing number of complaints

New Building Safety Regulator

Providers

Large investment needed in existing stock

Increasing focus on damp and mould

Challenges providing new development

Increased scrutiny over service delivery

November:

Government caps social housing rent at 7%

Our response:

We presented financial modelling of the rent consultation to our Finance & Growth Committee to ensure we were prepared for the outcome of the consultation.

November:

Regulator requests damp and mould information from providers

Our response:

We have a specialist damp and mould team who report the number of cases through a dashboard. They are able to quickly escalate issues to reduce response times. We will decant our customers from any homes with severe cases of damp and mould.

JAN 2023

January:

Social Housing Regulation Bill to include ‘Awaab’s Law’

Our response:

We have been marking our progress against the actions highlighted in the Building Safety Bill through our Safe & Strong Committee.

April:

New Building Safety Regulator

Autumn 2023:

Rent standard for 2024/25

Our response:

We have modelled a 10-year rent freeze in our financial plan which did not break our covenants within the time period.

JAN 2024

Early 2024:

Professionalisation guidance to be published

Our response:

We have begun planning for the professionalisation requirements, exploring options in advance of the published guidance.

Summer 2024:

Providers submit Tenant Satisfaction (TSM) data to Regulator

Our response:

We have been trialling the collection of TSMs throughout 2022/23 to ensure we adhere to the guidance and have an established baseline.

Autumn 2024:

Regulator publishes TSM data

AUTUMN 2024

Our performance

Our financial resilience and underlying strength have allowed us to continue to invest in customer and digital services, our front-line operations, new and existing homes, building safety and energy performance. Fundamentally focusing on improving the quality of our homes.

The fundamentals of our strategy are:

- Being a top-class landlord
- Building as many affordable homes as we can
- Being a great place to work and develop a career

£20.7m planned capital works

100% building safety compliance

68% of our homes are EPC C or above

751 bathrooms

973 kitchens

568 windows

Consistently high levels of customer and repairs satisfaction each year at c90%

Re-let days at a record low - an average of 17.5 days

Our lowest ever void loss (1.09%).

824 homes built/ acquired

Record 174 Shared Ownership sales this year

£40.7m surplus

A1 negative Moody's rating

Awarded 24th in Inclusive Top 50 Companies

Best Companies: 4th, 16th and 26th for housing, regional and national

CIPD award winners for our work supporting colleagues with health and wellbeing

Continued highest Governance and Viability rating (G1 V1) from the Regulator of Social Housing

Operating and financial highlights

Our surplus for the year of £40.7m has decreased by £14.8m from the previous year however, this is still an increase on the performance of the year to March 2021 of £4.5m. The year to March 2022 was exceptional as it included a £7.5m surplus as a result of a stock swap with Orbit Group which inflated the in-year surplus.

The surplus has been invested in new and existing homes. In 2022/23, £97.5m was invested in new developments and an additional £20.7m was invested in improving our current stock, such as replacing kitchens and bathrooms.

Financial performance	2023	2022
Turnover (£m)	221.1	207.0
Operating Surplus (£m)	63.7	75.1
Operating Margin (%)	28.8	36.3
Surplus for the year (£m)	40.7	55.6
Interest cover (%)	296	386
Balance sheet		
Housing properties (net of depreciation) (£m)	1,758.4	1,704.1
Gearing (%)	44	45
Operational indicators		
Total housing stock	34,906	34,362
Customer satisfaction (%)	89	89.3
Current tenant arrears (%)	4.39	4.30
Average re-let time (days)	17.50	18.97
Repairs satisfaction (%)	91	91

Statement of comprehensive income

Turnover of £221.1m shows an increase of £14.1m over the previous year as a result of an increase in first tranche shared ownership sales, new units handed over and a CPI +1% rent increase across the majority of our housing portfolio.

Operating surplus has decreased by £11.4m to £63.7m largely as a result of the £7.5m surplus on the sale of stock in our swap with Orbit Group that occurred in 21-22.

	Turnover		Operating surplus	
	2023 £m	2022 £m	2023 £m	2022 £m
Social housing lettings	192.4	182.0	54.2	54.9
First tranche shared ownership	17.3	16.9	2.7	2.6
Properties developed for outright sale	3.0	-	0.3	-
Change to Support contracts and other income	4.2	4.4	1.1	1.3
Disposal of fixed assets	-	-	4.0	13.8
Other social housing	2.6	2.1	0.0	(0.2)
Market rent	1.6	1.6	1.0	1.0
Surplus on revaluation	-	-	0.4	1.7
Total	**221.1**	**207.0**	**63.7**	**75.1**

Social housing lettings income is the core of the business. Rent increased at CPI +1% and, added to the net growth in homes, led to an increase in turnover. Operating surpluses decreased in social housing lettings due to higher costs; notably higher materials and labour costs in maintenance, together with more investment in quality, retro fit and building safety.

We sold properties for £3.0m to a registered provider on completion of a development.

Support contracts and other income decreased by £0.2m as we continued to see the impact of a gradual withdrawal from low margin care contracts.

First tranche sales increased as homes were sold more quickly during 2022/23 due to a strong property market coupled with an improved marketing effort.

Surplus on disposal of fixed assets included £7.5m in the previous year on the sale of properties in our stock swap with Orbit Group. Other disposals such as staircasing, and divestments continued to perform well.

Market rent operating surpluses remained stable despite some disposals. Additionally, the portfolio benefitted from a £0.4m revaluation gain on its investment properties.

Net interest costs of £22.9m were £3.3m higher than last year on a like for like basis, this is caused by an increase in interest rates, as well as a full year's interest charge from the retained bond issued last year.

Statement of Financial Position

The gross cost of housing properties has increased by £74.3m to £2.1bn over the year.

This is a result of spending £97.5m on new homes and a further £20.7m in improvements to existing properties. Properties with a cost value of £28.5m were disposed of during the year, and £20.1m of developed properties were moved to stock, ready to be sold.

Social Housing Grant (SHG) has increased by £4.8m to £734.2m due to a net increase of grants receivable on new developments. Debtors increased by £1.3m to £13.5m largely due to prepayments.

Cash at bank and in hand decreased to £101.1m (2022: £137.3m). This reflects the strong investment programme in our stock as well as payment of some loans debt. We remain in a strong cash position, that together with undrawn facilities, ensures that all commitments are fully funded.

Creditors of less than one year decreased £2.2m to £61.0m mainly due to a decrease in accruals and deferred income.

Creditors over a year decreased by £38.5m to £1,368.7m due to the net decrease in housing loans and the fall in the value of derivative financial instruments due to the rise in interest rates.

Our immediate operating environment

From April 2023, we have had to face a difficult environment with our tenants suffering from the cost of living crisis. Inflation increases, labour shortages, coupled with a rent cap will put pressure on our operating margins.

In addition to this we expect:-

- To push ahead with a decarbonisation programme on our journey towards net zero.
- Adapt to increasing regulation and higher standards e.g., Damp and Mould.
- To continue to invest in new technology that facilitates customer service.
- To absorb increases in funding costs.
- To meet our corporate development targets.

Our financial strength and resilience mean we are well placed to meet these objectives.

Our corporate plan

We completed our fourth year of Making What Matters Brilliant in 2022/23, continuing our significant investment in customer services, homes and colleagues.

MAKING WHAT MATTERS Brilliant

For each section of our corporate plan, we have set out our key deliverables and the outcomes we expect to achieve, with measures and targets. We have also included our low carbon initiatives for the second year running.

Investing in Homes

Measure	2021/22	2022/23	2024/25 Target
Property investment spend	£26.4m (£67.6m over 3 years)	£29.5m (£97.1m over 4 years)	£120m over 6 years
Void loss %	1.29%	1.09%	1.00%
EPC (Energy Performance Certificate) ratings	89% are at a minimum of EPC rating of D, of which 55% are at EPC C	98% are at a minimum of EPC rating of D, of which 68% are at EPC C.	100% of properties at a minimum of EPC rating D.

We are investing £120m over the six-year corporate plan period, spending £20.7m in 2022/23. This investment is modernising our stock by replacing key components such as kitchens, bathrooms, windows and roofs. This will ensure that we can offer high quality homes to our customers and support our progress toward a void loss target of 1%.

Within the year:

- We have completed a record number of new bathrooms (751), kitchens (973) and windows (568).
- We have significantly improved the EPC ratings of our properties during 2022/23 with 68% at EPC C or above, supporting our journey to ensuring all properties are above EPC rating of C by 2030.
- We spent £1.9m on refurbishing more of our retirement living schemes, refreshing communal areas.
- We continued our intervention programme by spending £1m in 2022/23 on improving the property as well as working with the Police and Local Authorities to tackle anti-social behaviour. We have completed 34 general needs schemes this year bringing the total to 120 out of the 150 schemes identified at the start of the corporate plan.
- We achieved our lowest ever void loss at 1.09%, moving closer to our target of 1% by 2025. Our general needs void loss was at 0.68%. We achieved a record low with 17.5 days to re-let a property.

Penmakers Court

Retirement Living investment

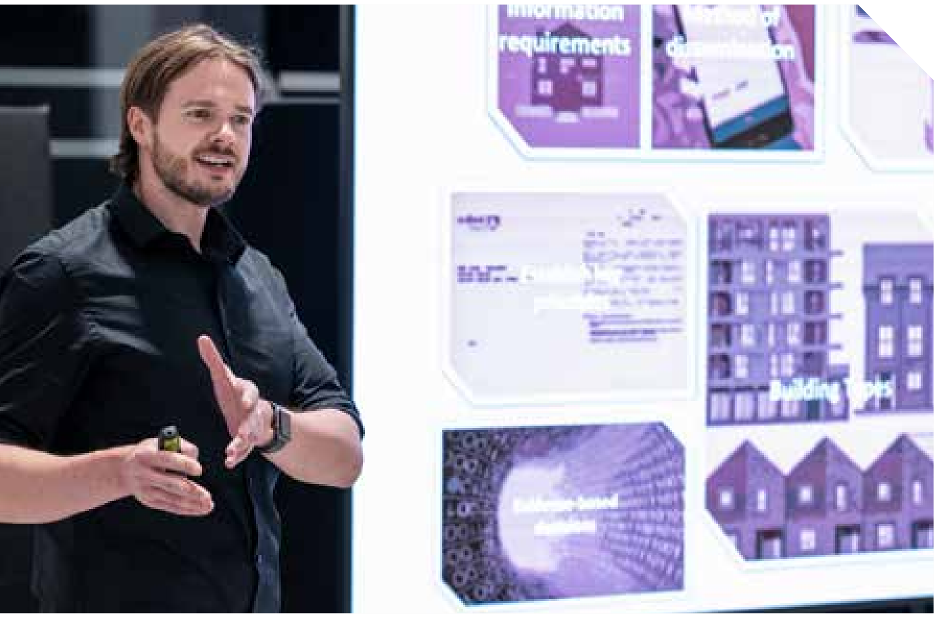
We are making significant investments in the communal areas of our Retirement Living schemes so that they best fit our customers' needs.

Penmakers Court is a 50-apartment scheme near Smethwick with a lounge, kitchen, garden and a library. We invested nearly £300k on internal decorations, flooring upgrades and new furniture. We also commissioned murals of the local area.

Customers have told us that they are spending more time in the communal areas and that these improvements mean they are proud to bring family and friends into the scheme.

Social Housing Decarbonisation Fund

Wave 1 and 2 supplementing incremental retrofit



In 2022, we obtained c£2.2 million from the Social Housing Decarbonisation Fund (SHDF) Wave 1 from our West Midlands Combined Authority (WMCA) and Leicester Consortium bids and more recently announced our successful bid to obtain a further c£2.4million in our WMCA SHDF Wave 2.1 bid.

The funding will be matched by Midland Heart and used to supplement our new net zero aligned incremental retrofit strategy looking beyond 'deep retrofit' and its known limitations.

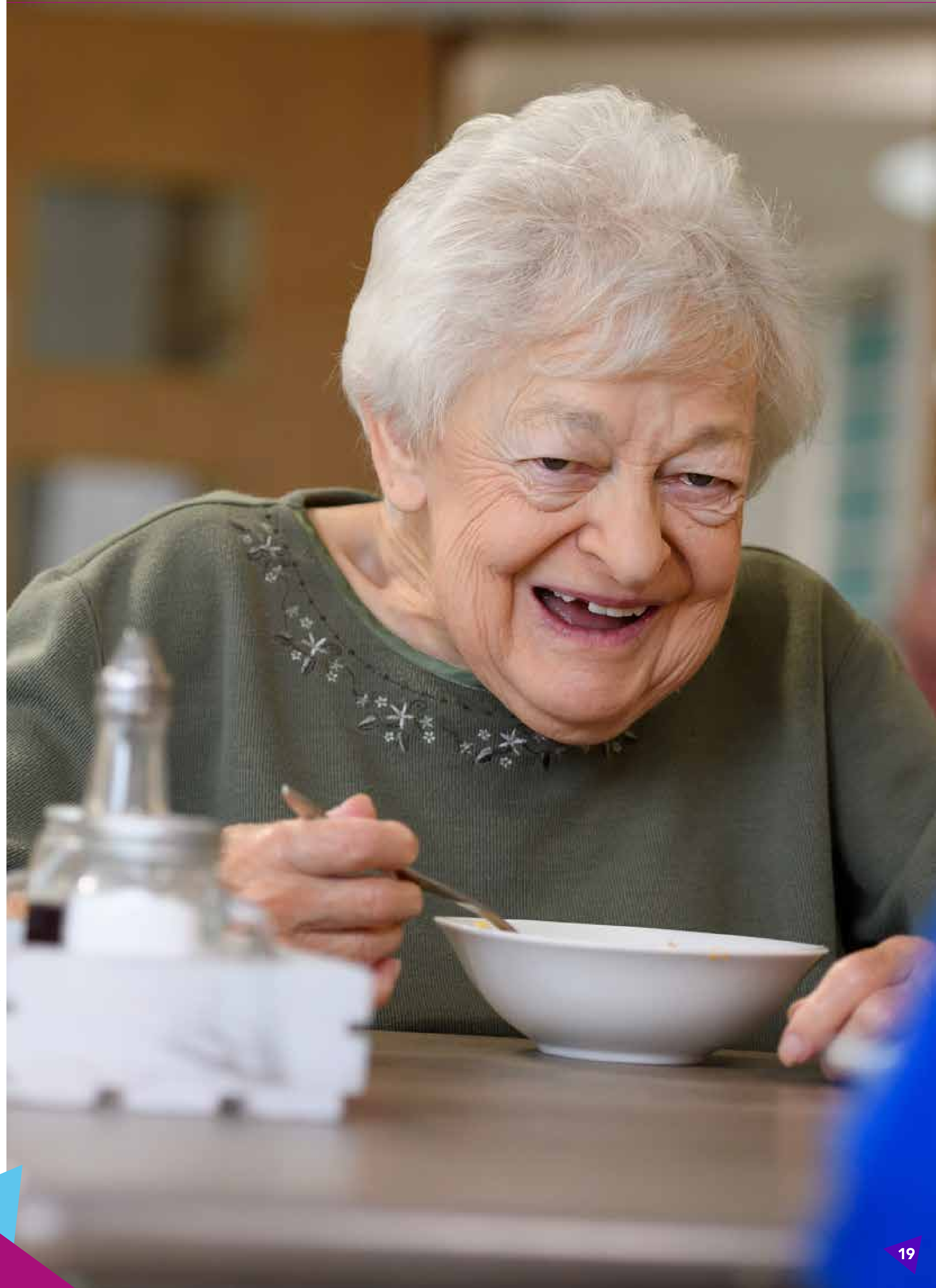
Charnwood House

Intervention scheme

Charnwood House had a history of anti-social behaviour, with locals targeting customers and entering the scheme causing nuisance and distress for our customers. Allocating these flats was challenging and tenancy turnover was high.

We carried out perception surveys to understand what our customers were experiencing, identifying that non-residents were frequently accessing the scheme. We liaised with the police, local councillors, and the Community Safety team at Lichfield Council to understand how we could focus our efforts to improve our customers' experiences. The police carried out extra patrols to increase the presence in the neighbourhood, and we installed CCTV to help identify perpetrators and follow up on reported issues.

We upgraded the door entry system and internal and external lighting to improve security and discourage unauthorised access. We also installed a new sprinkler system and refreshed the communal areas to make the scheme more appealing to customers. After consulting with customers, we also created a secured garden area for residents to use. Since completing the interventions, we have seen a dramatic reduction in anti-social behaviour complaints, safeguarding concerns and tenancy turnover. Local businesses have also benefited as reported incidents of shop lifting have become non-existent and substantially fewer people loitering around shops.



Service first

Measure	2021/22	2022/23	2024/25 Target
Customer satisfaction	89%	89%	85-90%
Repairs satisfaction	91%	91%	90-95%

Summary:

We want to ensure that we deliver the best service we can to our customers, exceeding their expectations and proactively dealing with their issues.

We measure how quickly we respond to customers, as well as identifying issues before customers have to tell us. We collaborate across the business to find solutions as well as reviewing our processes to prevent future issues.

Within the year:

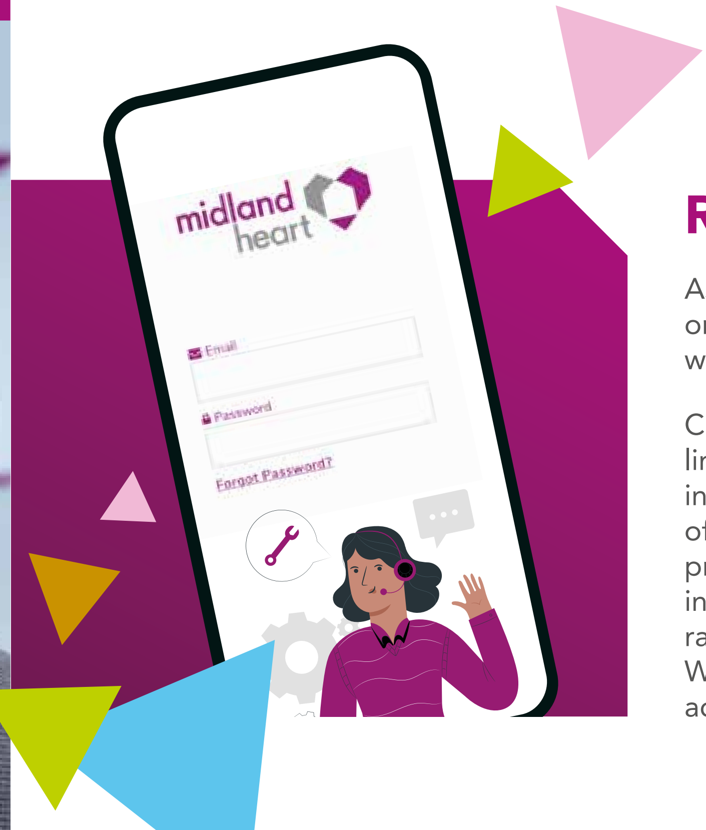
- We continued to deliver high quality repairs, maintaining over 90% satisfaction for the fourth year running.
- We created a focused rapid response damp and mould team who are specialist in dealing with and preventing issues.
- We collected c.£2m of rent per month through our customer app.
- We continued our rollout of 'Connect 360', our colleague app that allows us to track and report repairs on site, whilst also allowing them to easily view property and tenancy information. This has enabled frontline colleagues to proactively help customers with a wide range of issues at each point of contact.
- We invested an additional £1.6m in our responsive repairs service to manage increased demand over the winter months with a tough subcontractor market.

Home Checker

HomeChecker is an internal Midland Heart tool created to provide assurance that our properties are safe, secure, and well-maintained.

The online form is completed by every colleague that visits a property, grading the condition as 1 (no concerns) to 4 (immediate concerns). The form prompts feedback on the exterior and interior of the property as well as the cleanliness, any safeguarding concerns, and the condition of fire doors, where required. This helps us spot concerns before they are flagged to us, enabling us to better support our customers. Since its launch, our colleagues have completed over 56,000 HomeChecker forms.

In a recent example, a property was graded as a 4 on a routine property inspection. Our maintenance colleague raised concerns around the cleanliness, hygiene, and general upkeep of the home. The grade 4 triggered an emergency meeting between senior managers from Maintenance, Tenancy Services and Estates within 24 hours. A support plan was put in place for the customer, including a dedicated Case Officer, a referral to the Money Advice team, along with the planned repairs to the property.



ASB All-Party Parliamentary Group

Anti-social behaviour can have a significant impact on the health and wellbeing of our customers. We work in partnership with local councils and police; however, we recognised that more work needs to be done to ensure our communities are safe and peaceful places to live.

