Financial Statements 2017-2018

People Focused | Inclusive | Professional

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A leading housing organisation, delivering homes and services across the Midlands that enable people to live independently

04 Chairman's foreword

06 Chief Executive's foreword

10 Executive Team and biographies

12 Board members and biographies

15 Board of Directors appointments and resignations

16 Year at a glance

20 Operating and financial review

23 Fit for the Future

25 Our new corporate plan

26 Building as many new homes for affordable rent as we can

29 Treasury management

30 Value for money and performance

40 Loan facilities

42 Financial instruments

44 Our people

46 Delivering social value

48 Risk management

52 Corporate governance

56 Statement of internal control

64 Business review

70 Independent Auditor's report to Midland Heart Limited

72 Financials

Chairman's foreword

This year has seen us deliver the second year (2017/18) of our corporate plan, *Fit for the Future*. The legacy of this excellent achievement is even stronger financial foundations upon which we can build the future of Midland Heart. We achieved all this whilst delivering the best ever results for the satisfaction of Midland Heart customers with our services.

Fit for the Future was born out of a need for us to change and adapt to a new, more challenging external environment. The government had announced four years of rent reductions and numerous welfare reforms, alongside the introduction of the Local Housing Allowance (LHA) cap and Voluntary Right to Buy. Whilst some of these challenges did not impact us as we had expected, we reacted quickly to ensure that our business would remain strong in the future.

It is this strength that has allowed the Board to start to develop the future direction of Midland Heart a year earlier than we had planned. It is our ambition to provide the best landlord services to our customers and put in place an expanded development programme for much needed affordable new homes.

In light of the tragic events at Grenfell Tower, the sector has rightly renewed its focus on the needs of customers.

We understand what we need to do to deliver the best possible services to our customers, build more balanced communities and help people live independently in the Midlands.

To ensure that we have the right people to deliver these improvements, we aim to become one of the region's leading employers; a place where people love to work and aspire to join.

We are now in a position to look to the future with ambition. We will not be distracted from delivering the last year of our *Fit for the Future* plan and ensure our business remains strong to 2020 and beyond.

I want to say thank you to all colleagues at Midland Heart; they are responsible for delivering a set of outstanding results that have provided excellent service to our customers. My thanks also to fellow Board members, including those who retired during the year; they have ensured, during these challenging times, that we never lost sight of our mission to help people live independent lives.

John Edwards CBE

Chief Executive’s foreword

Following five years as the Executive Director of Finance and Resources, it is a privilege to be serving as Midland Heart’s fourth Chief Executive and I would like to thank Ruth Cooke for her hard work in making Midland Heart the strong organisation that it is today.

Covering the second year of our *Fit for the Future* corporate plan, these financial statements demonstrate the financial and operational benefits that have been delivered. This has been a record year of achievement across the organisation. Our cost and service improvement programme has enabled us to achieve our best ever operating surplus of £47.8m and an operating margin of 39.2%.

Our new build programme continues to go from strength to strength with 304 homes completed this year. We have seen some of the highest levels of customer satisfaction ever recorded in terms of repairs at 92% and overall satisfaction at 86%. Externally our regulators in-depth assessment confirmed our financial viability (V1) and governance rating (G1).

These results are a true testament to the hard work of our teams who have shown great commitment in delivering our services, despite the continuing changes to our operating environment, and I am thankful for all of their efforts this year.

Whilst this has been a particularly strong year in terms of performance, we must now focus on maintaining these high standards.

During the course of the year, there has been a notable shift in policy, putting affordable housing at the heart of the Government’s agenda. By putting the organisation on a strong financial footing, we are now in a position to drive this agenda forward, developing as many affordable homes as we can and continuing to invest in our existing homes to ensure that our customers benefit from a first class landlord service.

Our ambition has been to ensure that we become fit for the future and we have delivered on that strategy. The opportunity now lies for Midland Heart to become truly outstanding.

Glenn Harris MBE

Joe Reeves,
Executive Director of Growth and Corporate Affairs

Andrew Foster,
Executive Director of Governance and Contracts and Company Secretary

Executive Team

David Taylor,
Executive Director of Operations

Glenn Harris MBE,
Chief Executive

> At Midland Heart we have always been fortunate in having a strong and committed group of Board members, many of whom have been involved with the organisation for a number of years.

Chris West,
Non-Executive Member

Glenn Harris MBE,
Chief Executive

David Taylor,
Executive Director of Operations

Martin Tiplady OBE,
Non-Executive Member

Board of Directors

John Edwards CBE,
Chair, Non-Executive Member

Julian Healey,
Non-Executive Member

Carole Mills,
Non-Executive Member

Kathy McAteer,
Non-Executive Member

Mina Parmar,
Non-Executive Member

Executive Team

1 David Taylor
Executive Director of Operations

David Taylor is a member of the Chartered Institute of Housing (CIH) and has significant experience of leading and improving service delivery in the local authority, care and support and housing association sectors. David has led the development of strategies to transform the quality and performance of services for customers.

David is experienced in leading a wide range of customer focussed services and ensuring customers are at the heart of shaping these. This has included regeneration projects and leading a team responsible for commissioning and contracting housing related services.

At Midland Heart, David is responsible for all customer facing services including repairs and asset management, neighbourhood and tenancy related services, income collection, community safety, lettings and sales as well as our retirement living and homelessness services.

2 Joe Reeves
Executive Director of Growth and Corporate Affairs

As Executive Director of Growth and Corporate Affairs, Joe is responsible for Midland Heart's housing development strategy, corporate communications, external affairs and the securing of commissioned contract income for supported and retirement living.

Prior to joining Midland Heart in July 2013, Joe spent 15 years at PwC in the Public Sector Audit and Advisory and the Corporate Finance Infrastructure and Government teams. As a Director, Joe 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.

3 **Glenn Harris MBE**
Chief Executive

Glenn has been Chief Executive of Midland Heart since March 2018. Prior to this he was the organisation's Executive Director of Corporate Services, responsible for Strategy, Finance, HR and IT.

Supported by the Executive Board, Glenn will deliver the final year of Midland Heart's *Fit for the Future* corporate plan and develop the organisation's future strategy. Glenn is focused on Midland Heart becoming a truly outstanding landlord and one of the country's top 20 developers of affordable homes.

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

Glenn received an MBE for services to business in 2012.

4 **Andrew Foster**
Executive Director of Governance and Contracts and Company Secretary

Andrew Foster joined Midland Heart in 2006 after 10 years working as a Lawyer and Company Secretary with ITNET plc, an IT services company. Before that Andrew was a Corporate Solicitor with a major Midlands law firm.

Andrew has responsibility for the overall effectiveness of Midland Heart's governance processes. He is also responsible for the effective procurement of goods and services and ensuring that an effective contract management framework is in place to provide assurance that external contracts are managed well and deliver high quality, good value services for our customers.

Andrew also manages a number of other central services including legal, risk and audit, insurance, policy, facilities and health and safety.

He is a Board member of both Worcestershire Telecare Limited and of The Community Housing Group Limited.

1 John Edwards CBE
Chair, Non-Executive member

John trained as a Quantity Surveyor, working for major construction companies and subsequently as Project Manager, Operations Director and then Chief Executive for the Rural Development Commission.

In 1999 John joined Advantage West Midlands (AWM). He was appointed Chief Executive in 2000 and led AWM to be independently validated by PwC and the National Audit Office, as a high performing four star organisation.

John stood down in 2008 and then took on a number of non-executive and advisory roles in the public sectors, including Chairman of Dudley Group of Hospitals, an NHS Foundation Trust in the Black Country, for four years until December 2014.

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

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

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4 Carole Mills

Non-Executive member

Carole joined the Midland Heart Board in September 2017. She has over 30 years' experience in the public sector in both the NHS and local government; with the last 16 at Chief Officer level. Carole has a particular interest in housing, mental health and social issues.

A qualified accountant and former Chief Finance Officer, she has a strong track record in corporate governance, financial strategy and organisational transformation. Carole has been the Chief Executive at Milton Keynes Council since 2014 and will be taking up the post of Chief Executive at Derby City Council in August 2018.

5 Chris West

Non-Executive member

Chris is a public service professional with over 25 years' experience working at leadership and Board level in large organisations. 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. He lives and has spent his career working in the West Midlands.

6 Kathy McAteer

Non-Executive member

Kathy has over 40 years' experience of health and social care, having previously worked as a Director Of Adult Social Services within local government and as an Executive Director with an NHS Care Trust. Subsequently she has also provided consultancy support for a number of councils and voluntary organisations and has had experience of chairing Adult Safeguarding Boards, Adult Serious Case Reviews and Domestic Homicide Reviews.

Kathy's experience has been predominantly in the integration of health and social care services, both as a commissioner and a provider of services, and she has particular expertise in the fields of learning disability services and adult safeguarding. Kathy is currently a Non-Executive Director on the Board of the Black Country Partnership NHS Foundation Trust.

7 Julian Healey

Non-Executive member

Julian is a Chartered Surveyor with over 35 years' experience of asset and property management. Julian was head of the asset and property management division in one of the UK's national surveying practices for over 20 years and subsequently became Operations Director.

He is currently the Chief Executive at the Association of Property and Fixed Charge Receivers (NARA) and has worked closely with a wide range of stakeholders in the arena of property finance. He is also an arbitrator specialising in landlord and tenant matters, an accredited expert witness and a member of the Insolvency Practitioners' Association Investigations Committee.

8 Martin Tiplady OBE

Non-Executive member

Martin is the Senior Independent Director and owner of Chameleon People Solutions Ltd - a HR and Management consultancy - that provides change management, organisational development and general HR services to businesses.

Martin was previously the Director of HR with the Metropolitan Police until his retirement. He was also Director of HR for The Berkeley Group Plc, Westminster Health Care Holdings Plc and The Housing Corporation.

In recent years Martin was named by The Daily Telegraph as 'Personnel Director of the Year' and is regularly listed by HR press as one of the most influential people in HR today.

Martin is a Chartered Companion of the Chartered Institute of Personnel and Development (CIPD) and was Vice President of the CIPD from 2006 to 2010. He was awarded an OBE for services to Policing and Human Resources in The Queen's Birthday Honours 2010.

9 Mina Parmar

Non-Executive member

Mina has over 20 years' experience as a Strategic Property Advisor to central and local government and the private sector. She runs her own consultancy practice and has held a large number of senior interim roles focussed on property related efficiency savings, the development of asset management strategies as well as major regeneration housing and mixed use projects.

Major appointments have included Strategic Advisor at the Foreign and Commonwealth Office and HM Treasury, Shared Service Programme Director at Home Office and the Ministry of Justice, Interim Property Director at HS2 Ltd, Project Director at Belfast City Council and Bid Director at Vinci Construction Plc in respect of its interests in a £450m major London based NHS Transformation project.

Mina was recently appointed to the Cabinet Office's High Risk Major Projects Review panel where she will be responsible for the reviews of major, complex projects with a spend of in excess of £1bn.