In 2022, we worked to create the first All-Party Parliamentary Group (APPG) with Shaun Bailey MP, bringing MPs and Lords from the different political parties together to address anti-social behaviour.

This group will launch an inquiry into what more can be done to reduce anti-social behaviour in our communities and what specifically housing providers, like Midland Heart, can do to make things better for their tenants. The objectives of the inquiry are:

- To understand the current barriers the housing sector and other stakeholders face in dealing with anti-social behaviour in our communities
- To set out recommendations for how stakeholders can work together more effectively in addressing and reducing anti-social behaviour
- To set out recommendations for what government needs to change to support stakeholders in addressing anti-social behaviour

The APPG will hold four parliamentary meetings to hear from people who experienced anti-social behaviour, academics, practitioners, and decision makers.

Repairs Online

As part of our Digital programme, we have rolled out our online repairs app to colleagues across the business to ensure we respond quickly when our customers raise an issue with us.

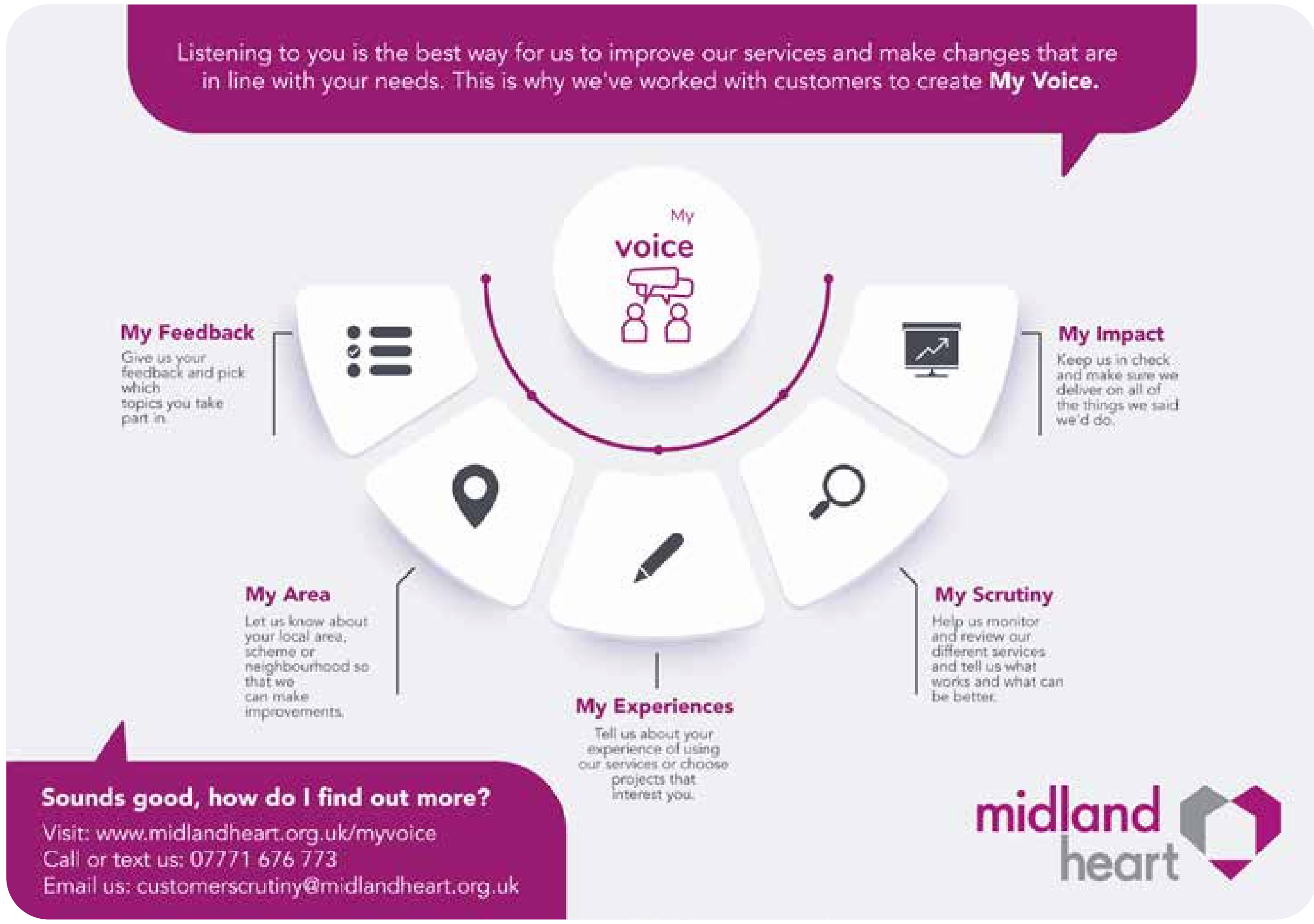
Connect360 is our online colleague app which enables front line colleagues to easily view holistic tenancy and repairs information so they can help our customers with a wide range of issues. This new addition to the app allows colleagues to proactively report repairs whilst out on site. The next step in the digital programme is giving customers the ability to raise repairs, which was launched in April 2023. Customers in Wolverhampton will be piloting the app, before we roll it out across our geography in 2023/24.

Customer voice

Listening to our customers and acting on their feedback is at the heart of the corporate plan, enabling us to create objectives that will improve their experience of our services.

Our My Voice framework for involving tenants ensures that the tenant voice is heard at the highest level. We have three customers who sit on our Operations Committee to provide this crucial oversight. Operations Committee review feedback from tenants at every meeting, including the outcomes and recommendations made by tenants on our My Scrutiny Group.

The diagram below shows how our My Voice structure offers a diverse and inclusive range of ways for the tenant voice to be heard:



This year we have heard the customer voice through many different channels including our new tenant satisfaction measures, scheme-based surveys and transaction surveys. In total almost 17,000 views have been collected to learn more about what customers think we do well, and where they thought we could improve.

Our My Voice offer has helped us ensure that our customers can hold us to account and challenge our performance as set out in the requirements from the Regulator for Social Housing. This year we undertook 4 in depth scrutiny reviews of core customer facing services, held over 100 different customer meetings and captured almost 5,600 customer views as part of our local community engagement and feedback channels.

These activities have had a direct impact on our service and helped make sure we are accountable to our customers:

Safe and Strong:
In our annual building safety survey over 400 customers fed back to us about how safe they feel in their homes. It was reassuring to see that in key areas of building safety (Fire, Gas, Electrical and Water) customer perception of safety has increased compared to 2021.

Service First:
Customers told us that accessibility is particularly important, so this year we've continued our investment in improving our digital channels, launching a new customer website and developing the app so that customers can report repairs online.

Customer focused:
Customers have consistently highlighted communication as an area we can improve on and so we have changed the way we communicate with customers at each stage of our processes. We are now much better at making sure each of our communications are clear, sent using a platform that suits customer needs and makes sure our customers feel informed and know what to expect from our services.

We have also been preparing for the new tenant satisfaction measures by trialling the collection of these metrics throughout 2022/23.

Complaints

When we fail to meet a customer's expectations, we listen to their experience so we can respond appropriately and improve our services. We want to ensure that we take a collaborative approach, working with teams across the organisation and take collective responsibility for any services that have fallen below our standards. Our principles are:

- We place the customer at the heart of our process to ensure we are flexible and responsible.
- Our process is well publicised, easy to understand, and available for all.
- We outline a clear complaints process with agreed timelines for resolution.
- We aim to resolve complaints at the earliest opportunity.
- Our investigations are thorough, proportionate and consistent to the circumstances of the case.
- We treat customers with respect and seek to remain impartial and objective throughout the process.
- We use information from complaints to measure performance, identify trends and highlight opportunities for service improvement.

Each year our tenants work with us to review our compliance with the expectations for how we manage, respond and learn from complaints set out by the Independent Housing Ombudsman. Whilst we have seen our number of complaints received rise from 16 to 25 per 1000 homes, we are pleased to report that last year tenants agreed that we were fully compliant and that in 2022/23 we received no determinations of severe maladministration. This comes at a time when the sector as a whole is seeing record numbers of complaints received.

We recognise that where things do go wrong we need to ensure we learn from these cases and put improvements in place to prevent this happening again. We regularly review the root causes of complaints we receive and have identified that improving the timeliness of our responses, the quality of the repairs we deliver and ensuring we communicate effectively with our tenants is key to reducing the complaints we receive. We've worked hard over the last year to deliver training, lessons learned and service improvement plans for our front line teams and will continue to focus on these areas over the coming year.

Growth and Partnerships

Measure	2021/22	2022/23	2024/25 Target
New homes built since 2019/20	1,620	2,271	4,000
Acquisitions	82 (net of stock swap)	255	
Total	**1,702**	**2,526**	

Average sales price of our properties in 2022/23:	£215,329
Average first tranche equity share in 2022/23:	46%
Average time to sell a property in 2022/23:	14 weeks

Summary:

Through our Housing Delivery Strategy to build and acquire 4,000 homes by 2025, we are committed to playing our part in the national home shortage.

Within the year:

- We built 651 new homes in 2022/23 which means we have delivered 2,271 homes since the start of the corporate plan, despite the challenges of global supply issues, price increases and planning delays.
- We acquired 173 homes on the Croftpool Estate in Nuneaton from Stonewater to develop greater economies of scale for our services in the area.
- This year's shared ownership first tranche surplus was £2.6m, continuing the success of 2021/22. There were a record 174 shared ownership sales which generated sales receipts of £17.3m.

Croftpool

We have acquired 173 properties in Nuneaton and Bedworth from Stonewater. We became the preferred bidder in July 2022, and completed the transaction in February 2023. We embarked on a joint customer consultation with Stonewater to ensure a smooth transition and that customers remained informed.

The acquisition comprised of 107 flats and 66 houses in an area where we already had a general needs presence. This will allow us to deliver a quality service at a reduced cost due to the economies of scale.

These properties are now part of our investment programme, ensuring that they are brought up to EPC C and to remain fully compliant with all laws and regulations.

Elvetham Road

We have embarked on our second Future Homes project in partnership with Tricas to deliver 12 one-bedroom maisonettes in the heart of Birmingham.

The properties have been designed and built in accordance with the Future Homes Standard 2025 and will produce 80% less carbon emissions than those built under the current regulations.

Birmingham City University will provide in-depth research on how the properties are performing and how our customers are finding the innovative technology.

Bluebell Court

In May 2022, we opened a brand-new Retirement Living scheme. Bluebell Court is a purpose-built scheme that has been designed to deliver net zero ready heating and complement its historic surroundings.

We worked in partnership with Lichfield District Council to make sure local people were prioritised for these new homes. The scheme features 29 one and two bed apartments, which were all allocated before completion due to the level of interest.

People focused

Measure	2021/22	2022/23	2024/25 Target
Voluntary turnover	16.8%	14.9%	15.0%
Time lost due to sickness	2.8%	2.34%	3.0%
Colleague engagement	80%	81%	80%

Summary:

We want to be a great place to work. Working with our Colleague Champions and Inclusion Networks we create an environment where colleagues feel a sense of belonging and are able to develop and grow their careers, irrespective of background.

Within the year:

- We were named independently by Best Companies as a great place to work in Housing (4th, up from 8th) Regional (16th in both West and East Midlands, up from 24th) and Large (26th, up from 50th) categories.
- We saw the highest response to our colleague engagement survey at 77%, with 81% of colleagues recommending Midland Heart as a place to work.
- We were included in the Top 50 inclusive employers list, demonstrating our ongoing commitment to equality, diversity and inclusion.
- We published our gender and ethnicity pay reports along with our actions to reduce the gap.
- Our sickness fell to 2.34%, the lowest year-end figure outside of the pandemic.
- We continued to grow our own talent, fully utilising the apprenticeship levy with 21 Early Careers Apprentices, ranging from software engineering to surveyors. We have 5 new apprentices starting in 2023.
- Our first cohort of our Female and Black Colleague development programmes has helped three female colleagues promoted into more senior roles, and five black colleagues further their careers at Midland Heart. Our second cohort starts in May 2023.

CIPD awards

We are proud to say that our HR team won the award for Best Wellbeing Initiative at the CIPD People Management Awards in 2022.

We developed a wellbeing strategy to help our diverse workforce to adapt to new ways of working during and post the pandemic; key actions included:

- Recruited and trained 15 mental health first aiders to support colleagues in adapting to the challenges and isolation of remote working and isolation during the pandemic.
- Redeploying rather than furloughing colleagues; maintaining service levels whilst keeping colleagues and customers safe.
- Created wellbeing toolkits and held virtual engagement events to support colleagues and maintain a connection to the organisation.
- Created an overarching wellbeing campaign which focussed on mental, financial and physical wellbeing.

Best Companies

For the second year, we partnered with Best Companies to deliver our annual engagement survey.

Whilst we were pleased to secure a one-star rating in the first year of entry we were delighted to improve on last year's result with a two-star rating and featuring higher in the league tables. We had record high engagement with 77% of colleagues completing the survey and we donated £865 to Birmingham Children's Hospital in return.

The areas which colleagues told us they wanted a greater focus on and the work we are doing as a result, relates to the following:

- **Collaboration** - To enable closer collaboration, we have introduced cross functional team meetings for departments that regularly work together.
- **Communication** - We have developed tools to ensure our messages are tailored to the different areas of the business to allow for more localised communication.

Apprenticeships

Growing our own talent has been at the core of our people strategy. Challenging labour market conditions mean it's never been more important that we enable colleagues to develop critical skills to not only fulfil their potential and aspirations but also to ensure we deliver on our corporate objectives. Our commitment to investing in our workforce development has resulted in us fully utilising the apprenticeship levy since it began in 2017.

The degree apprenticeship programme is a flagship programme which offers talented young people from local communities the opportunity to gain real world work experience and skills, whilst studying for a university degree. The first cohort of 6 are doing well in both their studies and adding value to our business whilst they apply the knowledge learnt.

The second cohort starts in September 2023 and we saw a 64% increase in applications; with over 1000 applications for this year's programme. The specialisms are very much focussed on hard to fill roles where we know labour market conditions are unlikely to change substantially in the years ahead and include cyber security, fire engineering and surveying.

Recognising the focus on the quality of homes and the critical role of repairs & maintenance alongside the challenges in recruiting Trades skills, we have also launched a trade apprenticeship programme. The programme provides a pipeline of skilled talent to our in-house maintenance team. We currently have 10 colleagues on the programme, and we will add a further 14 over the next two years.

Gender **pay gap**

Frontline Worker

Male
43.92%

Female
56.08%

Colleagues

Male
44.84%

Female
55.16%

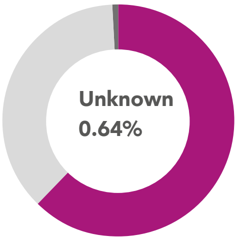
Frontline Manager

Male
45.38%

Female
54.62%

Customers

Male
37.00%



Female
62.36%

Leadership

Male
62.50%

Female
37.50%

Midlands
Census 2021

Male
49%

Female
51%

Our mean (average) gender pay gap is 19.98% (2021: 18.47%),

The UK mean gender pay gap is 13.9%.

Our median (mid-point) gender pay gap is 15.02% (2021: 15.13%),

The UK median gender pay gap is 14.9%.

The increase in our mean gender pay gap was driven primarily by the following two factors:

- Change in our Maintenance team has meant that we have welcomed a group of colleagues from an external contractor as well as in-sourcing contracts from providers who ceased training during the pandemic. This has resulted in an increase in males in the top end of our lower middle quartile, disproportionately affecting our gender pay gap.
- We have recruited more males than females in our upper quartile. Against the backdrop of a difficult labour market, we have been struggling to recruit. However, in the last 12 months, we have recruited a higher ratio of females to our upper middle quartile, growing our pipeline of talent into senior leadership for the future.

We remain committed to reducing the gender pay gap by continuing to focus on:

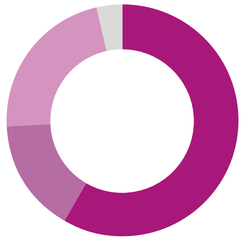
- Increasing the number of women in our upper quartile, particularly at the higher levels
- Achieving a gender balance in the lower quartile
- Ensuring our rewards and benefits enable everyone to balance their personal and professional lives.

Next year, we will focus on:

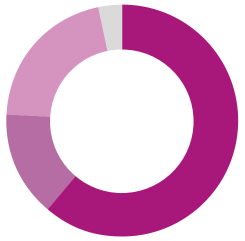
- Career Development: to grow female leaders, our second cohort will embark on the female development programme.
- Recruitment: we will work with our Inclusion Network, Balance, to understand how we can attract more women to the upper quartile. We will also work with our female apprentices and operatives to understand how we can attract more women into a male dominated environment.
- Female inclusion: Balance will launch a digital learning platform and will review our family friendly policies to ensure they are fit for purpose.

Ethnicity pay gap

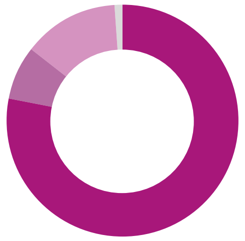
Frontline Worker



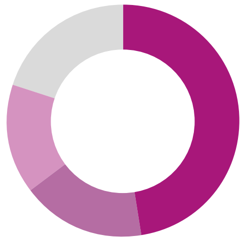
Colleagues



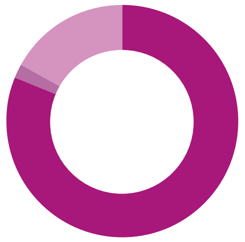
Frontline Manager



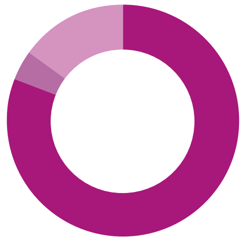
Customers



Leadership



Midlands
Census 2021



Our mean (average) ethnicity pay gap is 10.71%
(2021: 10.80%).

Our median (mid-point) ethnicity pay gap is 7.23%
(2021: 8.03%).

We are proud to be one of the few employers in the country to publish our ethnicity pay gap. We continue to be committed to creating an environment where everyone can succeed, regardless of their background.

Since last year, we have seen slight reductions in both the median and mean ethnicity pay gap and we want to take informed and relevant actions to sustain the progress.

Our highest ethnicity pay gap remains amongst our black colleagues, but encouragingly this has reduced by 1.52%. We have seen our first cohort of 10 black colleagues move through bespoke development programmes, some of which have already moved into higher paid roles.

Employee involvement and consultation

Our Colleague Champions act as a crucial link between our frontline colleagues and Executive team. The Champions are our information, representation and consultative body through which colleagues can inform and help shape our strategic direction. Champions also ensure broader organisational issues are raised and discussed with the Executive; they also play a key role in sharing corporate messages & information.

Champions attend Executive Board meetings, Senior Management Team meetings, steering groups and the Remuneration Committee to ensure a strong colleague voice is heard at all levels of the business.

Champions use a variety of communication methods to gather feedback and keep colleagues informed. In the year, they have:

- Gathered feedback on the pay award consultation.
- Helped the consultation on a new benefits package, including purchasing extra annual leave.
- Facilitated the Executive Board visits to schemes to engage with our frontline colleagues.
- Led on colleague engagement by attending away days, holding roadshows and supported internal communications.

Safe and strong

Measure	2021/22	2022/23	2024/25 Target
Operating margin %	36.3	28.8	30
Interest cover %	386.0	296.0	>150.0
Gearing %	45	44	<70
Arrears %	4.30	4.39	4.00

Summary:

Safe and Strong focuses on remaining financially strong and also focusing on safety, making sure we spend our money wisely and invest in things that matter to our customers.

Financial Strength

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

Within the year:

- Our financial performance remains strong, and we have a best in class credit rating from Moody's of A1 Negative.
- We maintained a robust level of liquidity. As of 31st March 2023, we held £247m of cash and facilities that are immediately available.

Focus on safety

The regulatory environment is constantly evolving with new regulatory judgments and guidance, such as 'Building a Safer Future' and the Fire Safety Act. Where possible, we adopt best practice in our properties and workplaces. We put customer consultation at the heart of safety, ensuring that we have clear processes to raise concerns and are transparent with their resolution.

Within the year:

- Continued our 100% compliance on building safety.
- We have spent £3m on sprinklers across 14 high risk Retirement Living schemes.
- We have completed a carbon monoxide and smoke detector programme to ensure our properties continue to be safe for our customers.
- We updated our building safety competency framework to align with the British Standards Institute PAS 8673 to ensure our colleagues are suitably trained and qualified.

Damp and mould

We have a strong approach to understanding the condition of our homes and all of our front-line colleagues report on a range of risk factors at every home visit. This helps us to build an up-to-date picture alongside our 100% stock condition data.