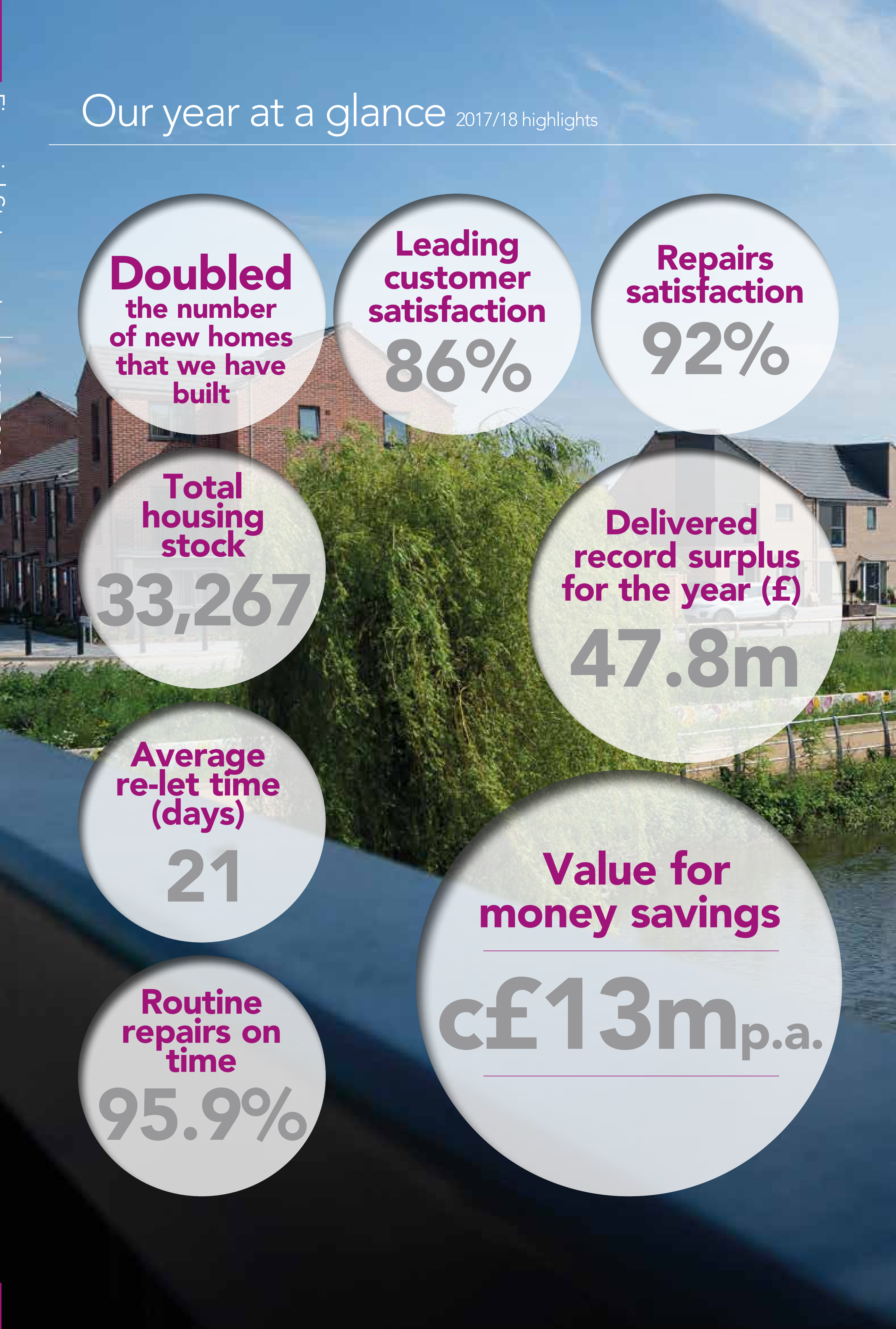
Prior to setting up her practice as a Chartered Surveyor, Mina held roles at British Rail, Barclays, St Albans City Council and Drivers Jonas/Deloitte.

Mina was born and raised in Birmingham and still has very strong links with the city.

Board of Directors appointments and resignations

Name	Position	Appointed	Resigned
John Edwards CBE	Chair of the Board	14/05/14	
Ruth Cooke		17/04/12	29/03/18
Greg Croydon	Chair of Finance and New Business Committee	24/09/10	28/03/18
Anna East	Chair of Audit and Risk Committee	28/05/10	29/09/17
Karl George MBE	Chair of Governance and Search Committee	04/02/11	29/09/17
Glenn Harris	Executive Member	29/09/17	
Julian Healey	Chair of Audit and Risk Committee (since 30/09/17)	23/09/13	
Robert Lake		26/09/08	29/09/17
Kathy McAteer		23/09/13	
Peter Pawsey	Chair of Cygnet Property Management plc	04/02/11	29/09/17
David Taylor	Executive Member	29/09/17	
Martin Tiplady OBE	Chair of Remuneration and Executive Selection Committee Chair of Operations Committee	29/09/14	
Carole Mills		29/09/17	
Mina Parmar		29/09/17	
Chris West	Chair of Finance and New Business Committee (since 29/03/18)	29/09/17	

Our year at a glance 2017/18 highlights



Doubled the number of new homes that we have built

Leading customer satisfaction 86%

Repairs satisfaction 92%

Total housing stock 33,267

Delivered record surplus for the year (£) 47.8m

Average re-let time (days) 21

Value for money savings c£13m p.a.

Routine repairs on time 95.9%

midland heart

Reduced our voluntary staff turnover to the lowest levels in the last two and half years.

G1,V1

Achieved the highest governance and viability rating from the regulator

Scored our highest staff engagement results in five years

76%

Turnover (£m)

193.5

Operating surplus (£m)

75.8

Operating margin (%)

39.2

A2

Achieved a strong credit rating from Moody's (A2)

Interest cover (%)

280

Social housing turnover remains the core of the business. Record surplus despite the 1% rent reduction

Our year at a glance 2017/18 highlights

Midland Heart continues to deliver consistently strong financial and operational performance. 2017/18 was the second year of the *Fit for the Future* corporate plan which has delivered high levels of customer, financial and staff engagement results whilst embedding significant change. This is demonstrated in the results and key performance indicators (KPIs) set out later in this report.

During the year:

- The Board approved a new homes delivery strategy with a continued focus on building primarily new affordable and social rented homes
- We adopted a new structure for the organisation, including a simplified single operations directorate. This has delivered both efficiencies and greater consistency of customer service
- We simplified our overall governance (Board and Committees) structure
- We successfully completed the exiting of our learning disability and mental health services to new providers following a thorough review of our care business. In addition, much has been done to place our retirement and supported living services on a surer footing so that it is sustainable in the longer term. This includes the process of repatriating 14 retirement living schemes from Extra Care Charitable Trust back to Midland Heart (c1,000 units, £23m income)
- We expanded our in-house maintenance services, Property Care, to c17,700 properties from c11,600.

We have:

- Doubled the number of new homes that we have built
- Leading customer satisfaction (86%) and repairs satisfaction results (92%)
- Made c£13m p.a. value for money savings (£10m p.a. target) and a further c£1m on 'in year' efficiencies
- Delivered a record surplus (£47.8m) and achieved a strong credit rating from Moody's (A2)
- Achieved the highest governance and viability rating from the regulator (G1,V1)
- Scored our highest staff engagement results in five years (76%)
- Reduced our voluntary staff turnover to the lowest levels in the last two and half years.

Our Board remains focused on both delivering new homes and value for money efficiencies with a very clear set of outcomes. The success in meeting our key targets means that year three of our *Fit for the Future* corporate plan (2016/20), will be our final year.

As we move into 2018/19, we are working to produce our new corporate plan (2019/24), building on our successes and continuing to raise our ambitions. Our focus remains on building new homes, excelling in the delivery of services to our customers and continuing the next phase on our value for money journey in order to make us truly outstanding.

Operating and financial review

Financial highlights	2018	2017
Financial performance		
Turnover (£m)	193.5	206
Operating surplus (£m)	75.8	69.6
Operating margin (%)	39.2	33.8
Surplus for the year (£m)	47.8	39.8
Interest cover (%)	280	268
Balance sheet		
Housing properties (net of depreciation) (£m)	1,492.4	1,468.3
Gearing (%)	47	52
Operational indicators		
Total housing stock	33,267	33,153
Current tenant arrears (%)	4.6	4.5
Average re-let time (days)	21	19
Routine repairs on time (%)	95.9	97.1
Customer satisfaction (%)	86.1	87.2

Statement of comprehensive income

- Turnover of £193.5m, shows a reduction of £12.5m (6.1%) over the previous year as a result of a reduction in contract care income, as we have completed the exit from providing learning disability and mental health contracts, and the -1% rent reduction across the majority of the housing portfolio. This was partially mitigated by a small increase in our housing stock
- Operating surplus has increased by £6.2m to £75.8m. This represents an operating margin of 39.2%. This was achieved through exit from loss/low margin care contracts income and an efficiency drive across the business to reduce costs where possible without jeopardising customer outcomes
- Retained surplus of £47.8m was an increase of £8m over the previous year. This was due to operational and interest rate savings.

	Turnover		**Operating surplus**	
	2018 £m	**2017 £m**	**2018 £m**	**2017 £m**
Social housing lettings	172.4	175.4	68.2	67.4
First tranche shared ownership	6.0	6.1	1.0	0.8
Outright sales	1.7	0.0	0.2	0.0
Care contracts and other	10.9	22.4	4.4	(0.8)
Other social housing	1.5	1.1	0.2	0.4
Market rent (including revaluation of properties)	1.0	1.0	1.8	1.8
Total	**193.5**	**206.0**	**75.8**	**69.6**

Operating and financial review

Social housing turnover remains the core of the business. Income fell from the 1% rent reduction and there was a drop in activity in supported housing.

The rationalisation of our care contracts has led to a £11.5m drop in care income. This has led to an increase in surplus, as cutting direct and associated costs on these activities have more than compensated. £6m of the increase in operating surplus is through the sale of low performing stock.

Market rent and first tranche shared ownership sales have remained broadly consistent however, we achieved eight outright sales in this period compared to none in the previous year.

The surplus on revaluation of market rent properties was £1.2m, the same as last year.

Interest costs of £28.7m are £1.7m lower than last year. This is because we secured good margins on new debt and refinanced/repaid expensive fixed rate debt. Changes in pension liabilities also go through the interest line. The net effect of this in the year was broadly neutral but there was a £1.3m charge in 2016/17 included in the costs. However, in 2018 we incurred a £3m early termination charge from prepaying some fixed rate debt.

Balance sheet

The gross cost of housing properties has increased to £1.75bn (£1.70bn in 2016/17). This is a result of expenditure of £47.1m on new homes and a further £12m invested in improvements to existing properties. Properties with a cost value of £11.9m were disposed of during the year.

The amount held as Social Housing Grant (SHG) has decreased by £8.4m to £711.1m. In addition, a release of £8.1m of grant was made to the statement of comprehensive income during the year (2016/17, £7.6m). £3.7m of new grant was received in the year to help fund new builds.

Other fixed assets decreased by £0.7m to £29.4m mainly as a result of the disposal of surplus office buildings.

Debtors decreased by £1.9m from £13m to £11.1m principally as a result of a drop in grant receivable of £3m which was offset by a rise in net arrears of £1.1m.

Cash at the bank and in hand was £79.5m (2016/17, £67.9m). We remain in a strong cash position, allied with ready access to secured loan facilities. This provides the strong foundation to repay loans as they come due and to meet the increase in expenditure on development going forward.

Creditors of less than one year at £74.7m were broadly unchanged. The most significant changes were a reduction in housing loans due within a year of c£4m, recyclable capital grant of £1.6m and trade creditors of £1.0m. These were largely offset by a rise in accruals of £6.3m.

During 2017/18, greater certainty was provided in our operating environment with the new rent settlement (CPI +1% post 2020), mitigations announced in the autumn 2017 Budget on Universal Credit and proposed changes to the Local Housing Allowance cap falling away.

However, some key challenges remain:

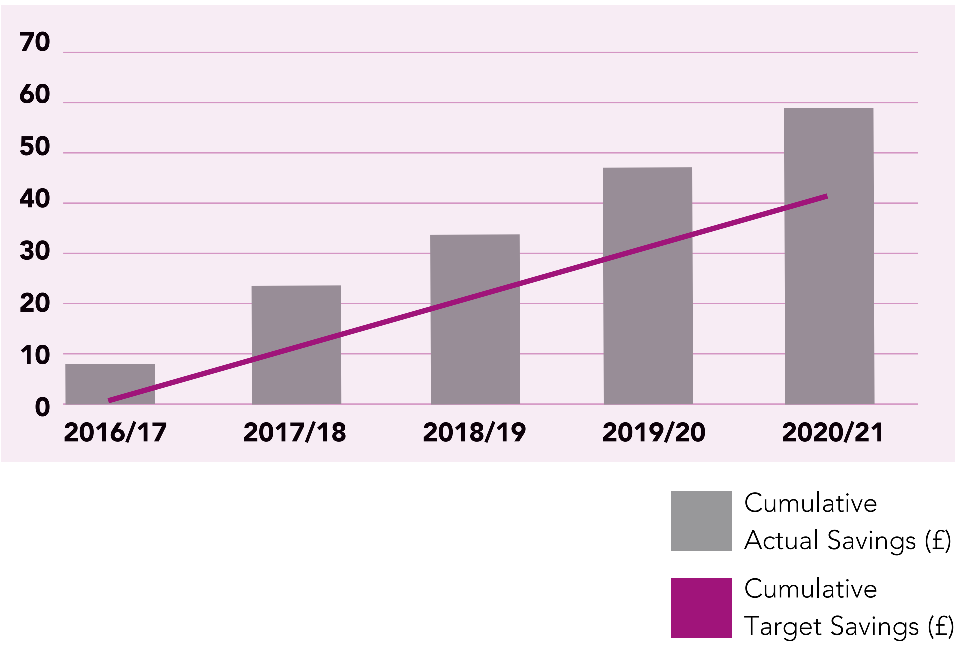
- We are moving into year three of rent minus 1% (cumulative impact)
- Proposed changes to the funding model in our retirement and supported living services
- Further detail needed on the Voluntary Right to Buy pilot in the Midlands
- Changes arising from the post Grenfell reviews; and
- The macro economic environment also faces some uncertainty as we move into a post-Brexit world.

We will need to remain financially strong so that we are able to face any future changes in our operating environment.

Fit for the Future (2017/18)

During the year, we banked £13m p.a. of value for money savings and delivered c£1m of in year efficiencies. This was achieved ahead of the £10m p.a. target we set ourselves in July 2015 (to recover £41m over 4 years to offset the annual 1% reduction in rent, as a result of rent -1%).

The chart below illustrates our cumulative savings targets and actual projected savings to 2020.



Fit for the Future our corporate plan 2016/20

In order to deliver these levels of savings we have:

- Created a single new operations directorate, bringing together our customer and communities (largely general needs housing) and our care and support directorates. We spent some time during 2017/18 embedding new ways of working and creating a new single culture. This was important given different cultures and leadership styles
- Repatriated 14 retirement living schemes from Extra Care Charitable Trust. We are half way through this process and when completed, it will mean a total of c1,000 units and c300 staff being directly managed by Midland Heart
- Undertaken a significant amount of work in retirement living to reduce our dependency on temporary and agency staff as well as move to a more sustainable model of delivering catering services
- Worked very closely with Birmingham City Council to re-shape our supported living services portfolio, following significant cuts to their budget. This has safeguarded services to September 2019; and
- Continued to grow our Property Care services which has now extended to over 17,600 properties, covering the whole of our Birmingham and North region. Satisfaction with our repairs services remains very strong at 92%.

Fit for the Future year three (2018/19)

As we move into year three of *Fit for the Future*, we continue to focus on a number of areas:

- Ensuring that our plans for new homes meets our pipeline. As part of the Midlands Voluntary Right to Buy pilot, we will also need to play a continuing and leading role in its launch
- Completing the final transfers of the 14 Extra Care Charitable Trust schemes by the end of the summer
- Delivering on our plan for our specialist supported accommodation (managed by third parties). This is a two-year project aimed at re-shaping our portfolio. The implementation phase commenced January 2018
- Accelerating our digitalisation project. This is a key priority which includes plans to fast-track our customer digital access project (phase one rents – viewing statements and making payments online), work on providing better solutions for frontline officers in the field (mobility project) and doing more on back office automation.

Our new corporate plan 2019/24

We have already spent time during 2017/18 engaging with the Board on developing our new corporate plan and this will continue into 2018/19.

There is no doubt that we are well placed to make the strategic choices that we want and to raise our levels of ambition.

Our focus will remain on:

- Building as many homes as we can
- Strengthening our core landlord proposition and excelling in services to customers; and
- Continuing to deliver on value for money and efficiencies.

Building as many new homes for affordable rent as we can

Midland Heart has a strong legacy and culture of adapting to change. We continue to remain true to our charitable aims by developing affordable and social rented properties.

We continue to work in the most challenging areas (70% of our stock is in 20% of the most deprived wards nationally) and deliver supported and retirement living services.

In 2017/18, our social and affordable rents as a proportion of market rents was 62%. This has fallen considerably in the last years, in part as a response to the rent cuts but also as wider market rents continue to rise.

	2015/16	2016/17	2017/18
Social and affordable rents as a proportion of market rent	68.4%	65.14%	62.3%

We are acutely aware of our responsibility to develop as many new homes as we can. Critically, we have taken the decision to focus on building new homes primarily for affordable and social rent rather than outright sale. We will therefore be investing all of our operating surplus and a further £10m into new homes. Our commitment for the longer term is to ensure we are consistently in the top 20 nationally for new homes built for affordable and social rent.

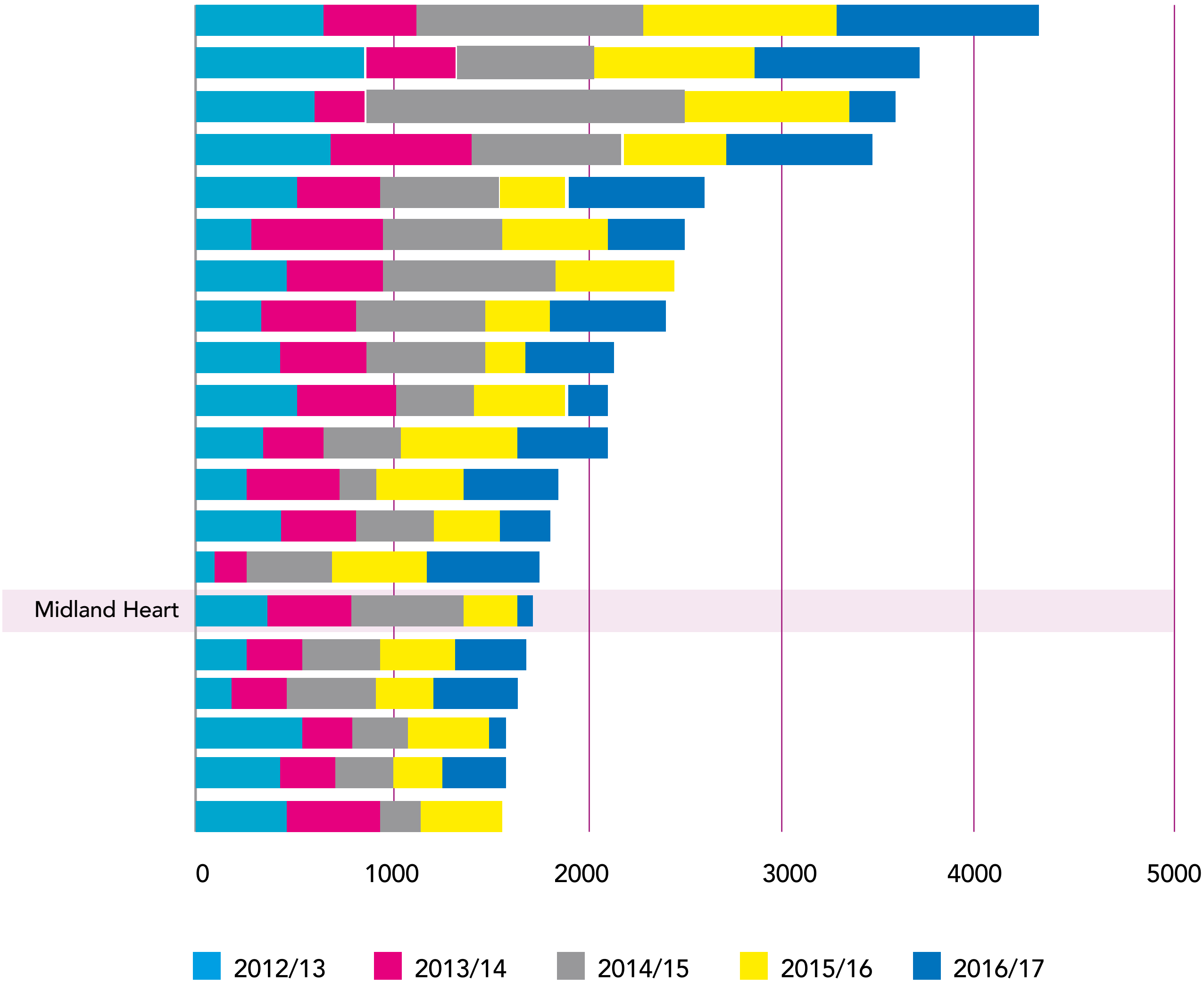
2017/18 saw the launch of our new five year housing delivery strategy with our aim to build c2,400 new homes by March 2022. Our development programme consists of c70% affordable and social rented homes, and c20% shared ownership helping first time buyers onto the housing ladder. The strategy also acknowledges the wider housing shortage across our areas of operation and the need to consider some homes for market sale (c10% of our programme), albeit this is more likely to be delivered jointly with our developer partners, sharing risk and reward.

We continue to grow and foster a number of key relationships with developer and contractor partners. This builds a substantial forward pipeline that gives us greater certainty of meeting our ambitions.

During 2017/18, we completed 304 new homes and had a further 647 in construction as at 31 March 2018.

Over the five years between 2012/13 to 2016/17, we ranked 15th nationally on new homes for affordable and social rent (see opposite).

Newly built rental accommodation built by or for RP

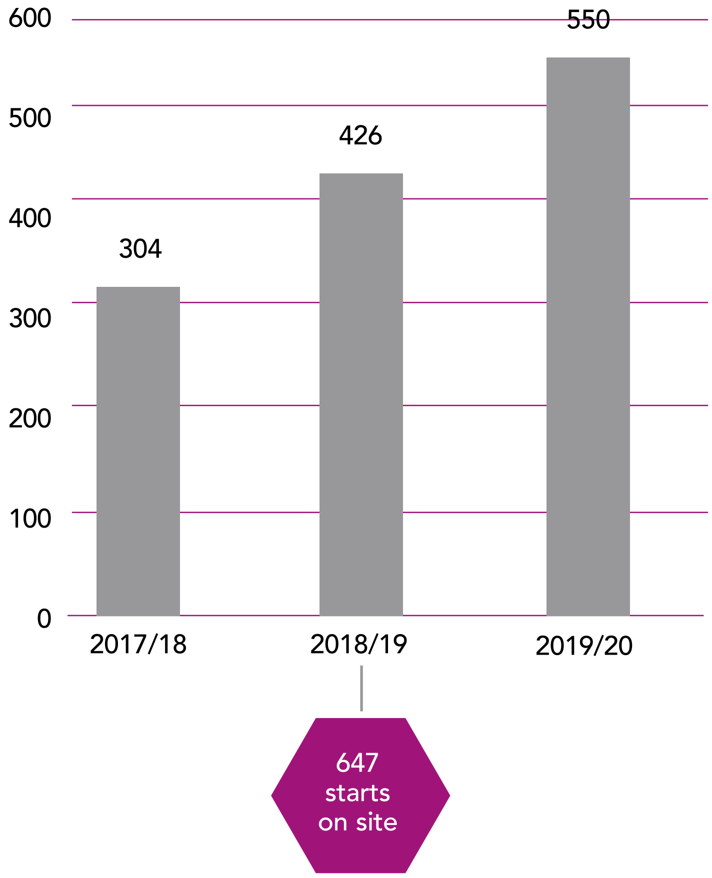


Source: Statistical Data Return – publically available

Building as many new homes for rent as we can

The chart below shows our year on year picture:

New homes



Our ambitious joint venture with Westleigh Homes, which aims to deliver 395 new homes with a range of tenures in the city of Leicester, has progressed well during the financial year. The overall programme is ahead of schedule and the first new homes have already been delivered and are now occupied.

This continues to be a flagship scheme for Midland Heart and demonstrates not only our commitment to building new homes, but also how we are helping to make a positive impact on the local communities where we work.

Treasury management

We continue to benefit from savings on our loan portfolio and despite a c£3m early redemption penalty, we reduced costs by £1.6m. Our new borrowings utilising the government guaranteed schemes have been very competitive and will reduce our cost of capital going forward.

It is important to note that interest costs do not currently feature in the Homes and Communities Agency's (now Homes England) definition of cost per unit even though their mitigation contributes significantly to incremental cash flow available for investment.

All our financial covenants have now been reset to current accounting standards based on approximate neutrality with the old rules.

All of our financial golden rules continue to be met:

- Gearing target 70%: this was 47% at year end, it is projected to peak at 60% in April 2020, which is still c15% below covenant levels. We set our target to operate at 70% to give ourselves a c£50m buffer against unforeseen fluctuations or accounting changes

- Interest cover target 150%: at year end we were well in excess of this at 280%. Interest cover is projected to be at its lowest in 2021 at 205%

- Cash (min £20m): We have strong liquidity levels, with c£77m cash, £101m of immediately available facilities and £281m in unencumbered securities (existing use valuation basis) at year end. This is well in excess of our policy (minimum of £20m cash and £50m unencumbered securities/facilities). Our policy is to have enough cash and undrawn facilities to cover the higher of net future committed development spend or 18 months cash flows. This provides a firm foundation to gear up and develop 550 affordable homes per annum over our corporate plan 2019/24 as well as being agile to taking on other investment opportunities.