Damp and mould is a priority focus for us to ensure that our customers live in safe, quality housing. We have a robust approach to managing damp and mould in our properties, including providing support to our tenants to minimise the possibility of any mould growth.

We are well prepared for the increased regulatory scrutiny in this area and to give further assurance to our Board in this environment, we have a damp and mould dashboard that is reported to Operations Committee and the Executive Board which tracks cases to completion.

Our focus is developing preventative strategies to include:

- Prioritizing energy efficiency investment on properties that have damp and mould.
- Proactive money advice to repeat damp and mould cases where financial hardship is a factor.
- Targeted educational programmes on heating and ventilation, including running costs.
- Summer programmes to check and clear rainwater gutters and test extractor fans.

Building safety

The Building Safety Act 2022 requires all building owners of residential buildings over 18m to register with the new Building Safety Regulator.

In response, we have developed a building safety case report for our 5 in scope buildings based on the early guidance from the Health & Safety Executive. Each report has a summary of our safety assessment of the building with a case file that holds the relevant information to support our summary, including certification and risk assessments.

We have ensured that the content meets the requirements of the Act and also meets the needs of our primary authority partners, West Midlands Fire and Rescue Service.

Value for money

Value for money is embedded throughout our corporate plan whilst incorporating the VFM standard and metrics.

The Regulator's published sector wide annual global accounts to March 2022 highlighted the sector's record spending on existing stock, resulting in the erosion of operating margins and interest cover. This is against an economic backdrop of increasing inflation, interest rates and a softening housing market. The Regulator has urged providers to take a strategic approach to managing their economic risks through this economic uncertainty.

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

Value for money metrics

	Actual			Forecast	
Measure	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
Reinvestment %	6.4%	7.7%	6.7%	8.7%	7.8%
New supply delivered (social housing units) %	1.2%	2.3%	2.1%	2.0%	2.1%
New supply delivered (Non-social housing units) %	0.00%	0.00%	0.0%	0.0%	0.0%
Gearing %	28.9%	29.6%	29.3%	31.9%	32.3%
EBITDA MRI interest cover	2.14	2.74	2.37	2.08	1.98
Headline social housing cost per unit	£3,480	£3,693	£4,012	£4,408	£4,783
Operating margin % (social housing lettings only)	32.6%	30.2%	28.2%	29.0%	28.7%
Operating margin % (overall)	30.9%	28.8%	27.0%	27.5%	27.0%
ROCE	3.7%	3.9%	3.3%	3.4%	3.4%

Regulator 2021/22	Reinvest-ment %	New supply delivered (social housing units) %	New supply delivered (Non-social housing units) %	Gearing %	EBITDAMRI interest cover	Headline social housing cost per unit	Operating margin % (social housing lettings only	Operating margin % (overall	ROCE
Lower quartile	4.7%	0.7%	0.0%	32.1%	1.07	£3,700	17.6%	14.3%	2.4%
Median	6.5%	1.4%	0.0%	44.1%	1.46	£4,150	23.3%	20.5%	3.2%
Upper quartile	8.6%	2.1%	0.1%	53.1%	1.98	£5,180	28.5%	25.4%	3.9%

Reinvestment levels have continued through our investment in new homes coupled with the capital investment in our existing homes. We are committed to this level of investment throughout the remainder of the corporate plan. New build expenditure incurred in the year was lower than last hence the fall in reinvestment levels.

New supply delivered has remained over 2% due to delivering 651 new homes in the year. Our development programme will continue to progress towards our corporate plan target of building and acquiring 4,000 new homes by 2025.

Non-social housing remains at 0% as we focus on delivering social and affordable homes.

Gearing marginally decreased as we did not acquire any new debt within the year and our asset base increased.

EBITDA MRI continues to be high. We expect to see this figure drop in the future due to higher interest rates and increased expenditure on our assets, however we anticipate to continue to perform well in this metric.

Headline Cost Per Unit has continued to grow due to an increase in maintenance costs alongside our commitment to improving our stock and our decarbonisation agenda. We expect this figure to continue to rise in future years with further property investment, rising regulatory expectations, and inflationary pressures.

Operating margin (Social Housing Lettings and overall) has dropped, reflecting increased expenditure on assets, along with higher inflation and wage costs.

Return On Capital Employed (ROCE) has decreased due to lower asset sale surplus compared to previous years coupled with an increased capital base.

How do we compare to others?

We continue to lead and develop a new performance improvement and benchmarking model for the sector with Vantage Business Solutions.

A key aim is to analyse the performance of the largest providers on an annual basis through publicly available information from financial accounts.

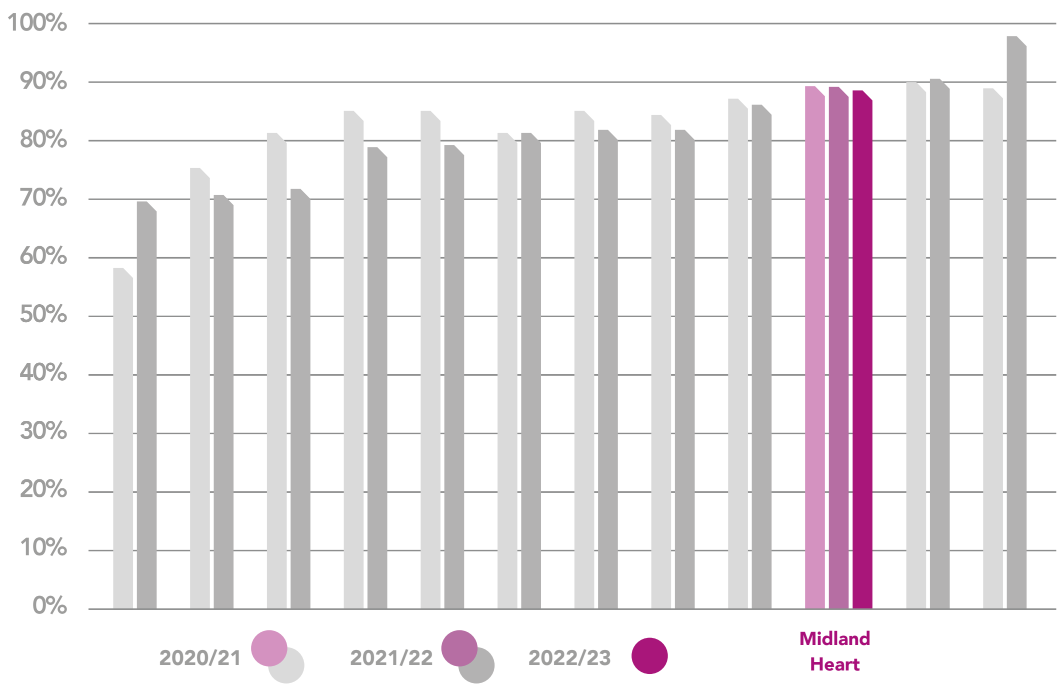
As in previous years, we continue to compare ourselves to a core number of housing providers. We select organisations in all geographies, which represent some of the largest and most efficient Registered Providers, as well as including those that largely have strong governance and viability ratings.

Our benchmarking group consists of:

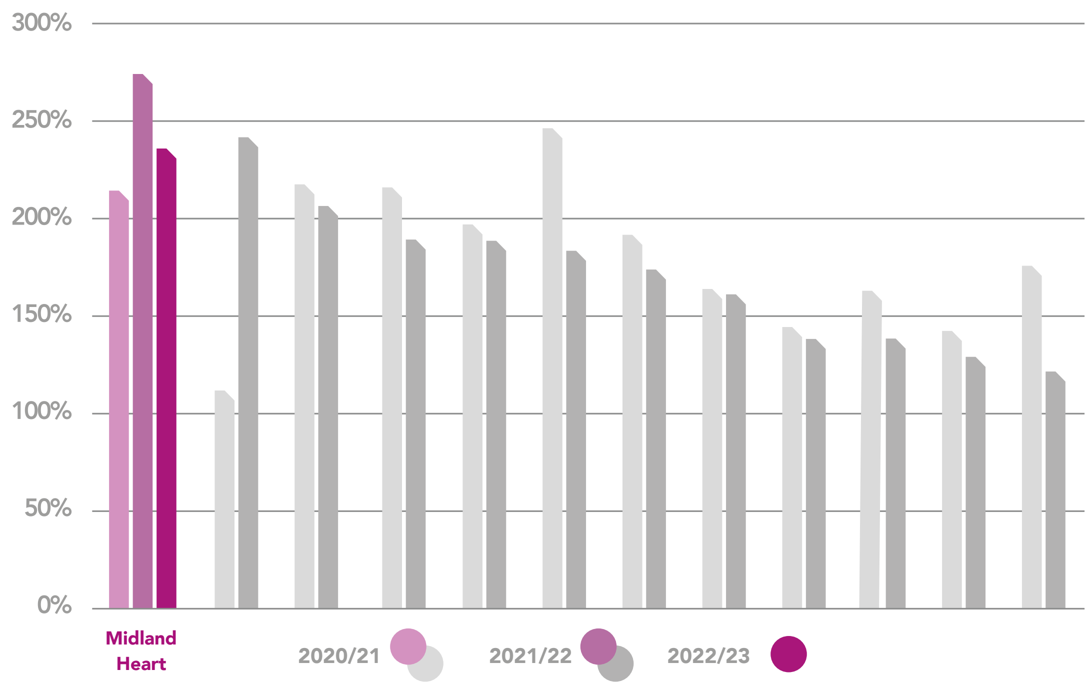
- Bromford
- Citizen
- East Midlands Housing
- Flagship
- Hyde
- Southern
- Orbit Group
- Platform
- Riverside
- Sovereign
- whg

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

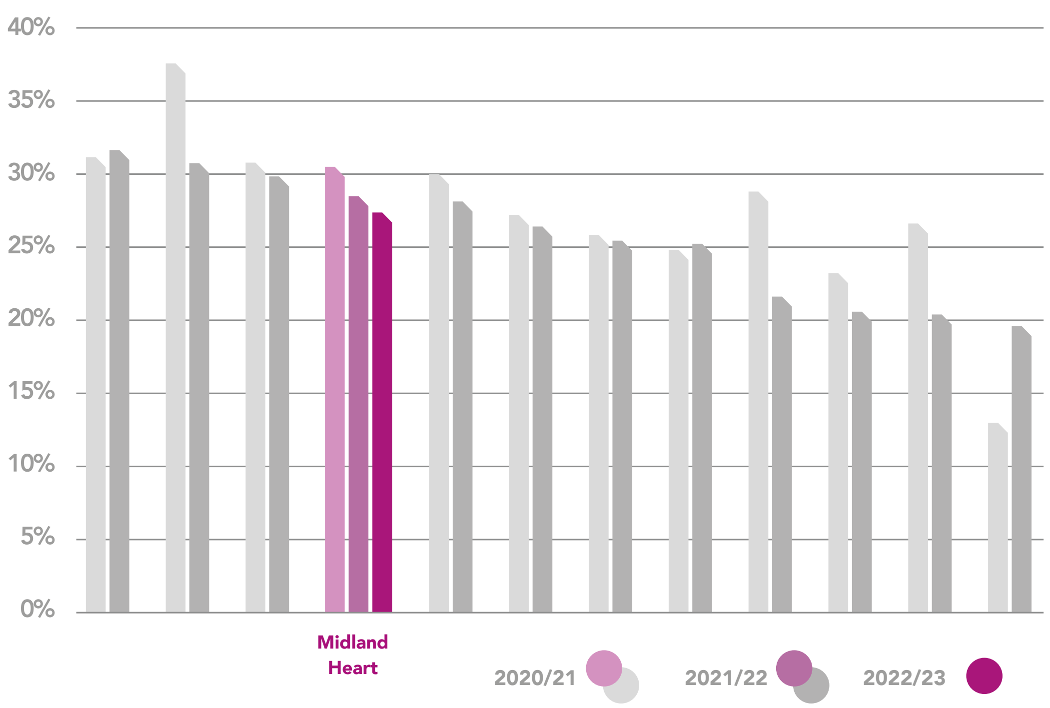
Customer satisfaction



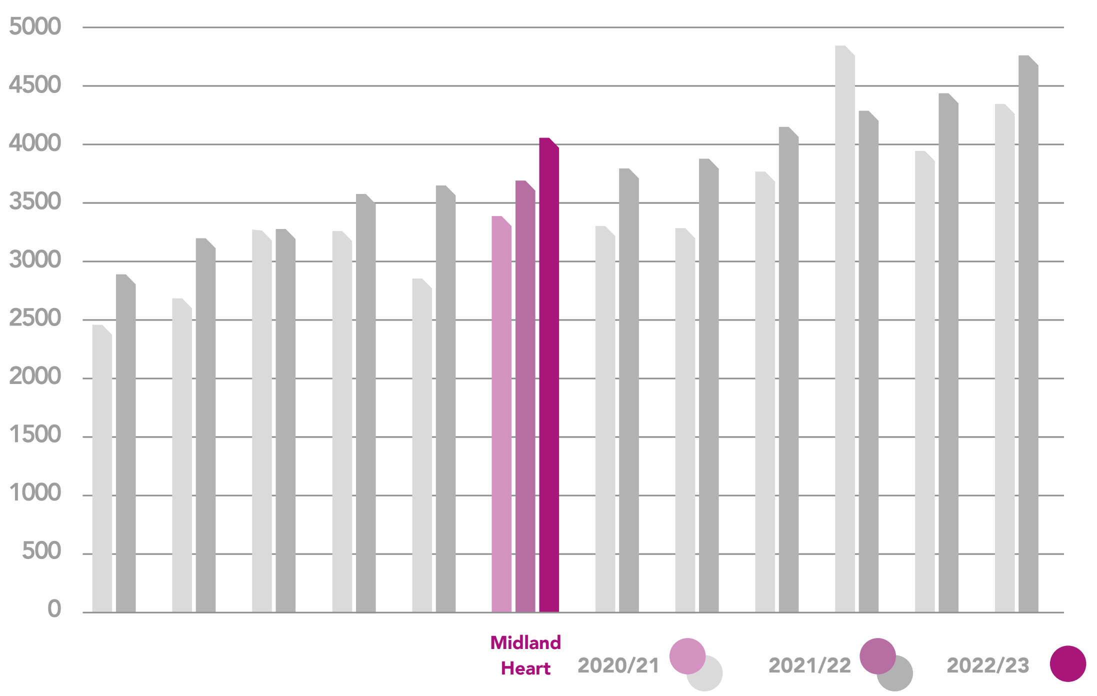
EBITDA MRI interest rate cover - overall %



Operating margin - overall %



Headline cost per unit (£)



Climate change and sustainability

Summary:

Our 2025 corporate plan, Making What Matters Brilliant puts our customers, homes and communities at the centre of everything we do. It aligns elements of organisational strategy and puts low carbon as a key priority of our organisation.

Our corporate carbon emissions targets are:

- EPC D in all our homes by 2025
- EPC C in all our homes by 2030
- Net zero carbon emissions by 2050 in the homes we rent, the homes we build and the way we work

To drive low carbon and our ESG (environmental, social and governance) agenda, alongside the Carbon Reduction Plan and net zero 2050 target, we formed the ESG Committee, chaired by our Executive Director of Finance & Growth, to provide the governance needed to achieve our net zero ambition.

This year, we have committed to our third Sustainability Reporting Standard for Social Housing (SRSSH) aligned ESG Report. Supporting our enhanced ESG reporting, net zero trajectory reporting, embedding United Nations Sustainable Development Goals (SDGs) and aligning us with elements of Task Force on Climate-Related Financial Disclosures (TCFD).

Key achievements

- Reduced our total carbon emissions by 20% to 98,460 tonnes CO2 emissions (tCO2e) against the 123,266[1] tCO2e 2019-20 baseline. Achieving a significant 17,319 reduction in emissions from the homes we rent and the homes we build.
- Reduced our scope 1 & 2 carbon emissions by 260 tCO2e against 2021-22, through a decrease in Scope 1 purchased natural gas consumption for office and scheme space and water heating.
- Awarded c.£4.6million in SHDF grant funding from our WMCA and Leicester Consortium led bids Wave 1 and Wave 2.1 bids to supplement our net zero incremental retrofit strategy.
- Uplifted our homes to 98% EPC D or above and 68% EPC C or above, increasing our average SAP to 71.7 (as reported in the 2023 Statistical Data Return)
- Launched the UK's first domestic Demand Side Response pilot in collaboration with Centrica and Glen Dimplex. Involving smart storage heaters that interact with the National Grid's critical energy infrastructure.
- Evaluated the performance of our Project 80 homes with Birmingham City University, including the embodied carbon associated with our new homes.
- Our new Facilities & Offices Environment & Sustainability Plan targets positive sustainability action in the way we work. It focuses on all aspects of our office operations from building to fleet performance and engaging colleagues on the journey.

Streamlined Energy and Carbon Reporting (SECR)

Greenhouse gas emissions as tonnes CO2 emissions (tCO2e)

		2022/23	2021/22	Baseline 2019/20
Scope 1 emissions from natural gas and commercial fleet fuel use		6,220	6,488[1]	7,529[1]
Scope 2 emissions from electricity use	Location based	3,357	3,513	4,958
	Market based	39	31	2,825[2]
Scope 3 emissions from business travel private vehicle use		166	74	183
Total greenhouse gas emissions	Location based	9,743	10,075	12,670
	Market based	6,425	6,593	10,537
Carbon intensity ratio (total tCO2e / #homes)	Location based	0.28	0.29	0.38
	Market based	0.18	0.19	0.31
Energy use total (MWh)		50,675	51,465	n/a
Number of homes (#homes) *excludes offices*		34,906	34,362	33,611

[1]Figures have been updated to include newly captured fugitive emissions data. [2]Figure updated with new categorisation of office spaces

We have continued our work with SHIFT to provide assurance and an independent assessment of our energy consumption and emissions. SHIFT are a leading assessor for social housing providers. We regularly review our energy and greenhouse gas (GHG) emissions against the GHG Protocol Accounting and Reporting Principles.

Scope 3 emissions have been reported for the assessed scope 3 categories and activities using the GHG Protocol: Technical Guidance for Calculating Scope 3 Emissions. For the purposes of SECR we have included Category 6: Business travel, omitting other associated categories. All assessed Scopes will be disclosed in our annual ESG Report.

We have used the GHG Protocol Corporate Accounting and Reporting Standard as the methodology to quantify our emissions. Using the 2022 Defra conversion factors to calculate associated tonnes CO2e equivalents. Reporting has been aligned with the UK Government's Environmental Reporting Guidelines.

The chosen intensity ratio is the total tonnes CO2e (market based) per home, providing effective benchmarking of our performance within the social housing sector.

Through enhanced governance of sustainability and net zero we have built key action plans and workstreams to advance energy efficiency and reduction in the homes we rent, the homes we build and the way we work.

Our Energy Plan has set out a programme that targets energy efficiency in our property portfolio. Under the Plan we commenced our roll out of smart or automated meters (AMRs) with 32 completed of a targeted 550 by March 2024 and established our Energy, Carbon & Water Management Group to support continual improvement across workstreams.

Within the wider portfolio of homes and our operations, we have installed:

1,302 new energy efficient boilers

116 electric heating systems including storage and panel heaters

86 solar PV arrays on our homes, including in-roof solar PV through our re-roofing programme.