We are actively charging more security as unallocated to our security trustee in readiness for any future financings.

Value for money and performance

Strong value for money governance

A fundamental value for money principle at Midland Heart is that as a not-for-profit organisation we aim to deliver social gain to our customers and their communities. Our governance surrounding value for money remains consistent and strong. This is driven by our Board who recognise how integral it is to the delivery of our corporate direction.

We have three key value for money drivers; our corporate plan, continuous improvement and regulation. The three value for money pillars are:

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

These are underpinned by a strong culture where information is transparent, available and accessible to stakeholders.

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

New value for money standard and metrics

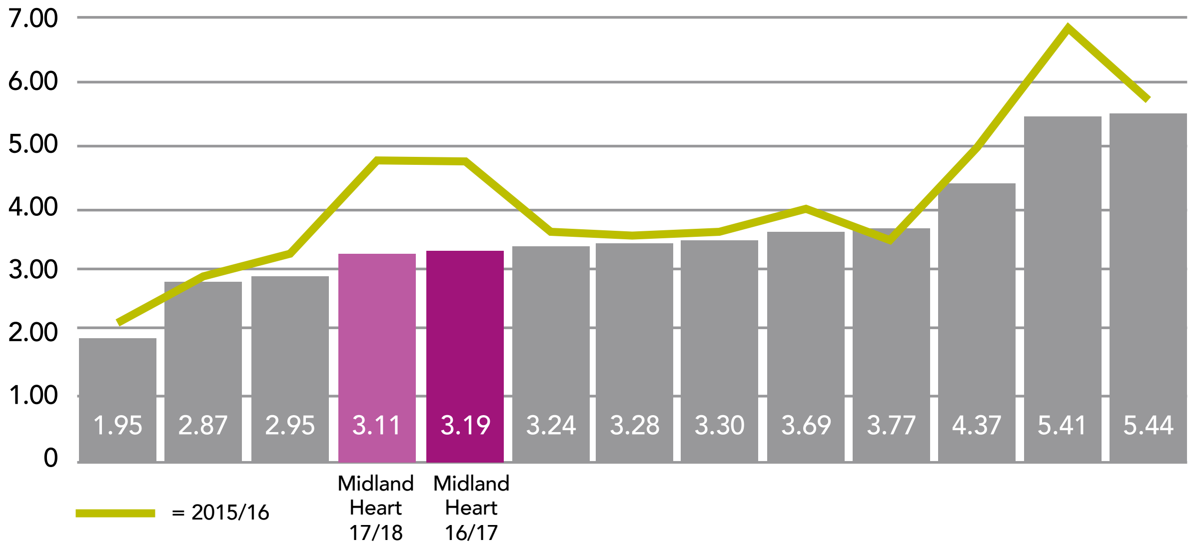
A new value for money standard and metrics were introduced by the regulator in April 2018. As such, the following sections set out:

- Headline social housing costs per unit (method used prior to April 2018)
- New value for money metrics
- Performance of our stock
- How we compare to others.

Headline social housing costs per unit (pre April 2018 method)

In December 2017, the regulator published cost per unit data for 2016/17 for each provider. The bar charts below represent 2016/17 data for our benchmarking group (see *How do we compare to others* section below) while the line graphs represent 2015/16 data.

It is important to note that this is before c£5m of our *Fit for the Future* value for money savings kick in (£13m p.a. less £8m p.a. from 2016/17).



For 2016/17, we ranked 102 out of 236 providers significantly down from 192 out of 240 in 2015/16. In 2015/16, our headline costs per unit (CPU) was £4,690 (under IFRS). Our 2017/18 cost per unit based on this method was £3,114.

Our strategic aim is for our headline costs per unit to move to c£3k by 2020 (excluding supported housing). Based on the new CPU definition (post April 2018), our headline costs per unit fall to £2,947 in 2017/18.

The table below illustrates the sector position on costs per unit.

Consolidated Group Level	Headline Social Housing CPU
Lower Quartile	2.93
Median	3.30
Upper Quartile	4.33

Value for money and performance

New value for money metrics

From April 2018, new value for money metrics were introduced by the regulator. Our results are as follows:

			Forecast	
	2016/17	2017/18	2018/19	2019/20
Reinvestment %	2.5	3.6	5.1	6.1
New supply delivered (social housing) %	0.5	0.9	1.0	0.9
New supply delivered (non-social housing) %	0.0	2.7	0.0	47.1
Gearing %	28.9	27.1	26.7	27.7
EBITDA MRI interest cover	2.31	2.51	2.65	2.65
Headline CPU £	3,067	2,947	3,177	3,299
Operating margin (SHL) %	38.4	39.5	35.3	33.7
Operating margin (excluding fixed asset sales) %	32.5	36.1	32.4	30.3
ROCE %	4.6	4.9	4.3	3.9

As we develop our new corporate plan, we will identify future value for money targets.


property care
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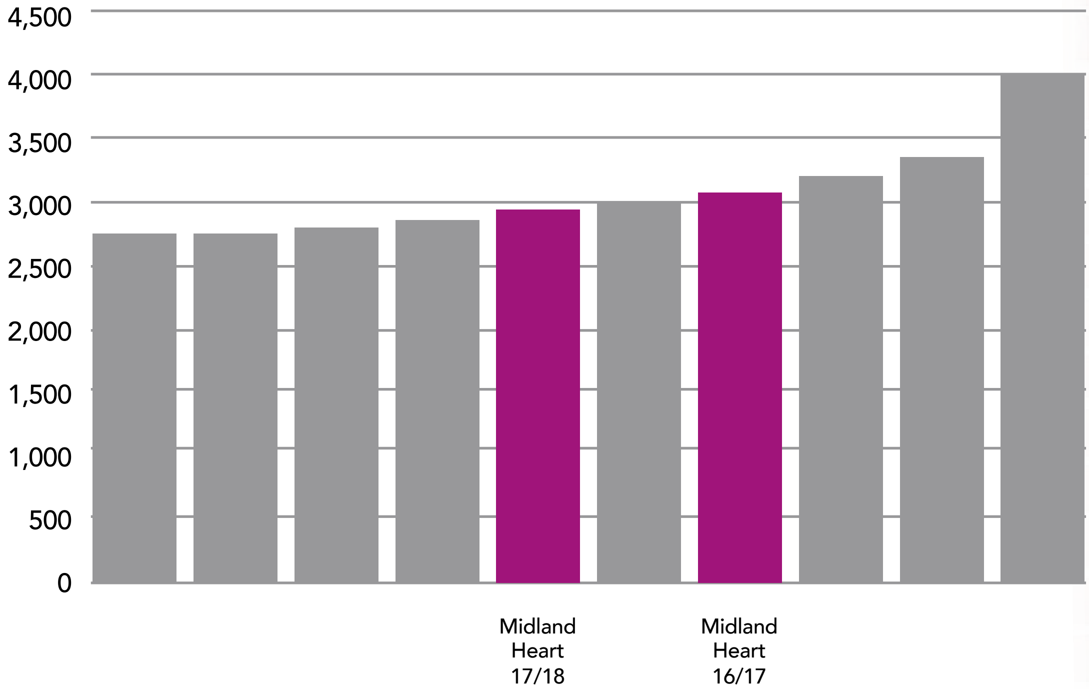
Value for money and performance

At a glance, our performance compared to others on headline social housing costs per unit is detailed in the chart below.

Headline social housing cost per unit



Performance of our stock

To ensure we make the most of our properties, we continually review the performance of our stock. Although we have seen improvements on our management and maintenance costs, we have prioritised c600 properties for disposal.

Our in-house Strategic Asset Management System (SAMS) is designed to aid decision making through assessing the financial performance of rented homes. SAMS analysis of property performance from a financial perspective and the output is a 30 year discounted cash flow of future income net of expenditure (present value or PV) for each property.This is achieved by projecting forward expected income and costs associated with each property over 30 years.

The analysis identified c600 units that have a negative or low PV and these were identified for disposal. Our current average PV for our 22,525 general needs properties is £39,381. Through disposing of these units the average PV will improve to £40,517.


57
59
FOR SALE
3

Value for money and performance

How do we compare to others?

Midland Heart continues to lead and develop a new performance improvement and benchmarking model for the sector with Vantage Business Solutions. A key aim is to analyse the performance of the largest c150 providers on an annual basis through publically available information, in particular from Financial Accounts.

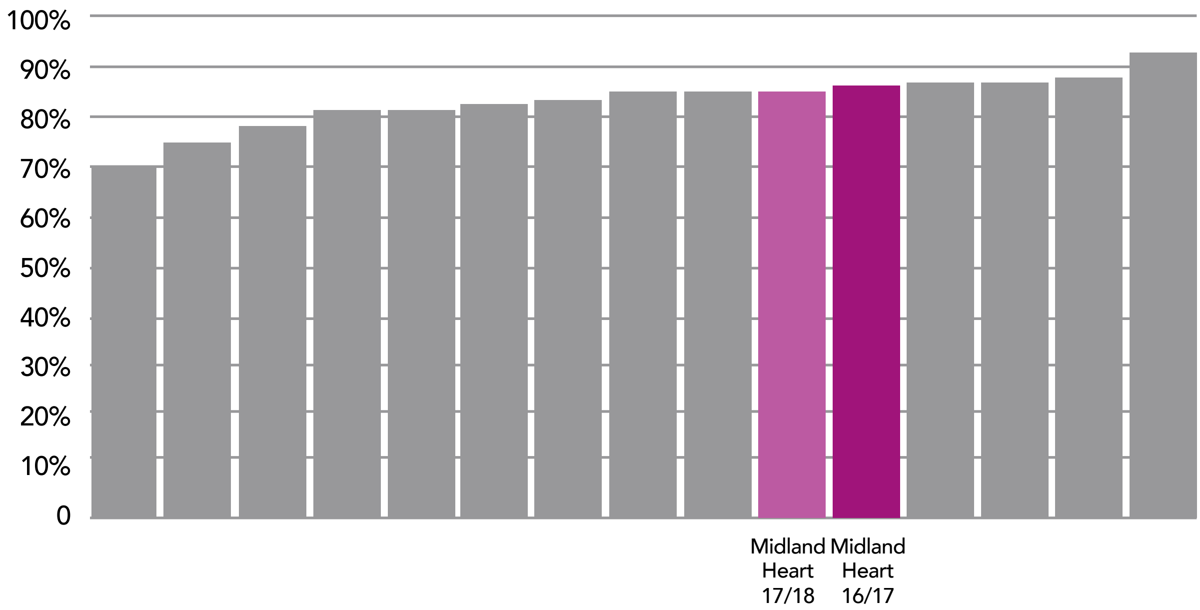
As in previous years, we continue to compare ourselves to a core number of housing and care providers. We have selected organisations in all geographies which represent some of the largest and most efficient registered providers as well as including those that largely have strong governance and viability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

Our benchmarking group consists of:

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

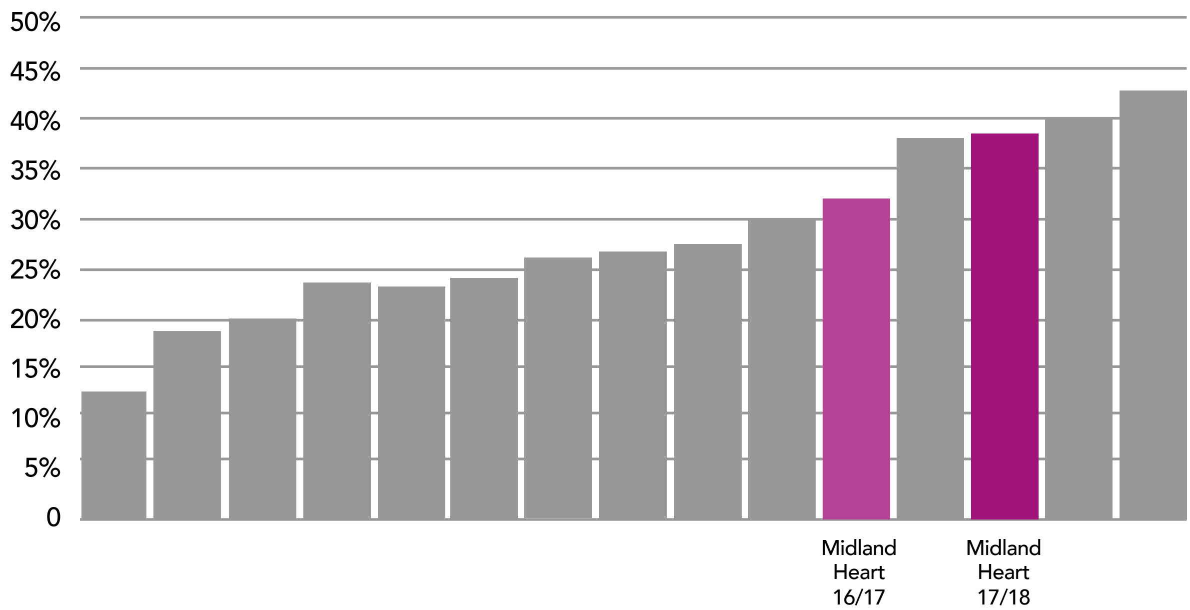
The results are detailed in the graphs that follow.

Overall customer satisfaction (%)



Based on our 2017/18 results, our ranking stays at 5 out of 14 (all things being equal).

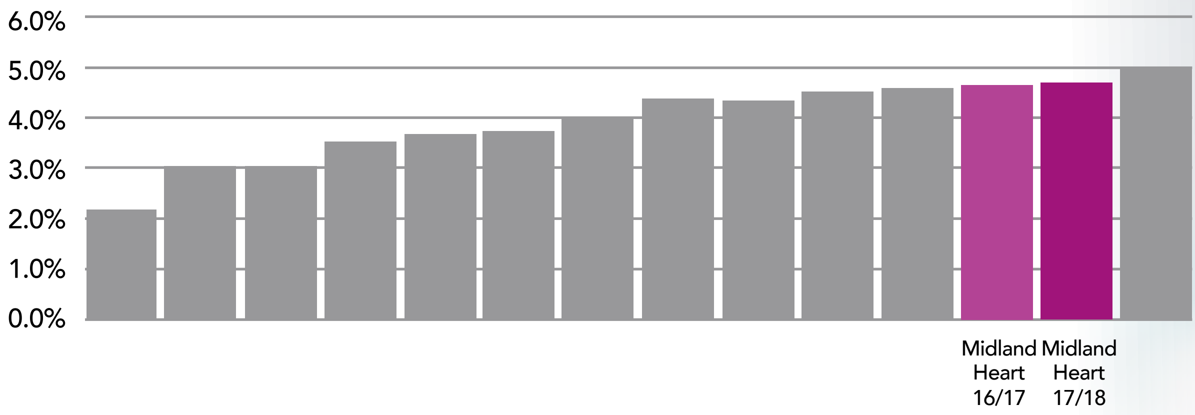
Group operating margin (%)



Our ranking moves us from 4 out of 14 in 2016/17 to 3rd in 2017/18 (all things being equal).

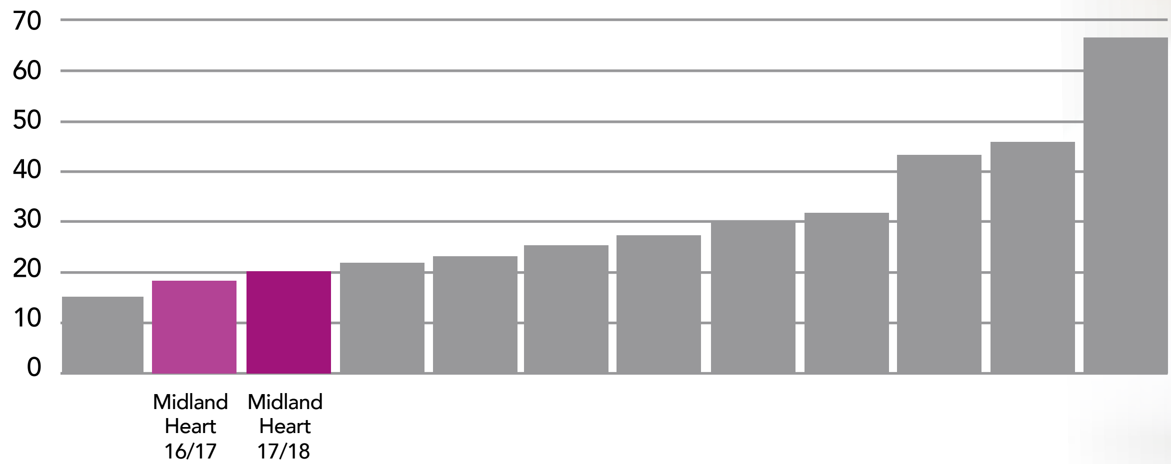
Value for money and performance

Published current tenant arrears (CTA) (%)



Our arrears increased from 4.53% in 2016/17 to 4.6% in 2017/18. Our current tenant arrears measure does not include notional balances i.e. expected housing benefit payments from local authorities.

Re-let days



Our performance on re-let times remains strong and we continue to be ranked second in the group.

Loan facilities

Midland Heart's policy is to develop long-term relationships with lending institutions and those investors that understand the business and are able to meet its funding and changing business requirements. The group's main financial covenants are in respect of gearing and interest cover.

These have been agreed with all the relationship banks and are monitored on a regular basis at our Finance and New Business Committee. All of these covenants have been formally reset and agreed with our banks, following the introduction of FRS 102. They achieve approximate neutrality against our previous equivalents in line with the frozen Generally Accepted Accounting Principles (GAAP) provisions in the loan agreements.

During the year, Midland Heart terminated its 8.25% HAF 2027 bond at a cost of £3m. This released valuable security from the over collateralised loan and will reduce our interest cost in future years.

In preparation for our growing development programme the group sold its £8m of retained bonds in the government guaranteed THFC Issue for 2.17%.

In addition, it also raised £25m of government guaranteed variable debt for 30 years from the EIB at a margin over LIBOR of 14.4 basis points. This was one of the cheapest debt arrangements of its kind.

Separately we built on our existing partnerships with Handelsbanken to secure an increase and extension of our facilities to fund our market rent subsidiary Cygnet. The additional resources will ensure the completion of an additional 95 market rent units at our Sock Island site in Leicester.

Midland Heart has a liquidity policy that states there should be sufficient cash and secured loan facilities to cover the higher of 18 months' net forecast cash requirements or net committed development spend.

As at 31 March 2018, Midland Heart had cash and group facilities exceeding £180m available in undrawn fully secured facilities.

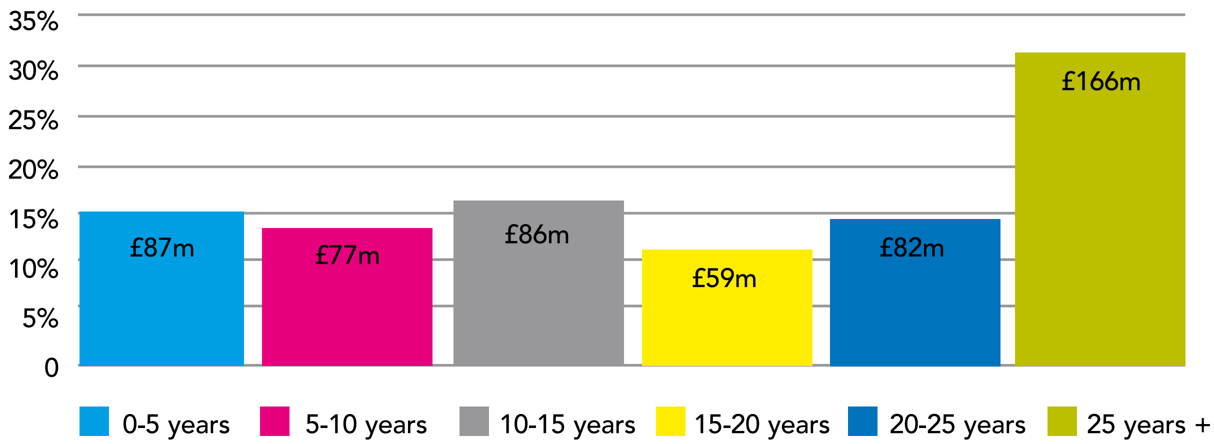
This is more than sufficient to fully fund our current development pipeline and to lay the foundations for an increase in our development activity.

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

	2018	2017
Within one year	32,119	36,140
Between one and two years	12,326	31,544
Between two and five years	42,522	41,682
After five years	469,901	455,418
	556,868	564,784

84.9% of the debt matures in over 5 years' time.

Debt repayment profile



Midland Heart has diversified its funder base, such that there is now an almost equal split in our portfolio between bank and capital market funding.

As at 31 March 2018, 53% of our debt came from the capital markets and 47% from banks and building societies.

Financial instruments

Midland Heart is financed by a combination of retained reserves, long-term loan facilities and grants from the government. The group has a formal treasury management policy that is approved by the Board.

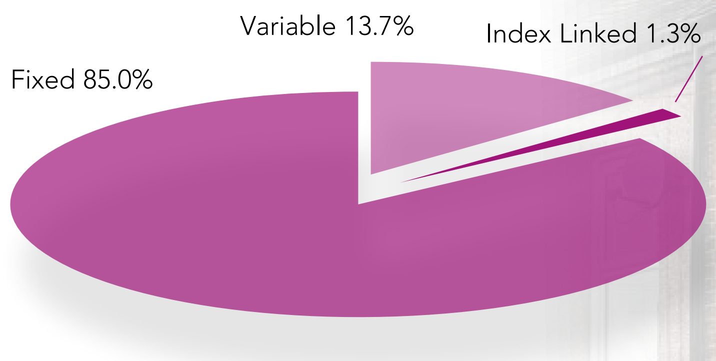
This policy seeks to address funding and liquidity risk and ensure covenant compliance; it states which types of financial instrument can be authorised for use, covering both borrowings and investments. In addition, the policy identifies the maximum value of financial instruments and with whom they may be agreed.

Midland Heart uses embedded instruments (such as fixed rate bank loans and bond issues) and standalone interest rate swaps to reduce the impact of increases in interest rates. They are only used to hedge existing variable rate debt liabilities and are prohibited from being used for speculative purposes. As a result of using swaps, Midland Heart sets aside property collateral and utilises credit thresholds to cover any net future anticipated payments due.

As of 31 March 2018, this amounted to just over £67m and all counterparties' exposure was fully covered by property collateral and credit thresholds.

Midland Heart monitors its exposure daily and stress tests it. Our treasury policy requires that we should be able to cover a 0.5% fall in interest rates. However, we currently have sufficient property collateral to cover a fall in interest rates to zero across the yield curve without providing any cash collateral.

As of 31 March 2018 our debt portfolio was 85% Fixed (2017: 90%); 13.7% Variable (2017: 8%) and Index Linked 1.3% (2016: 2%). Midland Heart does not have any non-sterling or exchange rate exposures.



As at 31 March 2018, Midland Heart held an A2 rating with stable outlook from Moody's Investors Services, maintaining our leading credit status as one of the highest in the sector.

Our people

Our people are critical to our business success and this year we have continued to ensure investment in their development and growth.

Our Leadership Academy has strengthened with 66 colleagues at strategic and operational leader and frontline manager level having completed the programme. It continues to contribute to improving our business performance, drive for efficiency and value for money, alongside supporting us to develop our culture and behaviours. In addition, 20 colleagues commenced the first of our Aspiring Managers' programme, which is a key part of our strategy to grow our own talent through developing managers and leaders of the future.

Staff engagement has improved; alongside a 15% increase in the number of colleagues completing the annual survey, we saw our highest engagement score for five years at 74.5%. This has been very positive given the levels of change in the business.

Our total rewards strategy was nationally recognised by the Chartered Institute of Personnel and Development (CIPD) in the best reward initiative category (winner), competing alongside entries from a range of sectors and global organisations. The CIPD described our work to date in this area and future plans as follows:

Clear alignment between business need and reward response.

The initiative was a holistic response in that it covered both financial and non-financial, including employee recognition and staff performance management and development.

We continue to review and revise our range of benefits so that colleagues can access meaningful options to suit their lifestyles. We consulted upon important changes to our pension arrangements to ensure all colleagues have access to equitable pension arrangements that are well above the statutory requirements.