64 blocks transitioned to new LED lightbulbs

543 properties have received new double-glazed windows

25 properties have received triple glazed wall insulation ready triple-glazed windows

146 insulation top ups have been completed

6,703 newly assessed and registered EPCs have captured the energy efficiency measures installed in our homes as we work towards EPC C by 2030

Delivering Social Value

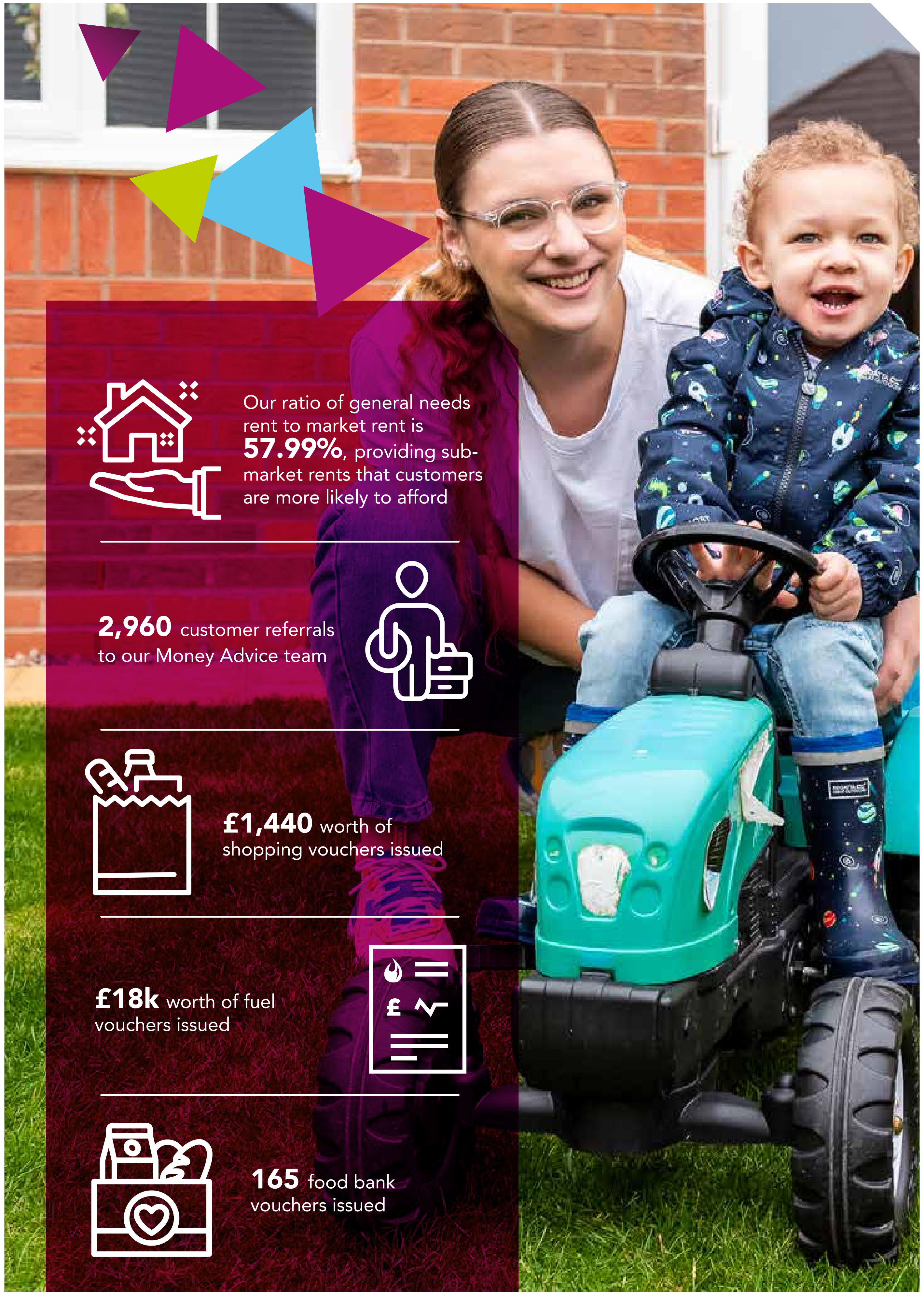
We are committed to deliver social value to our customers through providing high quality housing and support services. We work with partner organisations who can support us by donating their knowledge, time, energy and resources across a variety of activities to put something back into their community. Our Money Advice team assist our customers in accessing this support, alongside advice in dealing with debt and maximising benefits.

This year, we:

- Maximised customer income by £2.5m, increasing income and reducing debt liabilities. We obtained Universal Credit awards of £424k and £34k in Discretionary Housing Payment for customers struggling to meet their rent shortfall due to financial hardship and effects of welfare reform.
- Helped eligible customers obtain an additional £764k in housing benefit and £85k in attendance allowance for those over 65 to help with mobility and care needs.
- £76k was secured from charities, trust funds and tenant hardship funds to help reduce debt and purchase essential goods and services, such as cookers, bedding and fridges.

As the cost of living continues to bite, we have accessed additional support for our customers that are struggling to cope with the food and energy price inflation:

- Gaining access to Trussell food bank portal so that we can quickly issue food vouchers electronically.
- Working with the Building Safety team to clear gas meter debt to enable gas safety checks and to continue to have a supply.
- Giving customers advice on how they can most efficiently use energy and reduce their bills through the Money Advice team and on our website.
- Distributing winter warm packs donated by a contractor for vulnerable customers that were worried about turning on their heating.



Treasury Management

Loan facilities

Midland Heart's policy is to develop long-term relationships with lending institutions and investors that understand the business and can meet its funding and changing business requirements. We also have a robust investor relationship strategy which includes presentations on our results and our progress against our ESG objectives. In this regard, Midland Heart is developing a Sustainable Financing Framework and seeking a second audit opinion.

Midland Heart has a robust liquidity policy that states there should be sufficient cash and fully secured loan facilities to cover 18 months of any committed development spend excluding any sales receipts from outright sale/shared ownership properties.

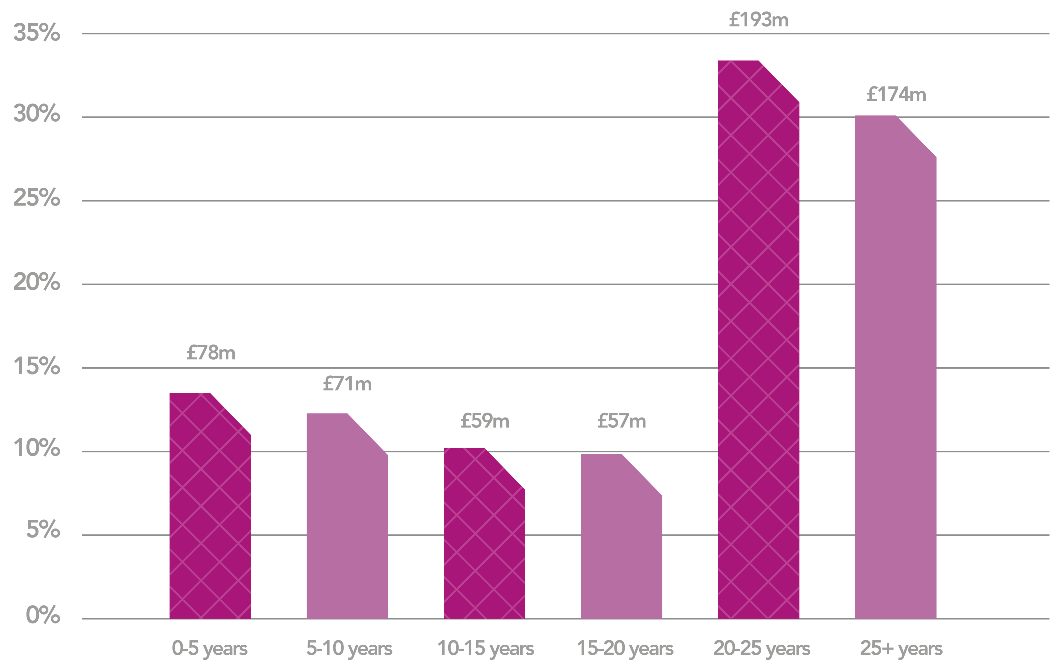
As at 31 March 2023, Midland Heart had c£247m of available liquidity; comprising £147m available in undrawn fully secured facilities and c£100m in cash. In addition to this, we have a £75m fully secured retained bond from our 2020 bond issue, that could be issued very quickly if required. This is an excellent foundation to fund both our future development plans and asset investment plans in our existing homes.

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

Measure	2023	2022
Within one year	12,761	9,759
Between one and two years	9,637	12,053
Between two and five years	58,418	40,005
After five years	550,791	579,721
	631,606	641,538

Debt repayments

c88% of our debt matures in over five years' time.



Midland Heart has a diversified funding base, the split between bank and capital market funding as at 31 March 2023 was 61% of our debt came from the capital markets and 39% 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 instruments can be authorised for use, covering both borrowings and investments. In addition, the policy identifies the maximum value of financial instruments and with whom they may be agreed.

Midland Heart uses embedded instruments (such as fixed rate bank loans and bond issues) and standalone interest rate swaps to reduce the impact of increases in interest rates to Midland Heart.

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 2023 this amounted to just over £18m and all counterparties' exposure was fully covered by property collateral and credit thresholds. This was a significant fall from the £47m reported last year.

Midland Heart monitors its exposure daily and stress tests it. Our policy is that we must be able to cover a fall in interest rates of 100 basis points. Midland Heart does not have any non-sterling or exchange rate exposures.

Debt portfolio

Covenants

The Group's main financial covenants are in respect of gearing, interest and asset cover. These have been agreed with all the relationship banks and are monitored on a regular basis including stress testing at our Finance and Growth Committee. The Committee monitor our golden rules that have been set to ensure that at all times we are well within our financial covenants.

Measure	Golden rule	Bank tightest covenant	2023	2022
Gearing	70%	75%	44%	45%
Interest cover	150%	116%	296%	386%

As of 31 March 2023, we had 8,806 unencumbered units that could be used for new funding.

In recognition of Midland Heart's credit strength and strong financial management we currently enjoy a strong investment grade A1 rating with a negative outlook from Moody's Investors Services. This is the leading Moody's rating in the sector and bears testament to our strong financial performance and business discipline.

Risk Management

Our operating environment

Our focus in 2022/23 has been monitoring the wider economic risks that are facing the country, coupled with the fallout of the political turmoil during Autumn 2022.

The cost-of-living crisis is keenly felt by our customers. We continued to support them through our Money Advice team and the monthly monitoring of arrears.

Due to the sharp increase in CPI, the Government capped the rent increase at 7% after a consultation with housing providers. Although this increase is below the inflation seen in expenditure, we had extensively modelled the financial impact of each of the options presented, ensuring that we remained viable and able to deliver high quality services.

The labour market continued to be tough, with specialist skills scarce in the market. We adapted our recruitment processes to shorten recruitment time and respond quickly to vacancies.

Looking ahead to 2023/24

The cost-of-living crisis is predicted to remain acute, where increasing costs and arrears may affect our business plan. If inflation remains high, it is likely that the Regulator will cap the annual rent increase below CPI, eroding margins further.

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

Keeping risk management running through our business

The Board and Audit and Risk Committee recognise the importance of sound risk management to the achievement of our corporate plan.

Our risk management process aims to identify risks before they materialise, ensuring we can put mitigating controls in place and focus our assurance activities. Our Executive Board has overall responsibility for risk management and the system of internal control within the business. The Audit and Risk Committee reviews the systems in place to identify and manage risk, and receives reports from the internal auditors, advising on the effectiveness of our internal control systems in managing risk. The Group uses an enterprise-wide risk management (ERM) framework in order to support the identification and management of risk.

ERM enables us to identify, measure and manage the entire range of business opportunities and risks. Under the ERM framework, each functional area of the business regularly reports on its major risks and how these are being managed or eliminated.

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

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

Measure	Risk	Mitigation
SR1	Causing serious harm or neglect to a customer, staff, supplier or third party	• Safeguarding and operational policies and procedures in place with all relevant staff inducted and trained. Routine weekly and monthly checks undertaken by fully trained operational staff. • Safeguarding Board in place monitoring policy implementation and performance. • Our health and safety strategy
SR2	Non-compliance with Building Safety laws, regulations and best practice in existing and new build properties	• Dedicated teams and budgets in place to manage building safety compliance. • Documented systems in place to identify, control, monitor and report on all areas of building safety risk and performance. • Competent, qualified contractors procured to provide specialist services. • Documented new build handover process agreed with building safety and development teams
SR3	Failure to build homes that meet demand at the required rate and quality	• Development strategy is adequately phased and held to across the five-year plan. • Development project management processes and procedures with status reported to Board. • Operations sign off development projects to ensure properties have correct specifications to meet customer need. • Development Quality Manager overseeing new builds to reduce number of defects.
SR4	Adverse impact on financial plan of government policy including the rent consultation	• Scrutiny of business plans budgets by Exec/Board. • Monitoring of 'golden rules': gearing, interest cover and liquidity. • Stress tests include a rent freeze for 10 years, no government grant and a 20% increase in maintenance costs. These can be successfully mitigated by management interventions. • Record surplus to ride out future waves with A1 credit rating.
SR5	Midland Heart suffers a data breach due to a cyber-attack	• IT policies, procedures and training, including IT Security e-learning. • Annual penetration test and digital application testing. • Anti-virus software (signature based only), firewalls, email and web filtering.
SR6	Failure to comprehend and financially/operationally plan for decarbonisation	• Our current governance arrangements meet the requirements set out by the ESG early adopter return. • ESG Group to monitor progress of low carbon plan and ESG credentials. • £10m embedded in the financial plan to 2025.
SR7	Inability to attract/retain talent in a pressured labour market	• Talent framework in place to retain and develop colleagues, including Leadership Academy and apprenticeship programme. • Improvements in our benefits offering, including enhanced maternity pay and pension contribution. • Online MPD process implemented which emphasises discussions around career aspirations and development. • Executive Board quarterly review of succession plans and business critical roles.
SR8	Inability to deliver repairs services due to the availability of operative and subcontractor resource	• High profile recruitment campaign. • Launch of IHMT apprenticeship programme. • Introduction of retention bonuses for Trade Operatives.
SR9	Adverse impact on the financial plan from macroeconomic factors, including inflation and interest rates.	• Scrutiny of business plans and budgets by Executive Board and Board • Planned sequence of mitigation plans if golden rules are breached. • 80% of interest costs are fixed.
SR10	Non-identification/mismanagement of damp & mould cases, resulting in harm to a customer and/or reputational or financial issues	• Focused damp and mould team • Collaboration with customers • HomeChecker to facilitate reporting of issues at every customer visit.

Board and Executive Overview

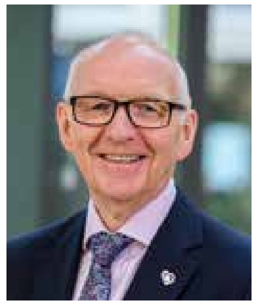
Appointments and resignations

Name	Position	Appointed	Resigned
John Edwards	Chair of the Board	14/05/2014	
Glenn Harris	Chief Executive and Executive Board Member	29/09/2017	
David Taylor	Executive Director of Operations and Executive Board Member	29/09/2017	
Martin Tiplady	Non-Executive Director; Chair of Remuneration and Executive Selection Committee and Chair of Audit and Risk Committee	29/09/2014	
Carole Mills	Non-Executive Director and Chair of Operations Committee	29/09/2017	
Chris West	Non-Executive Director; Chair of Finance and Growth Committee and Chair of Cygnet Property Management plc	29/09/2017	28/09/2022
Darren Humphreys	Non-Executive Director and Chair of Cygnet Property Management plc	01/05/2019	29/03/2023
Llewellyn Graham	Non-Executive Director	01/05/2019	
Joe Reeves	Executive Director of Finance and Growth and Executive Board Member	03/12/2020	
Baljinder Kang	Executive Director of Corporate Resources and Executive Board Member	01/01/2022	
Dominic Wong	Non-Executive Director and Chair of Finance and Growth Committee	01/05/2021	
Louise McFadzean	Non-Executive Director	28/09/2022	

Ahead of John Edwards', Martin Tiplady's and Carole Mills' retirements in September 2023, and following Darren Humphrey's retirement in March 2023, Lord Austin, Abigaile Bromfield, Pamela Leonce and Dasos Christou have been recruited to join the Midland Heart Board effective from September 2023. Lord Austin will take the position as Chair on John Edwards' retirement.

Board Member	Main Board	Finance and Growth Committee	Audit and Risk Committee	Operations Committee	R&ES Committee	Nominations Committee	Board Strategy Day in April	Board Planning Day in November
Total Number of Meetings	8	4	4	5	3	3	1	1
John Edwards	8/8				3/3	3/3	1/1	1/1
Martin Tiplady	8/8		4/4		3/3	3/3	1/1	1/1
Chris West	1/4	1/1	1/2				1/1	0
Carole Mills	7/8		4/4	5/5			1/1	1/1
Glenn Harris	8/8	3/4	4/4				1/1	1/1
David Taylor	8/8		4/4	5/5			1/1	1/1
Llewellyn Graham	7/8			5/5		3/3	1/1	1/1
Darren Humphreys	7/8	2/4			3/3		1/1	1/1
Joe Reeves	7/8	4/4	4/4				1/1	1/1
Baljinder Kang	8/8		3/4				1/1	1/1
Dominic Wong	8/8	4/4	4/4				1/1	1/1
Louise McFadzean	7/8	3/3	3/3				1/1	1/1

Board and non executive directors



John Edwards CBE
Chair, Non-Executive Director

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

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

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

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

Carole Mills
Non-Executive Director

Carole joined our Board in September 2017. She is a member of the Audit and Risk Committee and chairs our Operations Committee, leading work on optimising the customer voice in our policy and decision making.

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

As a former CEO in three significant unitary authorities, she has a successful track record of effective leadership, organisational transformation and corporate governance. As a former CFO she has extensive strategic financial management experience.

Carole is currently also a Non-executive Director at University Hospitals Coventry & Warwickshire NHS Trust and Chair of Lichfield and Hatherton Canals Restoration Trust. She has wider experience over many years as a charity trustee, school governor and board member and advisor in several other organisations.

Chris West
Non-Executive Director

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

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

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

This year has seen the retirement of Chris West and we would like to thank Chris for his valued input throughout his term on the Board.

Martin Tiplady OBE
Senior Independent Director

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

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

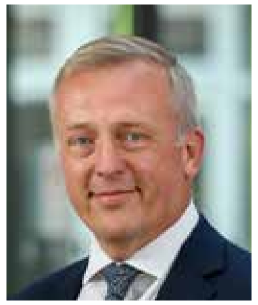
Martin was named by the Daily Telegraph as Personnel Director of the Year and, in 2019, as one of the most significant individuals in human resources today. He received an OBE for his services to policing and human resources in The Queen's Birthday Honours 2010 and is a sought-after speaker and commentator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

Dominic Wong
Non-Executive Director

Dominic joined Deloitte LLP in 1991 and spent the next 28 years there, working in the London, Bristol, Cardiff and Birmingham offices. He made equity partner in 2004, with responsibility for the restructuring team in the South. In 2005, he moved overnight to take charge of the struggling restructuring practice in the Midlands and over the next ten years succeeded in transforming it into an innovative & highly profitable market leader.

This track record in innovation and client service led to him creating their Financial Resilience offering and leading their Corporate Advisory business nationally.

In 2019, he left Deloitte to set up Lamp-post Associates Limited, which provides turnaround and restructuring advice to its clients. As well as his role at Midland Heart, Dominic is vice-chair at Harper Adams University and a non-executive director of Warwickshire County Cricket Club. Dominic is a chartered accountant and a licensed insolvency practitioner.



Darren Humphreys
Non-Executive Director

Darren started his career as a surveyor with Bryant Homes and has spent more than thirty years working in the construction and housing industries. He has been operating at Managing Director level for the last 19 of those years and has recently joined Miller Homes as Managing Director of their West Midlands region. The West Midlands is a significant region for Miller Homes delivering around 500 homes per annum providing quality homes with 5-star customer service. Previous roles include Managing Director of Tilia Homes Central region, Chief Executive of Rectory Homes, several senior executive positions in leading retirement community developers McCarthy & Stone, eight years as managing director of CALA Homes Midlands region and three years prior as Managing Director of two regions with David Wilson Homes Ltd.

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

This year has seen the retirement of Darren Humphreys and we would like to thank Darren for his valued input throughout his term on the Board.

Llewellyn Graham
Non-Executive Director

Llewellyn Graham is an experienced Chief Executive Officer, who has a proven track record of success in leadership at the highest level within the voluntary, social housing and not-for-profit sector. He is a visionary leader and social entrepreneur who has the ability to analyse and solve complex organisational problems and implement change successfully. Llewellyn was instrumental in providing leadership and strategic direction in developing Nehemiah from its embryonic stage to being a successful multi-million-pound social business.

He has and continues to hold a number of board appointments as a non-executive director including non-executive director of a large Midland Housing Association and is our Board lead on equality, diversity and inclusion and is a member of our equality, diversity and inclusion steering group. In July 2022 he became a member of the Black Country Integrated Care Board (ICB) a statutory NHS organisation responsible for developing a plan for meeting the health needs of 1.26 million people in the Black Country.

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

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

He is a member of the following professional bodies: The Chartered Institute of Housing; Institute of Directors; Association of Corporate Governance Practitioners and Institute of Corporate Governance.

Louise McFadzean
Non-Executive Director

Louise joined our Board in September 2022. She is a member of the Audit and Risk Committee along with the Finance and Growth Committee. She is a Chartered Accountant, she started her career in audit and subsequently moved into industry. She has over 20 years' experience as a senior finance leader, with experience in Food and Travel Retail, Manufacturing and Public Sector Organisations. Louise has a strong track record in financial strategy, governance and organisational transformation. Louise has experience as a charity trustee, school governor and board member and advisor in several other organisations.

Glenn Harris MBE
Chief Executive Officer and Executive Board Member

Glenn has been our Chief Executive since 2018. Before this he was our Executive Director of Corporate Services, responsible for Strategy, Finance, HR and IT. Supported by the rest of our Executive Board Glenn oversaw delivery of the final year of our Fit for the Future corporate plan and the creation of our current strategy Making What Matters Brilliant.

Glenn is focused on Midland Heart being a truly outstanding landlord who excel at delivering first-class services to our customers, building as many new affordable homes in the Midlands as possible and being a leading local employer where people can develop themselves and grow their careers.

Prior to joining us Glenn was Deputy Chief Executive of the East Midlands Development Agency and held the role of Deputy Chief Executive at NHS Logistics, supplying over £1bn of consumable goods to all NHS Trust across England.

Baljinder Kang
Executive Director of Corporate Resources and Executive Board Member

Bal, who joined us in 2014, has nearly 30 years of generalist people management experience gained across the private sector, NHS, charitable and not-for-profit sectors.

Since 2014 she has transformed our HR function and gained responsibility for the full breadth of the corporate resources agenda including health and safety, facilities management, corporate affairs and technology and transformation.

A Fellow of the Chartered Institute of Personnel & Development (CIPD) and named as one of HR Magazine's most influential HR practitioners in the not-for-profit sector for the past four consecutive years,

Bal led the team to winning the 2017 CIPD award for best reward initiative, as well as the 2022 best health & wellbeing initiative. Bal was promoted to our Executive team in May 2018.

Joe Reeves
Executive Director of Finance and Growth and Executive Board Member

Joe joined us in July 2013 following 15 years at PwC working in both public sector audit and advisory, and corporate finance infrastructure and government teams, having qualified as a Chartered Public Finance Accountant (CIPFA) in 2000. As our Director of Finance and Growth, Joe is responsible for our housing development strategy, commercial projects, strategic planning, audit and risk, finance, treasury, procurement and external affairs functions.

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

David Taylor
Executive Director of Operations and Executive Board Member

David joined us in 2009 as Head of Housing and became a member of the Executive team in 2015. He has strategic responsibility for all of our frontline services which includes repairs, property investment, customer services and housing management. He is a member of the Chartered Institute of Housing, has a level 5 housing qualification and over 20 years of experience working in the sector.

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

Corporate Governance

Summary

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

The National Housing Federation's (NHF) code contains a broad range of governance measures for the Board to assess itself against including:

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

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

Declarations of interest

All declarations of interest are held on our register and are available publicly. Please contact our Company Secretary directly should you like to receive a copy of the register. There have been no declarations made which have a material impact.

Board of Directors

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

As at 31 March 2023, there were 10 Board members, of whom six are Non-Executive Directors and four are Executive Directors.

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

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

On 31 March 2023, the Board had five committees and operates one property owning subsidiary, Cygnet Property Management plc.

Audit and Risk Committee

Audit and Risk Committee, chaired by Martin Tiplady OBE, is responsible for six key areas which are:

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

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

The Committee meets quarterly to ensure continued oversight and assurance over risks and processes.

During the course of the year, the Committee has:

- Given extra special attention to aspects of risk generated by Brexit, the Pandemic and general economic operating position as well as particular issues such as Damp and Mould.
- Considered the external auditor's (KPMG) audit plan and strategy for the consolidated financial statements of Midland Heart Limited and subsidiaries for the year ending 31 March 2023.
- Heard the external auditor's assessment of the significant risks relevant to Midland Heart's operations, notably development assumptions and judgements, valuation of financial instruments, revenue recognition and management override of controls. They also heard about other areas of focus and sought assurances as to how these would be addressed during the audit process.
- Assessed the effectiveness of the external audit process at the same meeting by receiving details of the seniority and experience of the engagement team as well as details of the auditor's audit quality framework.
- Received assurances on how the external auditor's objectivity and independence is safeguarded in the provision of non-audit services. The committee was advised at the March 2023 meeting by the external auditor, that in 2022-2023, the ratio of non-audit fees (£42,000) to audit fees (£140,000) was 0.3:1. The external auditor assured the committee that they did not consider the total non-audit fees created a self-interest threat since the absolute level of fees is not significant to the external audit firm (KPMG).

Finance and Growth Committee

The Finance and Growth Committee (F&G), chaired by Dominic Wong is responsible for overseeing the finances of the Group, agreeing treasury strategy and controls, monitoring existing financial instruments and approving new loan facilities and bond issuances. F&G's functions also include reviewing periodic management accounts, and approving the 30-year business plan. F&G also have responsibility for approving the Environmental Social and Corporate Governance annual report.

At the close of the financial year, F&G convened and considered the following areas:

- The final budget for 2022/2023
- The latest version of the Management Accounts Report
- The rent and service charge report
- Covenant compliance
- The long-term financial plan, including assessing adequacy and comprehensiveness of stress testing and mitigation plans
- The delivery and monitoring of our development programme and ensuring that sufficient liquidity is in place to fund the programme.

Remuneration and Executive Selection Committee

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

During the course of the year the Committee has:

- Commented to the Chief Executive and his team on strategic matters of organisation structure design, organisation development and employment affecting the workforce more widely.
- Considered the performance levels of the Chief Executive and Directors and determined the appropriate levels of remuneration and salary.
- Approved our gender pay gap and ethnicity pay gap reports; reviewed and informed progress on the resulting action plans.
- Considered labour market conditions and approved the annual pay award.
- Considered and approved additional reward & benefits to ensure our Total Reward Strategy remains competitive.
- Took decisions regarding pension arrangements both for the current and future years.
- Considered and made recommendations on the major pension issues and risks facing us and our future pension strategy. The Committee receives independent advice from a firm of pensions advisors.

Nominations Committee

The Nominations Committee is chaired by John Edwards CBE.

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

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

- Approval of plans for, and the outputs from, Board, committee and Chair appraisal
- Handling the triennial Governance review including actions arising - few as they were - and closing it down, including updates to the Governance framework.
- Board and committee succession planning including recruitment of the incoming Chair and Board members

A review of the delivery and implementation of our Diversity and Inclusion plans from our Equality and Diversity Steering Group.

Operations Committee

The Operations Committee, chaired by Carole Mills, shapes and oversees the effectiveness of our customer engagement and scrutiny activity, helping to ensure that the customer voice informs policy and decision making, with the aim of achieving positive outcomes for those who live in our homes. The Committee reviews operational performance and critiques, develops and approves our key customer facing policies.

The Committee comprises a mix of customers, independent and non-executive members along with our Executive Director for Operations, which brings a variety of valuable perspectives to our work at Midland Heart. This year we have continued our focus on optimising the strength and visibility of the customer voice throughout the organisation and at Board and been involved with and helped develop the following areas:

1. Customer scrutiny – including a focus on being respectful, transparent and accountable to our customers
2. First class repairs
3. Balanced and sustainable communities
4. Investment into the quality of our homes and neighbourhoods
5. Energy efficiency
6. Building safety

The Committee also exercises oversight and scrutiny of the current operational position and trends via a comprehensive suite of operational, governance and performance reports.

This year has seen the retirement of Zaheda Vaid, Tom Forty and Trevor Caffull. We thank all three colleagues for their invaluable input throughout their terms on the Committee.

Cygnet Property Management PLC

Cygnet oversees the acquisition and management of a small portfolio of properties for market rent. As a non-charitable operating subsidiary of the Midland Heart group, Cygnet has its own discrete funding arrangements (currently with Handelsbanken), separate from those used by Midland Heart, and operates through a separate legal entity. Over the financial year the Cygnet Board has been chaired by Chris West. On Chris's retirement in September 2022, Darren Humphreys stepped into the role of Chair.

Executive Team

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

Statement of Internal Control

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

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

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

Control system	Contribution
Governance arrangements	Provides regular and significant oversight of and scrutiny over the business and its performance.
Terms of reference for the Audit and Risk Committee	Provides for a detailed system of scrutiny and checks the effectiveness of management processes and the overall system of internal control, using both internal and external sources of assurance.
Governance and control framework	Detailed scheme of delegation for all parts of the business, including financial delegation.
Whistleblowing/anti-fraud measures	Whistleblowing and anti-fraud policies are approved by the Board and their effectiveness monitored by Audit and Risk Committee.
Policy, strategy and procedure sign off and ongoing review process	Leads to strategies, policies and procedures which are designed to comply with the law and remain fit for purpose. This includes the governance and control framework which sets out the levels of financial delegation from the Board to management.
Performance information - non-financial (e.g. key performance indicators)	Regularly reporting on operational performance at Board, committees, Executive team and divisional levels allowing for review of performance and prompt action to be taken where performance is below target levels. This includes monitoring of delivery against targets included in our Making What Matters Brilliant corporate plan.
Performance information – financial (e.g. management accounts and budget reports)	Regularly reporting financial performance information at Board, committees, Executive team and divisional levels together with a forecast of financial performance to year end. This allows any deviation from agreed budgets or failure to meet financial KPIs (or any future risk of this occurring) to be quickly identified, and any necessary remedial measures to be agreed. This includes monitoring of delivery against targets included in our corporate plan.

Control system	Contribution
Treasury management	A group-wide treasury management function monitors compliance with our obligations to lenders (including in relation to performance against our financial and non-financial covenants) and external treasury risk factors, whilst also proactively taking steps to improve the efficiency, and reduce the risk of our loan book. It also ensures we have sufficient cash to meet our short-term commitments and access to loan facilities sufficient to finance our long-term plans and commitments. It reports regularly to the Finance and Growth Committee, which in turn reports to the Board.
Appraisal of investment decisions	All housing new build investment decisions and other major commitments are subject to appraisal and approval by the relevant governance forum depending on the value of the transaction. All transactions with a capital value in excess of £10m are approved by a forum with a majority of Non-executives.
Internal audit	These are carried out in an audit programme focusing on the areas of highest risk within the business as well as some key controls which are subjected to a continuous audit process. This is an outsourced service which in 2022-2023 was delivered by our advisers, BDO. The internal audit programme is determined by the Audit and Risk Committee annually by reference to a rolling three-year programme which aims to ensure all key risk areas are audited at least every three years. Audit reports then identify any control weaknesses or areas for improvement and require management to implement corrective actions in relation to those areas of weakness/improvement.
Quality assurance reports	These look at specific areas of operational risk in our customer services, and the outcome of these reviews are reported to and considered at Executive team and Audit and Risk Committee.
Regulatory standards compliance	An annual report provides evidence of compliance against the RSH regulatory standards which is reviewed by the Board and enables the Chair, on behalf of the Board, to certify compliance against the regulatory standards.
Health and safety risk monitoring	A Health and Safety Committee meets regularly to monitor the extent to which we meet our health and safety responsibilities. Reporting of health and safety key performance indicators and review of risks and controls occurs at each meeting of Executive team, Audit and Risk Committee and the Board to determine if health and safety risks are being adequately managed.

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

- The internal auditors who expressed this opinion in the 2022/2023 internal audit annual report
- The external auditors who gave an unqualified opinion on the 2022/2023 financial statements
- Financial controls that have shown themselves to be effective through the delivery of on budget financial performance in 2022/2023
- A group-wide risk management function which seeks to proactively manage risk so as to avoid any serious damage or impact to the Group, its customers or its assets. This includes a formal requirement to report on risk and how this will be mitigated in relation to new business and major development initiatives
- The ongoing monitoring and scrutiny of our assurance framework by both the Executive team and the Audit and Risk Committee

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

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

Regulator of social housing regulatory standards compliance

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

During 2021, an in-depth assessment was carried out on us by the RSH. This resulted in a positive outcome with the regulator confirming our regulatory judgement as G1/V1, the highest possible rating. Following a review of our annual stability check, the RSH reconfirmed our G1/V1 grading in 2022.

Directors' Report

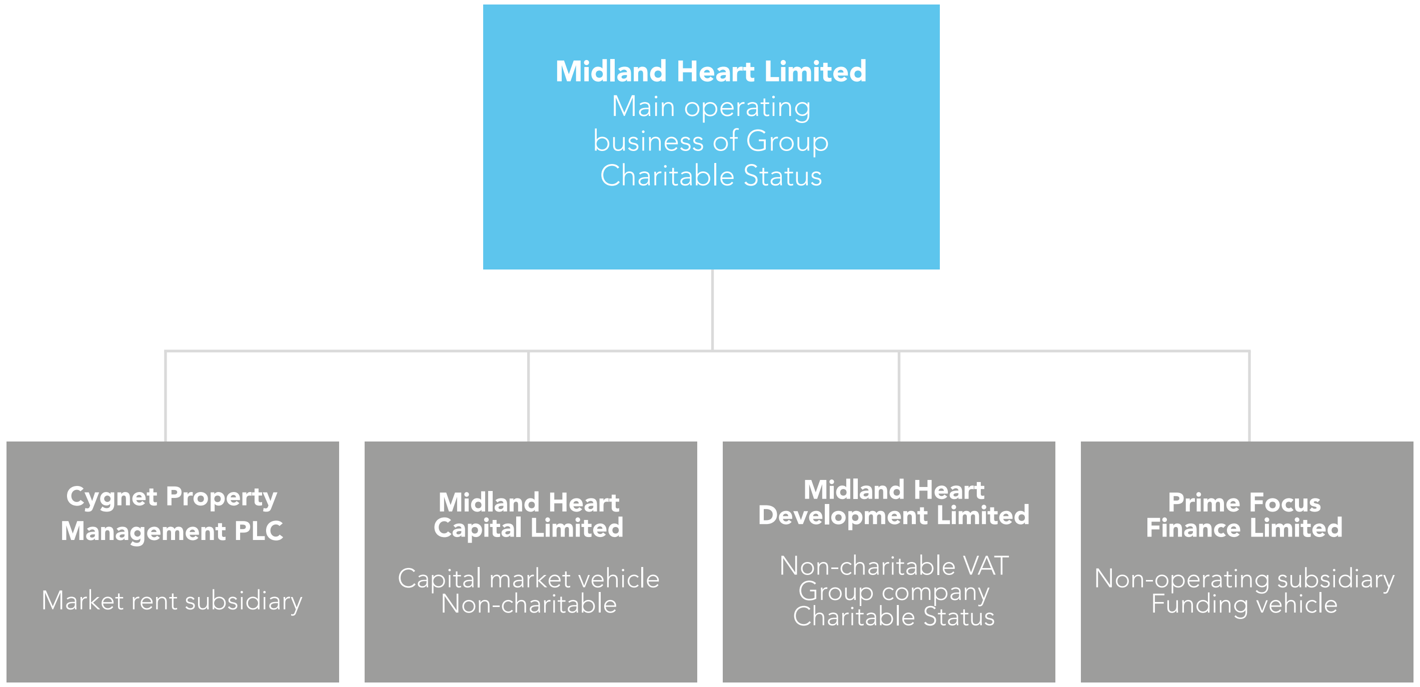
The Board of Directors present their report, together with the audited financial statements for the year ended 31 March 2023.

Principal activities

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

A review of our operational and financial performance for the year ended 31 March 2023 can be found in the strategic review from page 8.

Organisation structure



Prime Focus Regeneration Group was struck off from the Companies House Register on 28 March 2023 as a result of a voluntary strike off application.

Income and surplus for the year

The Group's activities generated turnover for the year of £221.1m (2022: £207.0m) on which a surplus of £63.7m (2022: £75.1m) was achieved. On 31 March 2023, revenue reserves totalled £533.2m (2022: £496.7m).

Legal proceedings

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

Financial instruments

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

Modern Slavery Act

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

Health and Safety

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

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

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

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

Investment for the future

The Group's activities generated turnover for the year of £221.1m (2022: £207.0m) on which a surplus of £63.7m (2022: £75.1m) was achieved. On 31 March 2023, revenue reserves totalled £533.2m (2022: £496.7m).

Policy on payment to suppliers

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

Auditors

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

The resolutions for their re-appointment and to authorise the directors to determine their remuneration will be proposed at the AGM on 29 September 2023. The auditors' fees for audit and non-audit work are disclosed in note 9 to the financial statements.

Going concern

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

We previously reported that the Government's announcements in July 2015 would impact on the future income of the Group and may have led to a breach in borrowing covenants. Since then, we have delivered efficiency savings through both our Fit for the Future corporate plan and the launch of our Making What Matters Brilliant corporate plan which have realised savings that have fully mitigated this risk.

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

Statement of Board's Responsibility

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

Co-operative and community benefit society law requires the Board to prepare financial statements for each financial year. Under those regulations the Board has elected to prepare the financial statements in accordance with UK accounting standards, including FRS 102 the financial reporting standard applicable in the UK and Republic of Ireland.

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

In preparing these financial statements, the Board is required to:
- Select suitable accounting policies and apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- State whether applicable UK accounting standards and the statement of recommended practice have been followed, subject to any material departures disclosed and explained in the financial statements.
- Assess the Group and the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern.
- Use the going concern basis of accounting unless it either intends to liquidate the Group or the Association or to cease operations, or has no realistic alternative but to do so.

The Board is responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Association and enable them to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2022. It is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the Association and to prevent and detect fraud and other irregularities.

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

Statement as to disclosure of Information to Auditors

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

Sarah Scott
Company Secretary

John Edwards CBE
Chair

Independent auditor's report to Midland Heart Ltd

Opinion

We have audited the financial statements of Midland Heart Limited ("the association") for the year ended 31 March 2023 which comprise the statement of comprehensive income, the statement of financial position, the cash flow statement, statement of movement in reserves and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view, in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, of the state of affairs of the group and the association as at 31 March 2023 and of the income and expenditure of the group and the association for the year then ended;
- comply with the requirements of the Co-operative and Community Benefit Societies Act 2014; and
- have been prepared in accordance with the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2022.

Basis for opinion

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

Going concern

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

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

Our conclusions based on this work:

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

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the group or the association will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

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

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

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.
As required by auditing standards and taking into account possible pressures to meet loan covenants and regulatory performance targets, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular:

- the risk of bias in accounting estimates such as pension assumptions;
- the risk that income from property sales and non-social housing income is recorded in the wrong period; and
- the risk that group management may be in a position to make inappropriate accounting entries.

We did not identify any additional fraud risks.
In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of the Group-wide fraud risk management controls

We also performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included unusual revenue combinations, unusual cash journals combinations, unusual borrowings journals combination and journals posted by unexpected users.
- Evaluating the business purpose of significant unusual transactions.
- Assessing significant accounting estimate for bias.