Our Partnership Council has had another busy year, leading colleague consultation and feedback on a number of important issues including changes to our pension arrangements, the annual pay award and the shape of our 2018/19 corporate plan.

Attracting and retaining people with the right behaviours and organisational fit is just as important to us as the knowledge, skills and experience needed to do the job. Our resourcing strategy and approach has changed over the last 12 months to ensure we equally balance both of these important aspects, as well as working with business leaders to think more strategically about talent management and succession planning. As a result of these interventions we saw our lowest voluntary staff turnover results for two and a half years.

Gender pay

At Midland Heart, we have a diverse workforce, which reflects our customers and the communities we serve.

Being inclusive has always been at the very core of our organisation, as when we embrace our diversity, we attract and retain the right people to provide the best service to our customers.

Alongside other employers with over 250 employees, we published our gender pay gap results for 2017 and will continue to do so annually. Our results were better than the UK average, meaning we have a smaller gender pay gap than other organisations.

- Our median gender pay gap is 15.45%, the UK median gender pay gap is 18.4%
- Our mean gender pay gap is 19.2%, the UK mean gender pay gap is 17.4%
- Our median gender pay gap is 8.56% (excluding social care roles)
- Our mean gender pay gap is 15.1% (excluding social care roles)

Due to our robust policies and pay procedures, we pay men and women equally for doing equivalent jobs at Midland Heart. We have a gender pay gap for two reasons; there are more women working in social care positions with lower levels of pay and more men in leadership positions with higher levels of pay. These two issues in the gender balance of our workforce reflects the wider societal norms across the UK. Whilst we have made progress, we understand there is more we can do.

We have a clear plan to reduce our gender pay gap. This will not happen overnight but we are clear on what we need to achieve over the coming years to see our gender pay gap reduced.

Delivering social value

How we demonstrate social and environmental value

Our work to provide high quality housing and support services is underpinned by our continued commitment to deliver social value.

Midland Heart works with a number of local partners across our region to create opportunities or bring about mutually beneficial outcomes for both those organisations and our customers.

As part of their organisational Corporate Social Responsibility, partner organisations are often able to support us by donating their knowledge, time, energy and resources across a variety of activities, depending on their skillset, and put something back into their local community.

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

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

We:

- Had six apprentices successfully complete their apprenticeship with eight new apprentices started in post
- Enrolled 45 existing staff onto an apprenticeship qualification as part of upskilling our existing workforce; this includes the upskilling of operatives to multi skilled operatives
- Provided face-to-face money advice to 686 customers
- Obtained c£54k Discretionary Housing Payment (DHP) for tenants struggling to meet their rent shortfall due to financial hardship and the effects of welfare reforms
- Achieved £2.3m in income maximisation for customers
- Provided £1,730 worth of supermarket vouchers to customers in financial hardship
- Provided 19 customers with emergency fuel top ups
- Issued 67 food bank vouchers.

We also successfully completed our commitments for the Birmingham Business Charter for the third consecutive year in 2018.

Demonstrating environmental value

Midland Heart continues to hold a gold standard award and remains a member of Sustainable Homes Index for Tomorrow (SHIFT). We obtained gold status at our last submission which is valid until August 2018. This recognises the work and investment made into our customers' homes, helping them to conserve fuel, assist in reducing fuel poverty and sustaining affordable tenancies.

Risk management

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

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

They include:

Risk factor	Management actions to mitigate risk
Financial	
Adverse impact on financial plan of rent reduction until 2020 + CPI+1% post 2020 until 2025	• *Fit for the Future* change programme implemented which has delivered reduced costs • Surplus generated in 2017/18 assists in absorbing financial shocks. Multi-variate testing of Financial Plan done and reported to Board for required corrective actions to be identified and acted upon.
Impact on rents of universal credit (UC) and welfare reform	• Specific reporting to Board of number of customers affected by universal credit and welfare reform and the impact of this cohort on arrears, with specific provision made in budget for anticipated impact on income. Proactive action from Income team in contacting customers at risk of arrears and of Money Advice team in helping customers to improve their financial management • The Budget 2017 announcement that universal credit claimants will wait five weeks rather than six to receive their first payment from February 2018 and that housing benefits claimants could receive an extra two weeks while waiting for their universal credit payments to start. This goes some way to mitigate/address issues with the universal credit system, as does the March 2018 U-turn on the decision to stop the automatic entitlement of under 21 claimants to housing benefit.

Effect of new government funding proposals for supported accommodation (particularly short term accommodation such as hostels and refuges)	• Robust financial planning and budgetary control, including stress testing in place • Transparent and detailed process to set service charges • Current contracts in supported living do not run past March 2020 when changeover to new system is proposed. Rents and service charges in sheltered and extra care are in line with local markets • The future model to concentrate on customers closer to independent living. Services to be delivered from our higher quality/flagship buildings.
Mark to market (MTM) – ability to meet derivative calls	• Regular monitoring of MTM position and reporting to Finance and New Business Committee/Board. Strong liquidity, available loan facilities and security provide comprehensive mitigation against worsening MTM position.
Development of business affected by reduced finance availability	• Long-term financial planning done and discussed at Board, including management actions required to improve availability of finance • Cash flow monitored and reported to Finance and New Business Committee. Value for money strategy delivers progressively improved value for money to further improve surplus • Identification and divestment of low performing assets to improve average return on assets • Finance golden rules ensure strong fiscal discipline. Increase in surplus budgeted to help ride out future financial challenges.

Risk management

Risk factor	Management actions to mitigate risk
Development	
Inability to meet development targets	• Oversight of new build projects in Finance and New Business Committee. Ongoing review of viability of different tenures, in light of local housing allowance, universal credit and welfare reform • Monitoring of sales position and forward development strategy manages sales risk by Board having agreed maximum share of new build tenures represented by sale units. At the end of March 2018, completed on 304 homes – 426 planned for 2018/19 and a further 320 for 2019/20.
Health and Safety	
Causing serious harm or neglect to a customer, supplier or third party	• Operation of robust safeguarding and operational policies, procedures and practices by all staff (including agency) who come into contact with or have access to information on vulnerable and/or challenging customers. Induction and training of staff • Customers have individual risk assessed care/ support plans where required. Annual internal inspections, service improvement plans and external inspections • Ongoing regular programme of work and reporting to maintain compliance in relation to fire, gas, asbestos and legionella. Health and safety team work plan aimed at improving awareness of health and safety risk, via training, inspections and dissemination of risk alerts • Continue to closely monitor and act as appropriate on information arising from the Hackitt report on the Grenfell Tower incident.

Change	
Failure to embed internal change causes adverse movement in operational or financial performance	• Programme management controls and governance in place over change programmes via programme board and project steering groups. Formal benefits realisation evaluation approval in place. Measure staff engagement to identify any pockets of lower morale.

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

ERM enables an organisation 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 regard both to the functional risk registers, the risks arising from the group's corporate strategy and plan, and Homes England's views on sector risk, the group has identified its key corporate risks, which are actively managed and monitored by the group.

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

Midland Heart has no high rise tower blocks, but does have a number of medium and low rise blocks. All fire risk assessments for these blocks are up to date.

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

We will promptly respond to changes made to legislation and fire service guidance related to fire risk management.

Corporate governance report

Corporate governance

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

The Board has adopted the National Housing Federation (NHF) code of governance as the code against which it measures its governance practices to provide governance assurance to stakeholders.

The NHF's code contains a broad range of governance measures for the Board to address in relation to such matters as:

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

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

The Board of Directors

The Board has responsibility for the overall management and performance of the group, its overall strategy and planning, including strategic objectives, financial viability, internal controls and risk management. The Board has delegated day to day management of the group to the Executive Team and delegates specific responsibilities to a number of committees of the Board.

As of 31 March 2018, there were nine Board members, of whom seven are Non-Executives and two are Executive Officers, as shown at the beginning of this report. Recruitment to the Board takes place as appropriate 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 business of governing Midland Heart. Executive Directors attend all Board meetings and members are provided with appropriate papers and information in advance of all Board meetings.

On 31 March 2018, the Board had five Committees and a pensions sub-group and operates one property owning subsidiary, Cygnet Property Management plc.

Audit and Risk Committee

The Committee, chaired by Julian Healey, is responsible for six key areas, delegated to it by the Board which are:

- Monitoring the integrity and effectiveness of financial reporting and external audit
- Agreeing and monitoring the delivery of the group's internal audit programme
- Monitoring the effectiveness of the group's risk management and internal control systems
- Overseeing the effective implementation of the group's health and safety policy
- Oversight of the compliance with whistle blowing and fraud policies and procedures
- 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 or general data protection regulations (GDPR), resilience and review of the governance and control framework (Midland Heart's Standing Orders).

At the March 2018 meeting, the Committee considered the external auditor's (KPMG) audit plan and strategy for the consolidated financial statements of Midland Heart Limited and subsidiaries for the year ending 31 March 2018. The Committee heard the external auditor's assessment of the significant risks relevant to Midland Heart's operations, notably development assumptions and judgements, valuation of financial instruments, revenue recognition and management override of controls, as well as other areas of focus, and sought assurances as to how these would be addressed during the audit process.

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

The Committee approved the re-engagement of KPMG as external audit provider from 1 April 2018 for a period of three years in March 2018. The Committee sought and received assurance that a compliant procurement process had been followed.

The Committee received assurances on how the external auditor's objectivity and independence is safeguarded in the provision on non-audit services. The Committee were advised at their March 2018 meeting by the external auditor, that in 2016/17, the ratio of non-audit fees (£50k) to audit fees (£87k) was 0.6:1. The external auditor assured the Committee that they did not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to the external audit firm (KPMG) as a whole.

Finance and New Business Committee

The Committee, chaired by Chris West, is responsible for overseeing the finances of the group, agreeing treasury strategy and controls and approving new loan facilities and interest rate risk management arrangements up to a defined value. It is also responsible for appraising and approving new business opportunities with a capital value of up to £10m.

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

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

Corporate governance report

Remuneration and Executive Selection Committee

The Committee, chaired by Martin Tiplady, is responsible for establishing remuneration packages for Executive Directors, based on advice received from external remuneration consultants, assessing their performance and selecting new Executive Directors. It also reviews the group's pension arrangements and staff remuneration strategy and reviews succession planning arrangements for senior management.

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

- Changes to defined benefit and defined contribution pension schemes
- Appraisal of Chief Executive and Executive Team
- Annual pay review for Chief Executive and Executive Team
- Plans for new leadership academy
- Succession planning for business critical roles
- Preparation for gender pay reporting
- Plans for Chief Executive recruitment process.

Pensions sub-group

This sub-group has delegated authority from the Renumeration and Executive Selection Committee to consider and make recommendations to that Committee on the major pension issues and risks facing Midland Heart and in relation to future pensions strategy. It receives independent advice from a firm of pensions actuaries.

Nominations Committee

This Committee is chaired by John Edwards and was established in September 2017. It is responsible for succession planning for Midland Heart's Boards and Committees and for recommending new appointees to the Board. It is responsible for recommending what the remuneration should be for Non-Executive Directors and for the members of the Board and Committees. It also carries out the annual appraisal of the Chair and of all Boards and Committees within Midland Heart, as well as reporting on overall governance effectiveness.

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

- Approval of plans for Board, Committee and Chair appraisal
- Board and Committee succession planning
- Annual pay review for Board and Committees.

Operations Committee

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

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

It is chaired by Carole Mills.

Cygnet Property Management plc

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

It is chaired by Chris West.

Executive Team

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

Customer involvement

In line with our regulatory requirements, Midland Heart involves as many customers as possible in the co-regulation and improvement of our services with the aims of sustaining tenancies and ensuring services are accessible, deliver a high quality customer experience as well as representing value for money.

Our approach is to ensure that, where possible, there is fair and appropriate demographic and geographic representation of our customer groups encouraging diversity and equality. Engagement with our customers will be to scrutinise performance against the consumer standards within the regulatory framework and to act as a consultative mechanism to gain feedback on customer experience and service improvement opportunities.

The voice of the customer is facilitated predominantly through a combination of independent transactional survey reviews of all our core services and through the following customer groups:

- Oversight group – centred on customers overseeing delivery of key performance measures, adherence to policy and the implementation of agreed recommendations made following scrutiny and engagement activity, with a remit to commission appropriate scrutiny or task and finish activity
- Scrutiny panel - to undertake a commissioned deep-dive evaluation against aspects of the performance of Midland Heart services and identifying best practices and recommending service improvement proposals that can be taken forward
- Task and finish groups - to reality check policies and procedures and undertake mystery shopping.

Customers are afforded appropriate accredited and non-accredited training to enable them to effectively support active and effective engagement in assessing, amongst other things, our compliance with the regulatory consumer standards, the creation and review of key policies and in the procurement of major contracts.

Statement on internal control

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

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

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

Control System	Contribution
Governance arrangements	The group's governance arrangements as described in this report provide regular and significant oversight of and scrutiny over the business and its performance.
Terms of reference for the audit and risk committee	Provides for a detailed system of scrutiny and checking of the effectiveness of management processes using both internal and external sources of assurance.
Governance and control framework	Detailed scheme of delegation for all parts of the business, including financial delegation.
Whistleblowing/anti-fraud measures	Whistleblowing and anti-fraud policies are approved by the Board and their effectiveness monitored by Audit and Risk Committee.
Policy, strategy and procedure sign off and ongoing review process	Leads to strategies, policies and procedures which are designed to comply with the law and are and remain fit for purpose. This includes the governance and control framework which sets out the levels of financial delegation from the Board to officers.

Control System	Contribution
Performance information - non-financial (e.g. key performance indicators)	Regular reporting of operational performance information at Board, Committees, Executive Board and divisional levels allows for review of performance and prompt action to be taken where performance is below target levels. This includes monitoring of delivery against targets included in our *Fit for the Future* corporate plan.
Performance information – financial (e.g. management accounts and budget reports)	Regular reporting of financial performance information at Board, Committees, Executive Board and divisional levels together with a forecast of financial performance to year end. This allows any deviation from agreed budgets or failure to meet financial KPIs (or any future risk of this occurring) to be quickly identified, and any necessary remedial measures to be agreed. This includes monitoring of delivery against targets included in our *Fit for the Future* plans.
Treasury management	A group-wide treasury management function monitors compliance with our obligations to lenders (including in relation to performance against our financial and non-financial covenants) and external treasury risk factors, whilst also proactively taking steps to improve the efficiency - and reduce the risk - of our loan book. It also ensures we have sufficient cash to meet our short term commitments and access to loan facilities sufficient to finance our long term plans and commitments. It reports regularly to the Finance and New Business Committee, which in turn reports to the Board.
Appraisal of investment decisions	All housing new build investment decisions and other major commitments are subject to appraisal and approval by the relevant governance forum depending on the value of the transaction. All transactions with a capital value in excess of £5m are approved by a forum with a majority of Non-Executives.
Policy, strategy and procedure sign off and ongoing review process	Leads to strategies, policies and procedures which are designed to comply with the law as well as remaining fit for purpose. This includes the governance and control framework which sets out the levels of financial delegation from the Board to officers.

Statement on internal control (continued)

Control System	Contribution
Internal audit	Internal audits are carried out in an audit programme focusing on the areas of highest risk within the business. This is an outsourced service which in 2017/18 was delivered by our advisers, PwC. These are 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 performance in our customer services, and the outcome of these are reviewed at Executive Board and Audit and Risk Committee.
Regulatory standards compliance	An annual report provides evidence of compliance against the Homes and Community Agency (now Homes England) 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 Midland Heart is meeting its health and safety responsibilities. Reporting of health and safety key performance indicators and review of risks and controls occurs at each meeting of Executive Board, Audit and Risk Committee and the Board to determine if health and safety risks are being adequately managed.

Statement on internal control (continued)

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

- The internal auditors who raised no material issues pervasive to the system of internal controls in their 2017/18 report
- The external auditors who gave an unqualified opinion on the 2017/18 financial statements
- The fact that Midland Heart's financial controls have shown themselves to be effective, a view supported by Midland Heart's financial performance in 2017/18 which delivered a greater than budgeted surplus
- A group-wide risk management function which seeks to proactively manage risk so as to avoid any serious damage or impact to the group, its customers or its assets. This includes a formal requirement to report on risk and how this will be mitigated in relation to new business and major development initiatives
- The ongoing monitoring and scrutiny of Midland Heart's assurance framework by both the Executive Team and the Audit and Risk Committee.

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

- Internal audit
- External audit
- Care Quality Commission (CQC) annual inspection programme
- Supporting people inspections by local authorities
- Homes and Communities Agency (now Homes England) 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,
- Ad hoc audit reviews
- Whistleblowing reports
- Homes and Communities Agency (now Homes England) 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.

On behalf of the Board, the Audit and Risk Committee has reviewed and obtained advice from the internal auditors on the effectiveness of the system of internal control for the year ended 31 March 2018. No significant weaknesses were found in the internal controls as at the date of signing that resulted in material losses, contingencies or uncertainties that require disclosure in the financial statements or in the auditors' report on the financial statements.

Homes and Communities Agency regulatory standards compliance

Registered providers are required by the Homes and Communities Agency (HCA - now Homes England as of 1 January 2018) to assess their compliance with the HCA's governance and financial viability standard. The Board has considered Midland Heart's compliance with such standards and in line with the requirements of the HCA hereby certifies that Midland Heart complies with such standards.

During the year, an in-depth assessment (IDA) was carried out on Midland Heart by the HCA. This involved desktop analysis of key documents, Board observation and meetings with key Executives and Non-Executives. This resulted in a positive outcome with the regulator confirming Midland Heart's regulatory judgement as G1/V1, the highest possible rating.

Voluntary Right to Buy agreement

The Board previously approved a resolution to enter into a voluntary agreement with the government to implement the Right to Buy (RTB) policy. The Board will use all proceeds to fund replacement properties. It is not known when RTB will be fully rolled out, though it is anticipated that the Midlands RTB pilot will commence during 2018/19.

Mergers and partnerships

The Board decided in 2016 to adopt the National Housing Federation's merger code. This is a voluntary code which sets out ten core principles of conduct which act as a framework for boards to follow in relation to the various stages involved in evaluating and making decisions on opportunities for mergers, group structures and partnerships. The Board believes that this will benefit our customers and stakeholders in that it will:

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

The following set of key principles will act as a guide for Midland Heart's approach towards mergers and partnerships:

- Our express wish is to grow the organisation and provide greater capacity to do more
- A merger or partnership with a fellow housing association is the principal means by which this corporate objective can be met
- We see ourselves as being a consolidator in the market place, rather than being consolidated
- We would however ensure that any merger or partnership activity is in the best interest of our current and future beneficiaries
- We will not enter into any merger or partnership activity which would represent poor value for money for Midland Heart
- We cherish our unitary structure and believe it to be the most efficient means to deliver our services. Whilst merger or partnership activity may alter our structure in the short term, we would return to a unitary structure over time
- We believe that merger and partnership activity is most likely to arise with fellow housing associations within the greater Midlands area.

Statement on internal control (continued)

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

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

Directors' report

The Board present their report, together with the audited financial statements for the year ended 31 March 2018.

Principal activities

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

Legal entity structure

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

Cygnet Property Management PLC (Market Rent Subsidiary) Operating Business
- Registered at Companies House
- Co Reg No. 02631685
- Non-Charitable
- Owns Market Rented property
- Wholly owned by Midland Heart

Midland Heart Development LTD (VAT mitigation Company)
- Registered at Companies House
- Co Reg No. 05743218
- Non-Charitable
- Wholly owned by Midland Heart

Midland Heart LTD (Main Operating Business of Group)
- Owns all the property assets within the Group (except Cygnet properties)
- Has charitable status
- Registered Society (No. 30069R)
- Registered with Homes and Community Agency L4466

Midland Heart Capital PLC (Capital Markets Vehicle)
- Non-Operating Subsidiary of PFRG Borrower under pre-2006 Merger Loan Agreements

Prime Focus Regeneration Group LTD
- Non-Operating Subsidiary
- Owns Midland Heart Headquarters Building

Prime Focus Finance LTD (Funding Vehicle)
- Non-Operating Subsidiary of PFRG Borrowings: under pre-2006 Merger Loan Agreement

Business review

A review of the financial statements of Midland Heart for the year ended 31 March 2018 can be found from page 72.

Income and surplus for the year

The group's activities generated turnover for the period of £193.5m (2017 - £206m) on which a surplus of £47.8m (2017 - £39.8m) was achieved. On 31 March 2018, revenue reserves totalled £300m (2017 - £252m).

Legal proceedings

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

Financial instruments

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

Equality and diversity

For Midland Heart, equality and diversity has always been at the very core of our work in meeting the needs of the diverse communities which we serve. This applies to the quality of homes we develop, how we recruit and manage people, and crucially, the services we provide.

Our diversity strategy aims to mainstream diversity, so that it is embedded across all areas of Midland Heart. There are three work streams arising from the strategy which are as follows:

- Developing diversity
- Valuing diversity
- Celebrating diversity.

The Board takes the view that its composition should reflect the region within which we operate. When recruiting to our Board we actively reach out to those groups under-represented (especially women and black minority ethnicity (BME) candidates) so as to encourage applications from these groups, but we encourage applications from persons representing all strands of diversity. Our Board recruitment practices enable us to reach out to under-represented groups and our approach meets the standards required by the Parker and Davies reviews.

Modern Slavery Act

Midland Heart is 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. Midland Heart's full statement on modern slavery and human trafficking can be found on our website www.midlandheart.org.uk.

Health and safety

Midland Heart is committed to ensuring and maintaining the health, safety and welfare of its staff, customers, contractors, partners and members of the public who may be affected by its activities. This is achieved through continuous application and monitoring of our health and safety policy and management system, by training and raising awareness of health and safety risk among our staff and customers, and by conducting audits, inspections and investigations. We adopt a practical approach to the way we manage health and safety performance whilst supporting our customers to live independent lives within our communities, with the aim of promoting safer environments in everything that we do. Health and safety risks are identified and regularly reviewed and, where required, staff are supported by technical specialists. For example, fire risk assessments are completed by fire risk assessors, who also ensure that any work identified in such assessments is carried out in a timely way and is prioritised for action on the basis of risk.

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

During the year, we invested in a new health and safety system to simplify the capturing and reporting of health and safety accidents and incidents. This enables better monitoring of follow-on actions being taken in response to such events.

Investment for the future

Midland Heart is committed to investing in our properties and the communities in which we serve. During the year we invested £15.5m (2017: £17.1m) on planned improvements and major repairs to our properties. Our asset management strategy also provides for the disposal of a number of properties which sit outside of our core operational area. Proceeds from these properties are used to fund development of properties within our core area.

Policy on payment to suppliers

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

Environmental matters

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

Business review (continued)

Employee involvement and consultation

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

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

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

Auditors

KPMG LLP are auditors to the group. They have indicated their willingness to continue in office.

Their resolutions for their re-appointment and to authorise the Directors to determine their remuneration will be proposed at the AGM on 14 September 2018. The auditors' fees for audit and non-audit work are disclosed on page 97.

Boards' responsibilities

The statement of Directors' responsibilities in relation to the financial statements is set out on page 71.

Going concern

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

We previously reported that the Government's announcements in July 2015 would impact on the future income of the group and may have led to a breach in borrowing covenants. Since then, we have delivered an efficiency programme which has realised savings which have fully mitigated this risk.

Midland Heart has a strong capital position with high levels of favourable financing facilities and of cash holdings.

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

Statement of compliance

The Board confirm that this strategic review has been prepared in accordance with the principles set out in the Housing SORP2014 statement of recommended practice for registered social housing providers.

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

The Board are responsible for preparing the Board report and the financial statements in accordance with applicable law and regulations.

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

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

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

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable and prudent
- State whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements
- Assess the group and the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless it either intends to liquidate the group or 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. 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.