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

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

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

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

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

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

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Other information

The Association's Board is responsible for the other information, which comprises the Annual Report, Strategic Report, Statement of Value for Money, Statement of Board's Responsibilities and statement of Internal Controls. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Board's responsibilities

As explained more fully in their statement set out on page 70 the association's Board is responsible for: the preparation of financial statements which give a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to liquidate the group or the association or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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

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

9 August 2023

Group statement of Comprehensive Income

	Notes	2023 £'000	2022 £'000
Turnover	3	221,127	207,038
Operating expenditure	3	(161,834)	(147,507)
Surplus on disposal of property, plant and equipment	6	4,014	13,842
Surplus on revaluation of investment properties	11	410	1,735
Operating Surplus	**3**	**63,717**	**75,108**
Interest receivable	7	2,606	345
Interest and financing costs	8,25	(25,502)	(19,895)
Surplus before Tax	**9**	**40,821**	**55,558**
Taxation	10	(126)	(25)
Surplus for the year		**40,695**	**55,533**
Other comprehensive income			
Movement in fair value of cash flow hedged financial instruments	25	28,446	18,280
Actuarial gain/(loss) on defined benefit scheme	26	(4,140)	9,353
Total comprehensive income for the year		**65,001**	**83,166**

The accompanying notes form part of these financial statements

These financial statements were approved by the Board of Directors on 26 July 2023 and signed on its behalf by:

Member
John Edwards CBE

Member
Martin Tiplady

Member
Glenn Harris MBE

Association statement of Comprehensive Income

	Notes	2023 £'000	2022 £'000
Turnover	3	219,666	206,057
Operating expenditure	3	(160,747)	(146,836)
Surplus on disposal of property, plant and equipment	6	3,832	13,797
Operating Surplus	**3**	**62,751**	**73,018**
Interest receivable	7	2,606	345
Interest and financing costs	8,25	(25,034)	(19,537)
Gift Aid receivable		-	1,657
Surplus before Tax	**9**	**40,323**	**55,483**
Taxation	10	-	-
Surplus for the year		**40,323**	**55,483**
Other comprehensive income			
Movement in fair value of cash flow hedged financial instruments	25	28,446	18,280
Actuarial gain/(loss) on defined benefit scheme	26	(4,140)	9,353
Transfer of PFRG reserves		-	4,120
Total comprehensive income for the year		**64,629**	**87,236**

The accompanying notes form part of these financial statements

These financial statements were approved by the Board of Directors on 26 July 2023 and signed on its behalf by:

Member
John Edwards CBE

Member
Martin Tiplady

Member
Glenn Harris MBE

Group statement of Financial Position

	Notes	2023 £'000	2022 £'000
Fixed Assets			
Tangible Assets:			
Housing properties	12	1,758,383	1,704,115
Investment properties	11	27,526	27,519
Other Fixed Assets	13	45,390	43,296
Homebuy loans receivable	14	100	100
Fixed Asset investments	15	1,189	1,683
Total Fixed Assets		**1,832,588**	**1,776,713**
Current Assets			
Debtors	17	13,502	12,199
Properties for sale and work in progress	18	19,472	16,359
Investments	19	-	-
Cash and cash equivalents	20	101,053	137,285
		134,027	**165,843**
Creditors: Amounts falling due within one year	21	(60,980)	(63,199)
Net Current Assets		**73,047**	**102,644**
Total Assets less Current Liabilities		**1,905,635**	**1,879,357**
Creditors: Amounts falling due after more than one year	22	(1,368,720)	(1,407,176)
Pension – defined benefit liability	26a	(21,969)	(22,236)
Total Net Assets		514,946	449,945
Reserves			
Revenue reserves		533,244	496,689
Cash flow hedge reserve		(18,298)	(46,744)
Total Reserves		**514,946**	**449,945**

The accompanying notes form part of these financial statements

These financial statements were approved by the Board of Directors on 26 July 2023 and signed on its behalf by:

Member
John Edwards CBE

Member
Martin Tiplady

Member
Glenn Harris MBE

Association statement of Financial Position

	Notes	2023 £'000	2022 £'000
Fixed Assets			
Tangible Assets:			
Housing properties	12	1,754,833	1,710,729
Other Fixed Assets	13	45,334	43,210
Homebuy Loans Receivable	14	100	100
Investments	15	1,189	1,683
Investments in subsidiaries	16	6,067	6,067
Total Fixed Assets		**1,807,523**	**1,761,789**
Current Assets			
Debtors	17	24,054	12,967
Stock and Work in Progress	18	19,472	16,359
Investments	19	-	-
Cash and cash equivalents	20	100,324	135,867
		143,850	**165,193**
Creditors: Amounts falling due within one year	21	(55,177)	(57,601)
Net Current Assets		**88,673**	**107,592**
Total Assets less Current Liabilities		**1,896,196**	**1,869,381**
Creditors: Amounts falling due after more than one year	22	(1,363,607)	(1,401,154)
Pension – defined benefit liability	26a	(21,969)	(22,236)
Total Net Assets		510,620	445,991
Reserves			
Revenue reserves		528,918	492,735
Cash Flow Hedge Reserve		(18,298)	(46,744)
Total Reserves		**510,620**	**445,991**

The accompanying notes form part of these financial statements

These financial statements were approved by the Board of Directors on 26 July 2023 and signed on its behalf by:

Member
John Edwards CBE

Member
Martin Tiplady

Member
Glenn Harris MBE

Group Cash Flow Statement

	Notes	2023 £'000	2022 £'000
Cash Flows from Operating Activities			
Operating Surplus		63,717	75,108
Adjustments for:			
Depreciation & Impairment charges		31,741	29,887
Amortisation of grant		(8,219)	(8,175)
Surplus on disposal of property, plant and equipment		(4,014)	(13,842)
Surplus on revaluation of investment properties		(410)	(1,735)
Interest received		2,527	345
Interest and financing costs (including capitalised interest)		(25,485)	(22,550)
Increase in debtors		(1,303)	(1,737)
Decrease / (increase) in stock		1,354	(3,718)
Decrease in creditors		(12,473)	(9,145)
Decrease in pension defined benefit liability		(5,102)	(4,497)
Tax paid		72	32
Net Cash flow from Operating Activities		**42,405**	**39,973**
Cash Flows from Investing Activities			
Acquisition and construction of housing properties		(126,290)	(149,122)
Social Housing Grant received		18,045	22,603
Sales of housing properties		46,077	58,380
Net decrease in investments and loans to other associations		494	447
Purchase of other tangible fixed assets		(6,439)	(8,525)
Sales of other tangible fixed assets		-	-
Increase in short term deposits		-	771
Net Cash flow from Investing Activities		**(68,113)**	**(75,446)**
Cash Flows from Financing Activities			
Loan advances received		-	75,000
Loan principal repayments		(10,524)	(10,213)
Net Cash flow from Financing Activities		**(10,524)**	**64,787**
Net Increase in cash & cash equivalents		**(36,232)**	**29,314**
Cash and cash equivalents at the start of the year		137,285	107,971
Cash and cash equivalents at the end of the year		**101,053**	**137,285**

Statement of Movement in Reserves

Group	Income and Expenditure Reserves	Cash flow hedge reserve £'000	Total Reserves £'000
At 1 April 2021	**431,803**	**(65,024)**	**366,779**
Surplus for the Year	55,533	-	55,533
Movement in cash flow hedge	-	18,280	18,280
Movement in defined benefit pension obligations	9,353	-	9,353
At 31 March 2022	**496,689**	**(46,744)**	**449,945**
Surplus for the Year	40,695	-	40,695
Movement in cash flow hedge	-	28,446	28,446
Movement in defined benefit pension obligations	(4,140)	-	(4,140)
At 31 March 2023	**533,244**	**(18,298)**	**514,946**

Associations	Income and Expenditure Reserves	Cash flow hedge reserve £'000	Total Reserves £'000
At 1 April 2021	**423,779**	**(65,024)**	**358,755**
Surplus for the Year	55,483	-	55,483
Transfer of PFRG reserves	4,120	-	4,120
Movement in cash flow hedge	-	18,280	18,280
Movement in defined benefit pension obligations	9,353	-	9,353
At 31 March 2022	**492,735**	**(46,744)**	**445,991**
Surplus for the Year	40,323	-	40,323
Movement in cash flow hedge	-	28,446	28,446
Movement in defined benefit pension obligations	(4,140)	-	(4,140)
At 31 March 2023	**528,918**	**(18,298)**	**510,620**

Notes To The Financial Statements

(Forming part of the financial statements)

1. Legal status

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

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

Details of the group entities are set out in Note 32.

2. Accounting policies

2a Basis of accounting

The financial statements of the Group (Midland Heart Ltd and its group entities) are prepared in accordance with Financial Reporting Standard 102 – The applicable financial reporting standard in the UK and Republic of Ireland (FRS102) and the Statement of Recommended Practice: Accounting by Registered Social Housing Providers Update 2018, and comply with the Accounting Direction for Private Registered Providers of Social Housing 2022, the Co-operative and Community Benefit Societies Act 2014 and the Housing Regeneration Act 2008.

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

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

Judgements and key sources of estimation uncertainty

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

Tangible fixed assets: Other than investment properties, tangible fixed assets are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

Impairment: The expected net realisable value of properties developed for outright/shared ownership sales and work in progress are reviewed and impairment is made when a loss is anticipated.

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

Revaluation of investment properties: The Group carries its investment property at fair value, with changes in fair value being recognised in the Statement of Comprehensive Income. The Group engaged independent valuation specialists to determine fair value at 31 March 2023. The valuer used a valuation technique based on a discounted cash flow model. The determined fair value of the investment property is most sensitive to the estimated yield as well as the long term vacancy rate. The key assumptions used to determine the fair value of investment property are further explained in Note 11.

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

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

Social Housing Pension Scheme

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

As a result of additional information, SHPS are now able to split the pension liability by employer which has resulted in the scheme liability being accounted for adopting a full FRS 102 valuation for financial years on or after 31 March 2019. Further details are given in Note 26.

Impairment of non-financial assets: Reviews for impairment of housing properties are carried out when a trigger has occurred and any impairment loss in a cash generating unit is recognised by a charge to the Statement of Comprehensive Income.

Impairment is recognised where the carrying value of a cash generating unit exceeds the estimated recoverable amount. A cash generating unit is normally a group of properties at scheme level whose cash income can be separately identified.

2b Basis of consolidation

The consolidated financial statements incorporate the results of Midland Heart Limited and all of its subsidiary undertakings as at 31 March 2023 using the acquisition or merger method of accounting, as required. Where the acquisition method is used, the results of subsidiary undertakings are included from the date of acquisition, being the date the Group obtains control.

2c Measurement convention

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

2d Going concern

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

The Group prepares a 30 year business plan which is updated and approved on an annual basis. The most recent business plan was approved in June 2023 by the Board. As well as considering the impact of a number of scenarios on the business plan, the Board also adopted a stress testing framework against the base plan. The stress testing impacts were measured against loan covenants and peak borrowing levels compared to agreed facilities, with potential mitigating actions identified to reduce expenditure.

The Board, after reviewing the group and company budgets for 2023-24 and the group's medium term financial position as detailed in the 30-year business plan, the Group and company have adequate resources to continue in business for the foreseeable future. In order to reach this conclusion, the Board have considered through multi-variant stress testing:

- The property market – budget and business plan scenarios have taken account of delays in handovers, lower numbers of property sales, reductions in sales values and potential conversion of market sale to social homes
- Maintenance costs – budget and business plan scenarios have been modelled to take account of cost increases and delays in maintenance expenditure, with major works being phased into future years
- Inflation – given the high volatility in the current global/UK environment, CPI/RPI assumptions as well as differential inflation on various elements such as energy costs, development costs etc have been stressed tested to take into account the increasing cost base
- Rent and service charge receivable – arrears and bad debts have been increased to allow for customer difficulties in making payments and budget and business plan scenarios to take account of potential future reductions in rents
- Liquidity – current available cash and unutilised loan facilities of c£247m which gives significant headroom for committed spend and other forecast cash flows that arise
- The group's ability to withstand other adverse scenarios such as higher interest rates and number of void properties

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

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

2e Tangible fixed assets

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

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

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

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

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

2f Housing properties

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

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

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

Shared ownership properties are split between fixed and current assets, with the element relating to the expected first tranche sale being treated as a current asset. Any surplus made on the sale of the

first tranche is treated as turnover in the Statement of Comprehensive Income in accordance with the treatment in the SORP update 2018. Second and subsequent tranche surpluses or deficits are shown on a net basis before operating surplus has been determined.

Depreciation

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

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

• Structure	100 years
• Boilers	15 years
• Windows and doors	30 years
• Roofs	75 years
• Kitchens	20 years
• Bathrooms	30 years
• Heating	30 years
• Sprinklers	25 years
• Solar Panels	25 years
• Air Source Heat Pumps	15 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 over the life of a property, has been capitalised. Expenditure incurred on other major repairs, cyclical and day-to-day repairs to housing properties is charged to the Statement of Comprehensive Income in the period in which it is incurred.

Interest capitalised

Interest on borrowings is capitalised to housing properties during the course of construction up to the date of completion of each scheme. The interest capitalised is either on borrowings specifically taken to finance a scheme or on net borrowings to the extent that they are deemed to be financing a scheme. This treatment applies irrespective of the original purpose for which the loan was raised. For the year ending 31st March 2023, interest has been capitalised at an average rate of 4.0% (2022: 3.6%) that reflects the weighted average effective interest rate on the Group's borrowings required to finance housing property developments.

2g Other tangible fixed assets

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

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

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

2h Investments

Investments in subsidiaries are measured at cost less accumulated impairment. Where merger relief is applicable, the cost of the investment in a subsidiary undertaking is measured at the nominal value of the shares issued together with the fair value of any additional consideration paid. Investments in unlisted company shares, which have been classified as fixed asset investments as the Group intends to hold them on a continuing basis, are re-measured to market value at each balance sheet date. Gains and losses on re-measurement are recognised in Statement of Comprehensive Income for the year.

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

2i Social housing and other government grants
Where developments have been financed wholly or partly by social housing and other grants, the amount of the grant received has been included as deferred income and recognised in turnover over the estimated useful life of the associated asset structure (not land), under the accruals model. Social Housing Grant (SHG) received for items of cost written off in the Statement of Comprehensive Income is included as part of turnover.

When 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 Homes England. 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 income in the Statement of Comprehensive Income. In certain circumstances, SHG may be repayable, and, in that event, is a subordinated unsecured repayable debt.

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

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

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

2j Non-Government grants
Grants received from non-government sources are recognised under the performance model. If there are no specific performance requirements the grants are recognised when received or receivable. Where grant is received with specific performance requirements it is recognised as a liability until the conditions are met and then it is recognised as income in the Statement of Comprehensive Income.

2k Supported housing managed by agencies
Social housing capital grants are claimed by the Group as developer and owner of the property and included in the Statement of Financial Position of the Group. The treatment of other income and expenditure in respect of supported housing projects depends upon the nature of the partnership arrangements between the Group and its managing agents and on whether the Group carries the financial risk.

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

2l Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

2m Business combinations
Business combinations are accounted for using the purchase method as at the acquisition date, which is the date on which control is transferred to the company.

2n Investment property
Investment property includes commercial and other properties not held for the social benefit of the Group. Investment property is measured at cost on initial recognition, which includes purchase cost and any directly attributable expenditure, and subsequently at fair value at the reporting date. Fair value is determined annually by external valuers and derived from the current market rents and investment property yields for comparable real estate, adjusted if necessary for any difference in the nature, location or condition of the specific asset. No depreciation is provided. Changes in fair value are recognised in the Statement of Comprehensive income.

2o Impairment

Financial assets (including trade and other debtors)

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

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

When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the Statement of Comprehensive Income.

Non-financial assets
An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount or service potential (depreciated replacement cost).
An impairment loss is reversed if and only if the reasons for the impairment have ceased to apply.

2p Employee benefits
The Group participates in the Social Housing Pension Scheme, a multi-employer defined benefit final salary scheme managed by The Pensions Trust. Contributions are based on pension's costs across the various participating associations taken as a whole. The assets of the scheme are invested and managed separately from those of the Group in an independently administered fund.

A full actuarial valuation for the scheme which was carried out with an effective date of 30 September 2020 showed a substantial deficit; to eliminate this funding shortfall, the trustees and the participating employers have agreed that additional contributions will be paid, in combination from all employers. Further details are given in Note 26 to the financial statements.

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

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

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

Changes in the defined benefit obligation that arise from:

- Differences between the return on scheme assets and interest income included in the Statement of Comprehensive Income;
- Actuarial gains and losses from experience adjustments; and
- Changes in demographic or financial assumptions

are classified as remeasurements, charged or credited to Other Comprehensive Income in the period in which they arise.

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

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

Termination benefits

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

2q Provisions

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

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

2r Turnover

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

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

2s Service charges

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

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

2t Expenses

Cost of sales

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

Operating leases

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

Finance lease

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

Repairs and maintenance

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

Interest receivable and interest payable

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

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

Taxation

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

Deferred taxation

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

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

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

Value Added Tax

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

2u Related Party Transactions

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

2v Financial Instruments

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 interest 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 interest 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 the Statement of Comprehensive Income unless hedge accounting is applied.

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

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

Hedging

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

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

In order to apply hedge accounting, an economic relationship must exist between the hedged item and the hedging instrument. The Group must formally designate and document the hedging relationship at inception so that the risk being hedged, the hedged item and the hedging instrument are clearly identified, and the risk management objective and for undertaking the hedge. It is also required to determine and document the causes of hedge ineffectiveness. In a cash flow hedge, if the hedged future cash flows are no longer expected to occur, the amount that has been accumulated in the cash flow hedge reserve is reclassified from the cash flow hedge reserve to the Statement of Comprehensive Income immediately.

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

Impairment

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

The following financial instruments are assessed individually for impairment:

(a) All equity instruments regardless of significance; and
(b) Other financial assets that are individually significant.

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

Group Turnover, Operating Costs, Operating Expenditure and Operating Surplus

	Turn over 2023 £'000	Operating Costs 2023 £'000	Surplus on disposals 2023 £'000	Surplus on investment properties 2023 £'000	Operating Surplus/ (Deficit) 2023 £'000	Operating Surplus/ (Deficit) 2022 £'000
Social Housing Lettings	**192,412**	**138,190**	**-**	**-**	**54,222**	**54,885**
Other Social Housing Activities:						
Development services and costs not capitalised	601	60	-	-	541	(48)
1st tranche shared ownership sales	17,255	14,609	-	-	2,646	2,639
Other income	1,958	2,483	-	-	(525)	(176)
Total	**19,814**	**17,152**	**-**	**-**	**2,662**	**2,415**
Activities other than Social Housing Lettings:						
Properties developed for outright sale	2,976	2,650	-	-	326	-
Charges for support services	1,465	1,677	-	-	(212)	(98)
Market rent lettings	1,568	601	-	-	967	973
Student lettings	227	154	-	-	73	133
Commercial	1,120	448	-	-	672	631
Leased to other bodies	1,545	962	-	-	583	592
Disposal of property, plant and equipment	-	-	4,014	-	4,014	13,842
Revaluation of investment properties	-	-	-	410	410	1,735
Total	8,901	6,492	4,014	410	6,833	**17,808**
Total from Social and Non-Housing Activities	**221,127**	**161,834**	**4,014**	**410**	**63,717**	**75,108**

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

Particulars of turnover and operating expenditure from Social Housing Lettings

	General Needs Housing 2023 £'000	Supported Housing 2023 £'000	Residential Care Homes 2023 £'000	Shared Ownership Accommo-dation 2023 £'000	Total 2023 £'000	Total 2022 £'000
Rent receivable net of identifiable service charges, net of voids	127,533	20,261	-	6,350	154,144	144,762
Service charge income	8,399	16,590	-	1,189	26,178	25,372
Amortised Government Grants (Accrual model)	6,297	1,464	15	260	8,036	7,999
Net Rental Income	**142,229**	**38,315**	**15**	**7,799**	**188,358**	**178,133**
Other income	730	2,493	157	674	4,054	3,855
Turnover from Social Housing Lettings	**142,959**	**40,808**	**172**	**8,473**	**192,412**	**181,988**
Management	24,130	5,605	42	1,940	31,717	29,807
Service charge costs	8,883	19,116	44	913	28,956	26,531
Routine maintenance	26,073	4,918	48	342	31,381	25,891
Planned maintenance	6,995	1,549	51	11	8,606	8,623
Major repairs expenditure	5,275	3,490	28	26	8,819	8,760
Impairment of housing properties	-	-	-	-	-	-
Depreciation of housing properties	21,975	3,910	42	953	26,880	25,695
Bad debts	677	260	-	100	1,037	1,211
Lease costs	501	261	1	31	794	585
Operating Costs on Social Housing Lettings	**94,509**	**39,109**	**256**	**4,316**	**138,190**	**127,103**
Operating Surplus on Social Housing Lettings	**48,450**	**1,699**	**(84)**	**4,157**	**54,222**	**54,885**
Void losses	(953)	(899)	(2)	(20)	(1,874)	(2,138)

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

	2023				2022
	Turn over	Operating Costs	Surplus on disposals	Operating Surplus/ (Deficit)	Operating Surplus/ (Deficit)
	£'000	£'000	£'000	£'000	£'000
Social Housing Lettings	**192,412**	**138,190**	**-**	**54,222**	**55,054**
Other Social Housing Activities:					
Development services and costs not capitalised	601	60	-	541	614
1st tranche shared ownership sales	17,255	14,609	-	2,646	2,639
Other income	2,065	1,997	-	68	(344)
Total	**19,921**	**16,666**	**-**	**3,255**	**2,909**
Activities other than Social Housing Lettings:					
Properties developed for outright sale	2,976	2,650	-	326	-
Charges for support services	1,465	1,677	-	(212)	(98)
Student lettings	227	154	-	73	133
Commercial	1,120	448	-	672	631
Leased to other bodies	1,545	962	-	583	592
Disposal of property, plant and equipment	-	-	3,832	3,832	13,797
Total	**7,333**	**5,891**	**3,832**	**5,274**	**15,055**
Total from Social and Non-Housing Activities	**219,666**	**160,747**	**3,832**	**62,751**	**73,018**

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

	2023					2022
	General Needs Housing	Supported Housing	Residential Care Homes	Shared Ownership Accommo-dation	Total	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Rent receivable net of identifiable service charges, net of voids	127,533	20,261	-	6,350	154,144	144,762
Service charge income	8,399	16,590	-	1,189	26,178	25,372
Amortised Government Grants (Accrual model)	6,297	1,464	15	260	8,036	7,999
Net Rental Income	**142,229**	**38,315**	**15**	**7,799**	**188,358**	**178,133**
Other income	729	2,493	157	675	4,054	4,023
Turnover from Social Housing Lettings	**142,958**	**40,808**	**172**	**8,474**	**192,412**	**182,156**
Management	24,130	5,605	42	1,940	31,717	29,806
Service charge costs	8,883	19,116	44	913	28,956	26,531
Routine maintenance	26,073	4,918	48	342	31,381	25,891
Planned maintenance	6,995	1,549	51	11	8,606	8,623
Major repairs expenditure	5,275	3,490	28	26	8,819	8,760
Impairment of housing properties	-	-	-	-	-	-
Depreciation of housing properties	21,975	3,910	42	953	26,880	25,695
Bad debts	677	260	-	100	1,037	1,211
Lease costs	501	261	1	31	794	585
Operating Costs on Social Housing Lettings	**94,509**	**39,109**	**256**	**4,316**	**138,190**	**127,102**
Operating Surplus on Social Housing Lettings	**48,449**	**1,699**	**(84)**	**4,158**	**54,222**	**55,054**
Void losses	(953)	(899)	(2)	(20)	(1,874)	(2,138)

4. Directors' Emoluments

	2023 £'000	2022 £'000
Aggregate Emoluments payable to Directors (including pension contributions and benefits in kind)	956	897
Emoluments (excluding pension contributions) payable to the Chief Executive who was also the highest paid Director	**337**	**327**

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

There were 3 Directors in the Group's pension scheme described in note 26 (2022: 3).

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

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

Director	Position	Date of Appointment	Salaries £'000	Taxable benefits £'000	Pensions & equivalent £'000	Total 2023 £'000	Total 2022 £'000
Glenn Harris	Chief Executive Officer	29/03/2018	299	13	25	337	327
David Taylor	Executive Director of Operations	15/04/2015	190	9	16	215	197
Joe Reeves	Executive Director of Finance & Growth	08/07/2013	190	8	16	214	197
Baljinder Kang	Executive Director of Corporate Resources	01/06/2018	168	8	14	190	176

The aggregate amount of Directors' Pensions recognised within these financial statements for the year ended 31 March 2023 is £46k (2022: £42k).

4. Directors' Emoluments (Continued)

Director	Date of Appointment	Total 2023 £'000	Total 2022 £'000
John Edwards		30	28
Martin Tiplady		16	13
Carole Mills		14	13
Dominic Wong	Appointed 01/05/2021	13	9
Llewellyn Graham		12	10
Louise McFadzean	Appointed 01/05/2022	11	-
Darren Humphreys	Resigned 29/03/2023	13	10
Chris West	Resigned 28/09/2022	7	13
Abigaile Leigh Bromfield		4	2
James Lockyer		4	2
Dasos Christou		4	2
Trevor Stanley		4	2
Caroline Waters		4	2
Daena Shimmon	Appointed 30/09/2021	4	1
Peter Cheer	Appointed 01/04/2022	4	-
Chiluba Musukuma	Appointed 31/05/2022	4	-
Deborah Jinks	Appointed 15/09/2022	2	-
Amarjit Singh	Appointed 15/09/2022	2	-
Zaheda Vaid	Resigned 31/10/2022	3	2
Thomas Forty	Resigned 15/09/2022	2	2
Trevor Caffull	Resigned 15/09/2022	2	2
Nicola McGowan	Resigned 09/03/2022	1	2
Paul Field	Resigned 31/05/2021	-	-
Rebecca Zurek	Resigned 30/09/2021	-	1
Julian Healey	Resigned 29/09/2021	-	6
		160	122

5. Employee Information

	Group 2023 Number	Group 2022 Number	Association 2023 Number	Association 2022 Number
Asset Management	**253**	**211**	**253**	**211**
Central Services	188	170	188	170
Development	15	16	15	16
Operations	619	576	619	576
Average number of employees expressed as full time equivalents	**1,075**	**973**	**1,075**	**973**

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

Staff Costs (for the above persons).

	Group 2023 £'000	Group 2022 £'000	Association 2023 £'000	Association 2022 £'000
Wages & Salaries	37,682	33,036	37,682	33,036
Social Security Costs	3,946	3,391	3,946	3,391
Other Pension Costs	1,705	1,479	1,705	1,479
	43,333	**37,906**	**43,333**	**37,906**

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

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

Salary Range	**2023 Number**	**2022 Number**
£330,000 to £340,000	1	-
£320,000 to £330,000	-	1
£220,000 to £320,000	-	-
£210,000 to £220,000	2	-
£200,000 to £210,000	-	-
£190,000 to £200,000	1	2
£180,000 to £190,000	-	-
£170,000 to £180,000	-	1
£150,000 to £170,000	-	-

Salary Range	**2023 Number**	**2022 Number**
£140,000 to £150,000	1	1
£130,000 to £140,000	1	-
£120,000 to £130,000	3	1
£110,000 to £120,000	8	5
£100,000 to £110,000	2	6
£90,000 to £100,000	6	5
£80,000 to £90,000	6	6
£70,000 to £80,000	18	12
£60,000 to £70,000	44	34
	93	74

6a. Surplus on Sale of Fixed Assets – Group

	2023 Proceeds £'000	2023 Cost of Sales £'000	2023 Surplus £'000	2022 Proceeds £'000	2022 Cost of Sales £'000	2022 Surplus £'000
Staircasing on Shared Ownership	7,896	4,654	3,242	9,216	5,419	3,797
Other Property Sales	17,950	17,178	772	13,831	11,333	2,498
Stock Swap	-	-	-	22,091	14,544	7,547
Net Rental Income	**25,846**	**21,832**	**4,014**	**45,138**	**31,296**	**13,842**

6b. Surplus on Sale of Fixed Assets – Association

	2023 Proceeds £'000	2023 Cost of Sales £'000	2023 Surplus £'000	2022 Proceeds £'000	2022 Cost of Sales £'000	2022 Surplus £'000
Staircasing on Shared Ownership	7,896	4,654	3,242	9,216	5,419	3,797
Other Property Sales	17,304	16,714	590	12,112	9,569	2,453
Stock Swap	-	-	-	22,091	14,544	7,547
Net Rental Income	**25,200**	**21,368**	**3,832**	**43,419**	**29,622**	**13,797**

7. Interest receivable and similar income

	Group 2023 £'000	Group 2022 £'000	Association 2023 £'000	Association 2022 £'000
Interest receivable on financial assets measured at amortised cost:				
Interest on investments	2,193	94	2,193	94
Equity Investment realisation	413	251	413	251
Total interest receivable and similar income	**2,606**	**345**	**2,606**	**345**

8. Interest and Financing costs

	Group		Association	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Interest payable on financial liabilities measured at amortised cost:				
Housing loans	20,045	13,519	19,609	13,272
Discounted bonds	1,675	1,611	1,675	1,611
Interest on finance leases	657	613	657	613
Notional interest on Recycled Capital Grant Fund	336	9	336	9
	22,713	**15,752**	**22,277**	**15,505**
Interest payable on loan swap arrangements	3,024	5,990	3,024	5,990
Interest capitalised	(1,815)	(3,533)	(1,815)	(3,533)
Loan fees	885	964	853	853
Change to measurement of net finance cost on Social Housing Pension Scheme liability	695	722	695	722
Total interest and financing costs	**25,502**	**19,895**	**25,034**	**19,537**

Interest was capitalised at an average rate of 4.0% (2022: 3.6%).

9. Surplus before Taxation is stated after charging:

	Group		Association	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Depreciation of housing property fixed assets	27,470	26,002	27,470	26,002
Depreciation of non-housing property fixed assets	4,271	3,885	4,236	3,678
Auditors' remuneration - Audit fees				
- Group fees	140	96	135	96
- other Group services	42	38	42	38
Payments under Operating Leases				
- Plant	693	481	693	481
- Office	101	104	101	104

10. Taxation on Surplus on Ordinary Activities

a) Analysis of charge in the year – Group	2023	2022
	£'000	£'000
United Kingdom Corporation Tax on surplus of the year	124	-
Adjustments in respect of prior years	-	-
	124	-
Deferred tax	2	25
	126	**25**

a) Analysis of charge in the year – Association	2023	2022
	£'000	£'000
United Kingdom Corporation Tax on surplus of the year	-	-
Adjustments in respect of prior years	-	-
	-	-
Deferred tax	-	-
	-	-

10. Taxation on Surplus on Ordinary Activities (continued)

Factors affecting the tax charge for the year

The Corporation Tax charge is lower (2022: lower) than that resulting from applying the standard rate of Corporation Tax of 19% (2022: 19%) to the surplus before taxation.

The differences are explained below:

	Group		Association	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Surplus on ordinary activities before tax	40,821	55,558	40,323	55,483
Tax payable at 19% (2022: 19%) thereon	7,756	10,556	7,661	10,542
Expenses not deductible for tax purposes	139	335	-	-
Income not taxable for tax purposes	(78)	(329)	-	-
Fixed Asset differences	(20)	(10)	-	-
Capital gains/(losses)	-	13	-	-
Adjust opening deferred tax to average rate	(10)	25	-	-
Exemption due to charitable status	(7,661)	(10,413)	(7,661)	(10,542)
Gift aid	-	(152)	-	-
Total tax charge	**126**	**25**	**-**	**-**

11. Investment Properties held for letting: Group

	Work in Progress	Market Rent Properties	2023	2022
	£'000	£'000	£'000	£'000
Valuation:				
At 1 April	322	27,197	27,519	27,250
Additions during the year	246	-	246	198
Transfer on completion	(568)	568	-	-
Gain in valuation	-	410	410	1,735
Disposals during the year	-	(649)	(649)	(1,664)
At 31 March	**-**	**27,526**	**27,526**	**27,519**

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

The valuation of properties was undertaken in accordance with the Royal Institution of Chartered Surveyors Valuation Standards. In valuing the properties the following significant assumptions were used:

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

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

The discount to MV-VP ranges from 10% for prime property to 50% where market conditions are difficult. Typical rates are around a 20% to 30% discount to MV-VP for properties subject to AST tenancies.

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

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 2022	**1,810,129**	**83,101**	**116,862**	**20,502**	**2,030,594**
Additions	509	68,637	-	28,316	97,462
Improvements	20,722	-	-	-	20,722
Interest capitalised	-	1,282	-	532	1,814
Transferred on completion	71,030	(71,030)	15,047	(15,047)	-
Transfer to/from Other Registered Providers	5,607	(3,721)	-	-	1,886
Transfer to current assets	-	-	-	(20,125)	(20,125)
Transfer from current assets	1,049	-	-	-	1,049
Disposals	(24,024)	-	(4,454)	-	(28,478)
At 31 March 2023	**1,885,022**	**78,269**	**127,455**	**14,178**	**2,104,924**
Depreciation and impairment					
At 1 April 2022	316,969	-	9,510	-	326,479
Charge for the year	26,510	-	960	-	27,470
Eliminated on disposal	(7,038)	-	(370)	-	(7,408)
At 31 March 2023	**336,441**	**-**	**10,100**	**-**	**346,541**
Net Book Value					
At 31 March 2023	**1,548,581**	**78,269**	**117,355**	**14,178**	**1,758,383**
At 31 March 2022	1,493,160	83,101	107,352	20,502	1,704,115

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 2022	**1,813,878**	**85,966**	**116,862**	**20,502**	**2,037,208**
Additions	509	58,473	-	28,316	87,298
Improvements	20,722	-	-	-	20,722
Interest capitalised	-	1,282	-	532	1,814
Transferred on completion	71,030	(71,030)	15,047	(15,047)	-
Transfer to/from Other Registered Providers	5,607	(3,721)	-	-	1,886
Transfer to current assets	-	-	-	(20,125)	(20,125)
Transfer from current assets	1,049	-	-	-	1,049
Disposals	(24,024)	-	(4,454)	-	(28,478)
At 31 March 2023	**1,888,771**	**70,970**	**127,455**	**14,178**	**2,101,374**
Depreciation and impairment					
At 1 April 2022	316,969	-	9,510	-	326,479
Charge for the year	26,510	-	960	-	27,470
Transfer to/from Other Registered Providers	-	-	-	-	-
Eliminated on disposal	(7,038)	-	(370)	-	(7,408)
At 31 March 2023	**336,441**	**-**	**10,100**	**-**	**346,541**
Net Book Value					
At 31 March 2023	**1,552,330**	**70,970**	**117,355**	**14,178**	**1,754,833**
At 31 March 2022	1,496,909	85,966	107,352	20,502	1,710,729

12c. Housing Properties

Expenditure on works to existing properties

	Group 2023 £'000	Group 2022 £'000	Association 2023 £'000	Association 2022 £'000
Components capitalised	20,722	17,643	20,722	17,643
Amounts charged to the Income and Expenditure account	8,819	8,760	8,819	8,760
	29,541	**26,403**	**29,541**	**26,403**

Completed housing properties book value, net of depreciation and impairment

	Group 2023 £'000	Group 2022 £'000	Association 2023 £'000	Association 2022 £'000
Freehold land and buildings	1,602,476	1,498,556	1,606,225	1,502,305
Leasehold land and buildings	63,460	101,956	63,460	101,956
Total Net Book Value	**1,665,936**	**1,600,512**	**1,669,685**	**1,604,261**

13a. Other Fixed Assets - Group

	Office Premises £'000	Furniture & Equipment £'000	Total £'000
Cost:			
At 1 April 2022	14,319	55,976	70,295
Additions	1,544	4,895	6,439
Disposals	-	(8,944)	(8,944)
At 31 March 2023	**15,863**	**51,927**	**67,790**
Depreciation:			
At 1 April 2022	3,124	23,875	26,999
Charge for the year	257	4,014	4,271
Eliminated on disposal	-	(8,870)	(8,870)
At 31 March 2023	**3,381**	**19,019**	**22,400**
Net Book Value			
At 31 March 2023	**12,482**	**32,908**	**45,390**
At 31 March 2022	11,195	32,101	43,296

13b. Other Fixed Assets - Association

	Office Premises £'000	Furniture & Equipment £'000	Total £'000
Cost:			
At 1 April 2022	14,320	55,610	69,930
Additions	1,543	4,889	6,432
Disposals	-	(8,738)	(8,738)
At 31 March 2023	**15,863**	**51,761**	**67,624**
Depreciation:			
At 1 April 2022	3,124	23,596	26,720
Charge for the year	257	3,979	4,236
Eliminated on disposal	-	(8,666)	(8,666)
At 31 March 2023	**3,381**	**18,909**	**22,290**
Net Book Value			
At 31 March 2023	**12,482**	**32,852**	**45,334**
At 31 March 2022	11,196	32,014	43,210

14. Homebuy Loans - Group and Association

	2023 £'000	2022 £'000
As at 1 April	100	100
As at 31 March	**100**	**100**

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

15. Fixed Asset Investments - Group and Association

	2023 £'000	2022 £'000
Investments - Mutuals	1,169	1,663
Investments - Other	20	20
	1,189	**1,683**

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

16. Investment in Subsidiaries - Association

	£'000
Investment at 1 April 2022	6,067
Investment at 31 March 2023	**6,067**

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

17. Debtors

	Group		Association	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Gross rent and service charge arrears	15,804	15,608	15,761	15,574
Less: provision for bad and doubtful debts	(8,347)	(8,216)	(8,310)	(8,195)
Net rent arrears	**7,457**	**7,392**	**7,451**	**7,379**
Amounts due from Group undertakings	-	-	10,910	-
Prepayments and other debtors	6,045	4,807	5,693	5,588
Corporation tax	-	-	-	-
	13,502	**12,199**	**24,054**	**12,967**

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

	2023	2022
	£'000	£'000
Stock and work in progress	10,225	3,435
Schemes developed for shared ownership disposal	9,247	12,924
	19,472	**16,359**

19. Current Asset Investments - Group and Association

	2023	2022
	£'000	£'000
Investments	-	-
	-	-

20. Cash and Cash Equivalents

	Group		Association	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Bank Accounts	100,991	137,218	100,262	135,800
Cash in hand	62	67	62	67
Total Cash and Cash Equivalents	**101,053**	**137,285**	**100,324**	**135,867**

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

21. Creditors: Amounts falling due within one year

	Group		Association	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Housing loans (Note 22a)	12,636	9,629	6,239	3,537
Rents received in advance	4,561	5,431	4,553	5,422
Obligations due under finance leases (Note 22a)	126	130	126	130
Trade creditors	2,155	2,025	2,149	2,025
Amounts due to Group undertakings	-	-	5,639	7,289
Recycled Capital Grant (Note 23)	3,796	3,301	3,796	3,301
Other taxation and social security costs	3,800	3,394	3,816	3,403
Corporation tax	51	-	-	-
Deferred tax	100	99	-	-
Accruals and deferred income	25,329	31,009	20,433	24,313
Deferred social housing grant	8,420	8,175	8,420	8,175
Social Housing Pension Scheme Liability (Note 26b)	6	6	6	6
	60,980	**63,199**	**55,177**	**57,601**

Amounts due to group undertakings for the Association include interest bearing loans due to group undertakings of £6,397k (2022: £6,092k) The interest is incurred on these loans at SONIA +0.35%. All other amounts due to group undertakings are non-interest bearing.

Liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of ninety days was £3,702k (2022: £2,838k).

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

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

	Group		Association	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Housing loans	600,225	613,690	158,377	164,386
Discounted bonds	15,228	14,591	15,228	14,591
Obligations due under finance leases	3,393	3,498	3,393	3,498
Premium on bond issues	10,965	11,479	3,663	3,829
Discount on bond issues	(9,371)	(9,718)	-	-
Loan and bond arrangement fees	(6,123)	(6,383)	(3,365)	(3,474)
Amounts due to Group undertaking	-	-	431,908	438,305
Homebuy grant: deferred income	100	100	100	100
Deferred social housing grant	725,787	721,264	725,787	721,264
Derivative financial instruments designated as hedges of variable interest rate risk (Note 25)	18,298	46,744	18,298	46,744
Social Housing Pension Scheme Liability (Note 26b)	4	11	4	11
	1,358,506	1,395,276	1,353,393	1,389,254
Recycled Capital Grant	10,214	11,900	10,214	11,900
	1,368,720	**1,407,176**	**1,363,607**	**1,401,154**

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

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

	Group 2023 £'000	Group 2022 £'000	Association 2023 £'000	Association 2022 £'000
By instalments:				
In one year or less	9,886	9,399	3,489	3,307
Between one and two years	9,512	9,880	2,795	3,483
Between two and five years	28,756	28,616	6,523	7,442
In five years or more	186,787	196,444	108,829	110,711
	234,941	244,339	121,636	124,943

	Group 2023 £'000	Group 2022 £'000	Association 2023 £'000	Association 2022 £'000
Lump Sum Repayments:				
In one year or less	2,750	230	2,750	230
Between one and two years	-	2,043	-	2,043
Between two and five years	29,285	11,000	19,345	-
In five years or more	361,113	380,298	36,113	55,298
	393,148	393,571	58,208	57,571

Finance lease liabilities

	Group 2023 £'000	Group 2022 £'000	Association 2023 £'000	Association 2022 £'000
Total of future minimum lease payments:				
In one year or less	126	130	126	130
Between one and two years	126	130	126	130
Between two and five years	377	389	377	389
In five years or more	2,890	2,979	2,890	2,979
	3,519	3,628	3,519	3,628

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

Fixed rate financial liabilities bear a weighted average interest rate of 3.87% and are fixed for a weighted average period of 23 years. Including swaps the average weighted interest rate is 4.11%.

Interest rates on fixed rate borrowings range between 1.83% and 11.83%.

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

The interest rate profile to the Groups' debt at 31 March 2023 was:

	Variable rate £'000	Fixed rate £'000	Total £'000
Instalment loans	217,734	20,724	238,458
Non-instalment loans	9,940	383,208	393,148
	227,674	**403,932**	**631,606**

As at 31 March 2023, 61% (£387,859k) of the above debt came from the capital markets and 39% (£243,748k) from banks and building societies.

22b. Creditors

Discounted Bonds:

	Group 2023 £'000	Group 2022 £'000	Association 2023 £'000	Association 2022 £'000
Amount Advanced:				
5% Debenture Stock 2027	9,000	9,000	9,000	9,000
In issue at 31 March	9,000	9,000	9,000	9,000
Loan discount amortised	6,228	5,591	6,228	5,591
Net Value at 31 March	**15,228**	**14,591**	**15,228**	**14,591**

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

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

Discount unwound/unamortised on discounted bonds was £3,856k (2022: £4,493k).

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

	Group		Association	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Opening Balance of SHG received/receivable	729,439	714,925	729,439	714,925
SHG received during the year	23,358	28,908	23,358	28,908
SHG recycled	(10,187)	(7,763)	(10,187)	(7,763)
Transferred to another RP on sale of fixed assets	(1,589)	-	(1,589)	-
Less returned to Homes England	(14)	-	(14)	-
Amortisation write back on sale of fixed assets	1,419	1,544	1,419	1,544
Cumulative total of Social Housing Grant received or receivable	742,426	737,614	742,426	737,614
Less grant amortised in the year	(8,219)	(8,175)	(8,219)	(8,175)
Amount held as deferred	**734,207**	**729,439**	**734,207**	**729,439**
Amounts to be released within one year (Note 21)	8,420	8,175	8,420	8,175
Amounts to be released in more than one year (Note 22)	725,787	721,264	725,787	721,264
	734,207	**729,439**	**734,207**	**729,439**
Social Housing Grant under UKGAAP				
Opening SHG	878,448	857,303	878,448	857,303
SHG received net of recycling	13,171	21,145	13,171	21,145
Less returned to Homes England	(14)	-	(14)	-
Closing SHG	**891,605**	**878,448**	**891,605**	**878,448**

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

Group and Association.

	£'000
Balance at 1 April 2022	**15,201**
Grants recycled	3,786
Interest accrued	336
Allocated to new build developments	(5,313)
Balance at 31 March 2023	**14,010**

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

There were no net proceeds (2022: Nil) or recyclable grant (2022: Nil) arising from the sales of Voluntary Right to Buy properties in the year.

24. Financial Instruments

The carrying amounts of the financial assets and liabilities include:

	Group		Association	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Liabilities measured at amortised cost				
Loans	623,571	633,288	607,138	628,463
Finance Leases	3,519	3,628	3,519	3,628

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

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

25a. Financial Instruments: Hedge Accounting

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

Midland Heart has entered into £125m standalone interest rate swap contracts to fix the rates of £125m of its borrowing portfolio until various dates up to 2038.

The negative fair value of these swap contracts as at 31 March 2023 was £18.3m (2022 £46.7m). 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 2023.

The total change in fair value during the year ended 31 March 2023 of £28.4m (2022: £18.3m) 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	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Barclays Swap £20m 4.815% 2038	3,207	8,829	3,207	8,829
Barclays Swap £30m 5.01% 2037	5,188	13,269	5,188	13,269
Barclays ex-European Cancellable Swap with Double Up £10m 4.24% 2031	1,010	4,400	1,010	4,400
Lloyds Swap £5m 0.812% 2022	-	9	-	9
Lloyds Swap £50m 5.432% 2034 (ex-Bermudan)	8,893	20,237	8,893	20,237
Fair values of financial instruments designated as hedging instruments	**18,298**	**46,744**	**18,298**	**46,744**

25a. Financial Instruments: Hedge Accounting (continued)

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

	2023					
	Carrying amount	Expected cash flows	1 year or less	1 to <2years	2 to <5years	5 years and over
	£'000	£'000	£'000	£'000	£'000	£'000
Interest rate swaps:						
Hedged items cash-flows (liabilities)	120,000	23,159	643	985	3,299	18,232

	2022					
	Carrying amount	Expected cash flows	1 year or less	1 to <2years	2 to <5years	5 years and over
	£'000	£'000	£'000	£'000	£'000	£'000
Interest rate swaps:						
Hedged items cash-flows (liabilities)	125,000	34,828	1,987	3,508	7,759	21,574

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

25b. Financial Instruments: Hedges

	Barclays Swap £20m 4.815% 2038	Barclays Swap £30m 5.01% 2037		Barclays ex-European Swap with Double Up £10m 4.24% 2031	Lloyds Swap £5m 0.812% 2022	Lloyds Swap £50m 5.432% 2034 (ex-Bermudan)	
Description of the hedge	The objective of the hedge is to mitigate the variability of the cash flows stemming from the floating rate interest payments related to the Lloyds £75m Fl Loan 2043 loan, a floating rate loan entered into by Midland Heart against unfavourable movements in the 3 Month SONIA rate.	The objective of the hedge is to mitigate the variability of the cash flows stemming from the floating rate interest payments related to the Lloyds £75m Fl Loan 2043 loan, a floating rate loan entered into by Midland Heart against unfavourable movements in the 3 Month SONIA rate.		The objective of the hedge is to mitigate the variability of the cash flows stemming from the floating rate interest payments related to the Nationwide £130m Fl Loan 2036 loan, a floating rate loan entered into by Midland Heart against unfavourable movements in the 3 Month SONIA rate.	The objective of the hedge is to mitigate the variability of the cash flows stemming from the floating rate interest payments related to the THFC/EIB 2031 £15m Loan, a floating rate loan entered into by Midland Heart against unfavourable movements in the 6 Month SONIA rate.	The objective of the hedge is to mitigate the variability of the cash flows stemming from the floating rate interest payments related to the Nationwide £130m Fl Loan 2036 loan, a floating rate loan entered into by Midland Heart against unfavourable movements in the 3 Month SONIA rate.	The objective of the hedge is to mitigate the variability of the cash flows stemming from the floating rate interest payments related to the Lloyds £75m Fl Loan 2043 loan, a floating rate loan entered into by Midland Heart against unfavourable movements in the 3 Month SONIA rate.
Description of the financial instruments designated as hedging instruments	The interest rate swap, Barclays Swap £20m 4.815% 2038. The counterparty to the swap is Lloyds and the credit risk associated with this counterparty is considered to be low. The credit risk is reflected in the Credit Valuation Adjustment amount to the risk free fair value of the derivative instrument.	The interest rate swap, Barclays Swap £30m 5.01% 2037. The counterparty to the swap is Lloyds and the credit risk associated with this counterparty is considered to be low. The credit risk is reflected in the Credit Valuation Adjustment amount to the risk free fair value of the derivative instrument.		The interest rate swap, Barclays ex-European Cancellable Swap with Double Up £10m 4.24% 2031. The counterparty to the swap is Nationwide and the credit risk associated with this counterparty is considered to be low. The credit risk is reflected in the Credit Valuation Adjustment amount to the risk free fair value of the derivative instrument.	The interest rate swap, Lloyds Swap £5m .812% 2022. The counterparty to the swap is Lloyds and the credit risk associated with this counterparty is considered to be low. The credit risk is reflected in the Credit Valuation Adjustment amount to the risk free fair value of the derivative instrument.	The interest rate swap, Lloyds Swap £50m 5.432% 2034 (ex-Bermudan). The counterparty to the swap is Nationwide and the credit risk associated with this counterparty is considered to be low. The credit risk is reflected in the Credit Valuation Adjustment amount to the risk free fair value of the derivative instrument.	The interest rate swap, Lloyds Swap £50m 5.432% 2034 (ex-Bermudan). The counterparty to the swap is Lloyds and the credit risk associated with this counterparty is considered to be low. The credit risk is reflected in the Credit Valuation Adjustment amount to the risk free fair value of the derivative instrument.
Nature of the risks being hedged including a description of the hedged item	The variability of cash flows stemming from the interest payments of the Lloyds £75m Fl Loan 2043 due to movements in the 3 Month SONIA rate.	The variability of cash flows stemming from the interest payments of the Lloyds £75m Fl Loan 2043 due to movements in the 3 Month SONIA rate.		The variability of cash flows stemming from the interest payments of the Nationwide £130m Fl Loan 2036 loan due to movements in the 3 Month SONIA rate.	The variability of cash flows stemming from the interest payments of the HFC/EIB 2031 £15m Loan due to movements in the 6 Month SONIA rate.	The variability of cash flows stemming from the interest payments of the Nationwide £130m Fl Loan 2036 due to movements in the 3 Month SONIA rate.	The variability of cash flows stemming from the interest payments of the Lloyds £75m Fl Loan 2043 due to movements in the 3 Month SONIA rate.
Fair values of financial instruments designated as hedging instruments £'000	3,207	5,188		1,010		8,893	

26a.Social Housing Pension Scheme (SHPS)

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

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

The last triennial valuation of the scheme for funding purposes was carried out as at 30 September 2020. This valuation revealed a deficit of £1,560m. A Recovery Plan has been put in place with the aim of removing this deficit by 31 March 2028.

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

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

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

For accounting purposes, a valuation of the scheme was carried out with an effective date of 30 September each year. The liability figures from this valuation were rolled forward for accounting year-ends from the following 31 March to 28 February inclusive.

The latest accounting valuation was carried out with an effective date of 30 September 2022. The liability figures from this valuation were rolled forward for accounting year-ends from the following 31 March 2023 to 28 February 2023 inclusive.

The liabilities are compared, at the relevant accounting date, with the company's fair share of the Scheme's total assets to calculate the company's net deficit or surplus.

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

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

	2023 £'000	2022 £'000
Fair value of plan assets	99,455	150,920
Present value of defined benefit obligation	(121,424)	(173,156)
Net defined benefit asset (liability) to be recognised	**(21,969)**	**(22,236)**

Reconciliation of Opening and Closing Balances of the Defined Benefit Obligation

	Year ended 31 Mar 2023 £'000
Defined benefit obligation at start of year	**173,156**
Expenses	106
Interest expense	4,761
Actuarial gains due to scheme experience	(904)
Actuarial losses due to changes in demographic assumptions	(288)
Actuarial losses due to changes in financial assumptions	(50,501)
Benefits paid and expenses	(4,906)
Defined benefit obligation at end of year	**121,424**

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

	year ended 31 Mar 2023 £'000
Fair value of plan assets at start of year	150,920
Interest income	4,210
Experience on plan assets (excluding amounts included in interest income) - gain	(55,833)
Contributions by the employer	5,064
Benefits paid and expenses	(4,906)
Fair value of plan assets at end of year	**99,455**

The actual return on the plan assets (including any changes in share of assets) over the year ended 31 March 2023 was £51,623,000.

Defined Benefit Costs Recognised in Statement of Comprehensive (SOCI)

	Year from 31 Mar 2022 to 31 Mar 2023 £'000
Expenses	106
Net interest expense	551
Defined benefit costs recognised in Statement of Comprehensive Income (SOCI)	**657**

Defined Benefit Costs Recognised in Other Comprehensive Income

	year ended 31 Mar 2023 £'000
Experience on plan assets (excluding amounts included in net interest cost) - gain	(55,833)
Experience gains arising on the plan liabilities – gain (loss)	904
Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation – gain	288
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation - gain	50,501
Total actuarial losses (before restriction due to some of the surplus not being recognisable) – gain	(4,140)
Effects of changes in the amount of surplus that is not recoverable (excluding amounts included in net interest cost) - gain (loss)	-
Total amount recognised in Other Comprehensive income - gain (loss)	**(4,140)**

Assets	**31 March 2023 £'000**	**31 March 2022 £'000**
Global Equity	1,856	28,962
Absolute Return	1,076	6,054
Distressed Opportunities	3,010	5,401
Credit Relative Value	3,754	5,016
Alternative Risk Premia	185	4,977
Fund of Hedge Funds	-	-
Emerging Markets Debt	534	4,391
Risk Sharing	7,322	4,969
Insurance-Linked Securities	2,511	3,519
Property	4,281	4,075
Infrastructure	11,359	10,751
Private Debt	4,425	3,869
Opportunistic Illiquid Credit	4,255	5,071
High Yield	348	1,301
Opportunistic Credit	7	537
Cash	717	513
Corporate Bond Fund	1	10,067
Liquid Credit	1	1
Long Lease Property	3,001	3,883
Secured Income	4,565	5,623
Liability Driven Investment	45,802	42,112
Currency Hedging	191	(591)
Net Current Assets	254	419
Total Assets	99,455	150,920

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

Key Assumptions	**31 March 2023 £'000**	**31 March 2022 £'000**
Discount Rate	4.87	2.79
Inflation (RPI)	3.19	3.57
Inflation (CPI)	2.75	3.19
Salary Growth	3.75	4.19
Allowance for commutation of pension for cash at retirement	75% of maximum allowance	75% of maximum allowance

The mortality assumptions adopted at 31 March 2023 imply the following life expectancies:

	Life expectancy at age 65 (Years)
Male retiring in 2023	21.0
Female retiring in 2023	23.4
Male retiring in 2043	22.2
Female retiring in 2043	24.9

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

Key Assumptions	**31 March 2023 £'000**	**31 March 2022 £'000**
Discount Rate	4.87	2.79
Inflation (RPI)	3.19	3.57
Inflation (CPI)	2.75	3.19
Salary Growth	3.75	4.19
Allowance for commutation of pen-sion for cash at retirement	75% of maximum allowance	75% of maximum allowance

We have been notified by the Trustee of the Scheme that it has performed a review of the changes made to the Scheme's benefits over the years and the result is that there is uncertainty surrounding some of these changes. The Trustee has been advised to seek clarification from the Court on these items. This process is ongoing and the matter is unlikely to be resolved before the end of 2024 at the earliest. It is recognised that this could potentially impact the value of Scheme liabilities, but it is not possible to calculate the impact of this issue, particularly on an individual employer basis, with any accuracy at this time. No adjustment has been made in these financial statements in respect of this potential issue.

26b. The Pensions Trust - The Growth Plan

The association participates in the above scheme, a multi-employer scheme which provides benefits to some 638 non-associated employers. The scheme is a defined benefit scheme in the UK.

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

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

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

A full actuarial valuation for the scheme was carried out at 30 September 2020. This actuarial valuation showed assets of £800.3m, liabilities of £831.9m and a deficit of £31.6m. 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 2022 to 31 January 2025:**	
£3,312,000 per annum	(payable monthly)

The scheme's previous valuation was carried out with an effective date of 30 September 2017. This valuation showed assets of £794.9m, liabilities of £926.4m and a deficit of £131.5m. To eliminate this funding shortfall, the Trustee has asked the participating employers to pay additional contributions to the scheme as follows:

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

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

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

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

Present Values of Provision

	2023 £'000	2022 £'000
Present Values of Provision	11	17

Reconciliation of Opening and Closing Provisions

	2023 £'000	2022 £'000
Provision at start of year	17	96
Unwinding of the discount factor (interest expense)	-	-
Deficit contribution paid	(6)	(24)
Re-measurements - impact of any change in assumptions	-	-
Re-measurements - amendments to the contribution schedule	-	(55)
Provision at end of year	11	17

Income and Expenditure Impact

	2023 £'000	2022 £'000
Unwinding of the discount factor (interest expense)	-	-
Re-measurements - impact of any change in assumptions	-	-
Re-measurements - amendments to the contribution schedule	-	(55)
Costs recognised in income and expenditure account	-	(55)

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

	2023 £'000	2022 £'000
Operating costs (pension deficit costs)	-	(55)
Interest and financing costs	-	-
Costs recognised in income and expenditure account	-	(55)

Assumptions

	2023 % per annum	2022 % per annum
Rate of discount	5.52	2.35

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 to year:

Deficit Contributions Schedule

	2023 £'000	2022 £'000
Year 1	6	6
Year 2	5	6
Year 3	-	5

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 year in which it arises.

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

27. Share Capital

	2023 £
Allotted, called up and fully paid shares of £1 each:	
At end of year	14

	Number
At 1 April 2022	33
Issued	1
Cancelled	(20)
At 31 March 2023	**14**

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

28. Operating Leases - Group and Association

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

	2023 £'000	2022 £'000
Plant - Leases which expire:		
Within one year	385	542
Between one year and two years	123	370
Between two and five years	120	227
Office premises - Leases which expire:		
Within one year	90	88
Between one year and two years	7	77
Between two and five years	-	6
After five years	-	-
	725	**1,310**

During the year £794k was recognised as an expense in the profit and loss account in respect of operating leases (2022: £585k).

29. Capital Commitments - Group and Association

The carrying amounts of the financial assets and liabilities include:

	Group		Association	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Capital expenditure contracted not provided for	263,153	146,086	263,153	146,086
Capital expenditure authorised by the Board of Directors but not contracted for	98,950	58,353	98,950	58,353

The expenditure represents the total bids submitted to Homes England.

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

The above commitments will be funded primarily through cash and funds available for draw-down on existing loan arrangements and £42.7m (2022 £21.4m) funded by Social Housing Grant.

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

As part of the Voluntary Right to Buy programme we have funds of £27.9m (2022: £27.9m) for reinvestment. This is made up of sale proceeds of £33.0m (2022: £33.0m) less attributable debt of £3.9m (2022: £3.9m) that we need to reinvest in new properties. This figure includes £0.3m (2022: £2.7m) of recycled grant. During the year we reinvested £2.4m of these funds in replacement developments.

30. Contingent Liabilities

Midland Heart has entered into a transactions with other social housing providers which includes original government grant of £18,972k on the incoming properties. The grant has an obligation to be recycled in accordance with the original grant funding terms and conditions which is contingent in the event of the housing properties being disposed (2022: 16,898k).

31. Housing Stock – Group and Association

	2023						
	As at 1 April 2022	Units Developed	Other New Units	Transferred (to)/from other Registered Providers	Units Sold	Other Movements	As at 31 March 2023
	£'000	£'000				£'000	£'000
Social Housing							
Social rent	20,889	97	-	139	(13)	(20)	21,092
Affordable rent	3,327	403	-	2	(21)	22	3,733
Supported housing and housing for older people	4,057	-	-	-	(167)	(62)	3,828
Residential Care Homes	70	-	-	-	(19)	-	51
Shared ownership accommodation	2,232	151	-	-	(62)	(18)	2,303
Lease Scheme for the elderly	165	-	-	-	-	-	165
Total social housing units owned	**30,740**	**651**	**-**	**141**	**(282)**	**(78)**	**31,172**
Accommodation managed for others	1,641	-	-	-	-	-	1,641
Total social housing units owned and managed	**32,381**	**651**	**-**	**141**	**(282)**	**(78)**	**32,813**
Long leasehold	1,008	-	-	33	-	25	1,066
Garages	122	-	-	-	-	-	122
Total Social Housing	**33,511**	**651**	**-**	**174**	**(282)**	**(53)**	**34,001**
Non-Social Housing							
Market rent	199	-	-	-	(2)	(3)	194
Commercial lettings	100	-	-	-	(3)	-	97
Student accommodation	61	-	-	-	-	-	61
Leased to other parties	363	-	-	-	-	59	422
Total non-social housing units owned	**723**	**-**	**-**	**-**	**(5)**	**56**	**774**
Leasehold	128	-	-	-	-	3	131
Total non-social housing	**851**	**-**	**-**	**-**	**(5)**	**59**	**905**
GRAND TOTAL	**34,362**	**651**	**-**	**174**	**(287)**	**6**	**34,906**

Other movements include properties that have changed tenure, we have handed back the lease or have been demolished during the year.

32. Disclosure of Group Activity

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

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

The members of the Midland Heart Group are as follows:

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

On 28 March 2023 Prime Focus Regeneration Group Limited was dissolved after being dormant since 30 March 2022.

Entity	Registration
Midland Heart – Cygnet Property Management plc	Midland Heart charges Cygnet for the management of its Market Rent properties.
Midland Heart – Midland Heart Development (MHDL)	A 3% charge on cost on all invoices recharged to Midland Heart is levied by MHDL.
Midland Heart - Midland Heart Capital plc (MHC)	MHC recharges its interest and other loan administration costs to Midland Heart.
Midland Heart - Prime Focus Finance (PFF)	PFF recharges its interest and other loan administration costs to Midland Heart.

There has been no other cost apportionment within the Group.

33. Related Parties

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

34. Notes to the Cash Flow Statement

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

	2023 £'000	2022 £'000
(Decrease) / increase	(36,232)	29,314
Cash flow from increase/(decrease) in debt finance	10,474	(54,826)
Discounted bonds	(637)	(573)
	(26,395)	(26,085)
Net debt at 1 April	(499,631)	(473,546)
Net debt at 31 March	**(526,026)**	**(499,631)**

B- Analysis of changes in net debt

	At 1 April 2022 £'000	Cash flows £'000	At 31 March 2023 £'000
Cash at bank and in hand	137,285	(36,232)	101,053
	137,285	**(36,232)**	**101,053**
Discounted bonds	(14,591)	(637)	(15,228)
Other loans due less than one year	(9,629)	(3,007)	(12,636)
Other loans due in more than one year	(613,690)	13,465	(600,225)
Finance lease	(3,628)	109	(3,519)
Premium on bond issue	(11,479)	514	(10,965)
Discount on bond issue	9,718	(347)	9,371
Issue expenses	6,383	(260)	6,123
Net debt	**(499,631)**	**(26,395)**	**(526,026)**