Business review (continued)

Statement as to disclosure of information to auditors

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

By Order of the Board

Andrew Foster,
Company Secretary
27 July 2018

John Edwards CBE
Chairman
27 July 2018


FOYER

INDEPENDENT AUDITOR'S REPORT TO MIDLAND HEART LIMITED

Opinion

We have audited the financial statements of Midland Heart Limited ("the association") for the year ended 31 March 2018 which comprise the Group Statement of Comprehensive Income, Association Statement of Comprehensive Income, Group Statement of Financial Position, Associate Statement of Financial Position, Group Cash Flow Statement, Group and Association Statement of Movement in Reserves and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view, in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, of the state of affairs of the group and the association as at 31 March 2018 and of its income and expenditure for the year then ended;
- comply with the requirements of the Co-operative and Community Benefit Societies Act 2014; and
- have been properly prepared in accordance with the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

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

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other information

The association's Board is responsible for the other information, which comprises the Strategic Report including Value for Money, Risk Management and Corporate Governance report and Directors' Report (including Statement on 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 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 more fully explained in their statement set out on page 56, the association's Board is responsible for the preparation of financial statements which give a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to liquidate the group or the association or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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

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

Group Statement of Comprehensive Income

	Note	2018 £'000	2017 £'000
Turnover	3	193,450	205,978
Operating expenditure	3	(124,884)	(140,194)
Surplus on disposal of property, plant and equipment	6	5,985	2,662
Surplus on revaluation of investment properties	11	1,213	1,170
Operating Surplus	**3**	**75,764**	**69,616**
Interest receivable	7	859	648
Interest and financing costs	8, 25	(28,747)	(30,380)
Surplus before Tax	**9**	**47,876**	**39,884**
Taxation	10	(93)	(100)
Surplus for the year		**47,783**	**39,784**
Other comprehensive income			
Movement in fair value of cash flow hedged financial instruments	24	9,730	(2,891)
Total comprehensive income for the year		**57,513**	**36,893**

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

These financial statements were approved by the Board of Directors on 27 July 2018 and signed on behalf of:

Member	Member	Member
John Edwards	Julian Healey	Glenn Harris

Association Statement of Comprehensive Income

	Note	2018 £'000	2017 £'000
Turnover	3	192,759	204,985
Operating expenditure	3	(124,798)	(139,831)
Surplus on disposal of property, plant and equipment	6	5,985	2,666
Operating Surplus	**3**	**73,946**	**67,820**
Interest receivable	7	859	648
Interest and financing costs	8, 25	(28,583)	(30,251)
Gift Aid receivable		83	19
Surplus before Tax	**9**	**46,305**	**38,236**
Taxation	10	(45)	-
Surplus for the year		**46,260**	**38,236**
Other comprehensive income			
Movement in fair value of cash flow hedged financial instruments	24	9,730	(2,891)
Total comprehensive income for the year		**55,990**	**35,345**

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

These financial statements were approved by the Board of Directors on 27 July 2018 and signed on its behalf by:

Member	Member	Member
John Edwards	Julian Healey	Glenn Harris

Group Statement of Financial Position

	Note	2018 £'000	2017 £'000
Fixed Assets			
Tangible Assets:			
Housing properties	12	1,492,386	1,468,258
Investment properties	11	18,400	14,463
Other fixed assets	13	29,427	30,101
Fixed Asset investments	14	2,834	3,017
Total Fixed Assets		**1,543,047**	**1,515,839**
Current Assets			
Debtors	16	11,142	13,012
Investments	17	-	595
Properties for sale and work in progress	18	3,428	2,862
Cash and cash equivalents	19	79,541	67,939
		94,111	**84,408**
Creditors: Amounts falling due within one year	20	(74,683)	(74,739)
Net Current Assets		**19,428**	**9,669**
Total Assets less Current Liabilities		**1,562,475**	**1,525,508**
Creditors: Amounts falling due after more than one year	21	(1,329,563)	(1,350,109)
Total Net Assets		**232,912**	**175,399**
Reserves			
Revenue reserves		299,579	251,796
Cash flow hedge reserve		(66,667)	(76,397)
Total Reserves		**232,912**	**175,399**

These financial statements were approved by the Board of Directors Member on 27 July 2018 and signed on its behalf by:

Member	Member	Member
John Edwards	Julian Healey	Glenn Harris

Association Statement of Financial Position

	Note	2018 £'000	2017 £'000
Fixed Assets			
Tangible Assets:			
Housing properties	12	1,496,197	1,472,007
Other fixed assets	13	21,068	21,568
Investments	14	2,834	3,017
Investments in subsidiaries	15	6,067	6,067
Total Fixed Assets		**1,526,166**	**1,502,659**
Current Assets			
Debtors	16	11,620	13,080
Investments	17	-	595
Stock and Work in Progress	18	3,428	2,862
Cash and cash equivalents	19	78,625	66,978
		93,673	**83,515**
Creditors: Amounts falling due within one year	20	(81,458)	(74,696)
Net Current Assets		**12,215**	**8,819**
Total Assets less Current Liabilities		**1,538,381**	**1,511,478**
Creditors: Amounts falling due after more than one year	21	(1,311,429)	(1,340,516)
Total Net Assets		**226,952**	**170,962**
Reserves			
Revenue reserves		293,619	247,359
Cash flow hedge reserve		(66,667)	(76,397)
Total Reserves		**226,952**	**170,962**

These financial statements were approved by the Board of Directors on 27 July 2018 and signed on its behalf by:

Member	Member	Member
John Edwards	Julian Healey	Glenn Harris

Group Cash Flow Statement

		2018 £'000	2017 £'000
Cash flows from Operating Activities			
Operating Surplus		**75,764**	**69,616**
Adjustments for:			
Depreciation & Impairment charges		24,436	24,048
Amortisation of grant		(8,052)	(7,576)
Surplus on disposal of property, plant and equipment		(5,985)	(2,662)
Surplus on revaluation of investment properties		(1,213)	(1,170)
Interest received		859	648
Interest and financing costs (including capitalised interest)		(30,138)	(30,016)
(Increase)/Decrease in debtors		(1,166)	1,798
(Increase)/Decrease in stock		(906)	308
Decrease in creditors		(9,047)	(9,442)
Tax paid		(142)	-
Net Cash flow from Operating Activities		**(31,354)**	**(24,064)**
Cash Flows from Investing Activities			
Acquisition and construction of housing properties		(60,289)	(43,386)
Social Housing Grant received		3,779	12,487
Sales of housing properties		24,000	15,749
Net decrease in investments and loans to other associations		183	622
Purchase of other tangible fixed assets		(3,597)	(5,048)
Sales of other tangible fixed assets		1,068	630
Decrease in short term deposits		595	37
Net Cash flow from Investing Activities		**(34,261)**	**(18,909)**
Cash Flows from Financing Activities			
Loan advances received		36,654	18,180
Loan principal repayments		(35,201)	(15,512)
Net Cash flow from Financing Activities		**1,453**	**2,668**
Net Increase/(Decrease) in cash & cash equivalents	**32**	**11,602**	**29,311**
Cash and cash equivalents at the start of the year		67,939	38,628
Cash and cash equivalents at the end of the year		**79,541**	**67,939**

Statement of Movements in Reserves

	Income and Expenditure Reserves £'000	Cash flow hedge reserve £'000	Total Reserves £'000
Group			
At 1st April 2016	212,012	(73,506)	138,506
Surplus for the year	39,784	-	39,784
Movement in cash flow hedge	-	(2,891)	(2,891)
At 31 March 2017	251,796	(76,397)	175,399
Surplus for the year	47,783	-	47,783
Movement in cash flow hedge	-	9,730	9,730
At 31 March 2018	**299,579**	**(66,667)**	**232,912**

	Income and Expenditure Reserves £'000	Cash flow hedge reserve £'000	Total Reserves £'000
Association			
At 1st April 2016	209,123	(73,506)	135,617
Surplus for the year	38,236	-	38,236
Movement in cash flow hedge	-	(2,891)	(2,891)
At 31 March 2017	247,359	(76,397)	170,962
Surplus for the year	46,260	-	46,260
Movement in cash flow hedge	-	9,730	9,730
At 31 March 2018	**293,619**	**(66,667)**	**226,952**

Notes to the Financial Statements

for the year ended 31 March 2018

1 Legal Status

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

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

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

2 Accounting policies

2a Basis of Accounting

The financial statements of the Group (Midland Heart Ltd and its group entities) are prepared in accordance with Financial Reporting Standard 102 – The applicable financial reporting standard in the UK and Republic of Ireland (FRS102) and the Statement of Recommended Practice: Accounting by Registered Social Housing Providers Update 2014, and comply with the Accounting Direction for Private Registered Providers of Social Housing 2015, the Co-operative and Community Benefit Societies Act 2014 and the Housing Regeneration Act 2008.

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

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

Judgements and key sources of estimation uncertainty

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

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

Current Assets: The estimated net realisable value of properties developed for outright sale is reviewed with regard to market conditions to ensure this is higher than its carrying value. The recoverability of rental and trade debtors is assessed based on the likelihood of collection, on a portfolio basis for rental debtors and an individual basis for sales debtors.

Revaluation of investment properties: The Group carries its investment property at fair value, with changes in fair value being recognised in profit and loss. The Group engaged independent valuation specialists to determine fair value at 31 March 2018. The valuer used a valuation technique based on a discounted cash flow model. The determined fair value of the investment property is most sensitive to the estimated yield as well as the long term vacancy rate. The key assumptions used to determine the fair value of investment property are further explained in note 11.

Pension and other post-employment benefits: The cost of defined benefit pension plans and other post employment benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Further details are given in note 25.

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

2b Basis of consolidation

The consolidated financial statements incorporate the results of Midland Heart Limited and all of its subsidiary undertakings as at 31 March 2018 using the acquisition or merger method of accounting, as required. Where the acquisition method is used, the results of subsidiary undertakings are included from the date of acquisition, being the date the Group obtains control.

2c Measurement convention

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

2d Going concern

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

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

2e Tangible fixed assets

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

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

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

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

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

2f Housing Properties

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

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

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

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

Depreciation

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

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

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

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

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

Non-component works to existing properties

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

Interest capitalised

Interest on borrowings is capitalised to housing properties during the course of construction up to the date of completion of each scheme. The interest capitalised is either on borrowings specifically taken to finance a scheme or on net borrowings to the extent that they are deemed to be financing a scheme. This treatment applies irrespective of the original purpose for which the loan was raised. For the period ending 31st March 2018, interest has been capitalised at an average rate of 4.5% (2017:5.0%) that reflects the weighted average effective interest rate on the Group's borrowings required to finance housing property developments.

2g Other tangible fixed assets

Other tangible assets include those assets with an individual value in excess of £500.
Depreciation is provided evenly on the cost of other tangible fixed assets to write them down to their estimated residual values over their expected useful lives. No depreciation is provided on freehold land. The principal annual rates used for other assets are:

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

2h Investments

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

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

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

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

2i Social Housing and other government grants

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

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

SHG must be recycled by the Group under certain conditions, if a property is sold, or if another relevant event takes place.

Notes to the Financial Statements (continued) for the year ended 31 March 2018

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

Non-monetary government grant

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

Recycling of Capital Grant

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

Disposal Proceeds Fund (DPF)

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

Properties developed for outright sale

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

2j Non-Government grants

Grants received from non-government sources are recognised under the performance model. If there are no specific performance requirements the grants are recognised when received or receivable. Where grant is received with specific performance requirements it is recognised as a liability until the conditions are met and then it is recognised as Turnover.

2k Supported Housing Managed by Agencies

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

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

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

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

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

2m Cash and cash equivalents

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

2n Business combinations

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

2o 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.

2p Impairment

Financial assets (including trade and other debtors)

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

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

Non-financial assets

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

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

2q Employee benefits

The Group participates in the Social Housing Pension Scheme, a multi employer defined benefit final salary scheme managed by The Pensions Trust.

Contributions are based on pensions costs across the various participating associations taken as a whole. The assets of the scheme are invested and managed separately from those of the Group in an independently administered fund.

It is not possible for the company to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore it accounts for the scheme as a defined contribution scheme (a defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts). A full actuarial valuation for the scheme which was carried out with an effective date of 30 September 2014 showed a substantial deficit; to eliminate this funding shortfall, the trustees and the participating employers have agreed that additional contributions will be paid, in combination from all employers. Further details are given in Note 25 to the financial statements.

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

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

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

Termination benefits

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

2r Provisions

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

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

2s Turnover

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

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

2t 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.

2u Expenses

Cost of sales

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

Operating leases

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

Finance lease

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

Repairs and Maintenance

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

Interest receivable and Interest payable

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities, loan fees, and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of Housing Properties that take a substantial time to be prepared for use are capitalised up to the date of practical completion of

Notes to the Financial Statements (continued) for the year ended 31 March 2018

the scheme based on the average rate paid on borrowings.

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

Interest income and interest payable are recognised in profit or loss as they accrue. Dividend income is recognised in the profit and loss account on the date the company's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

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 profits. 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.

2v Related Party Transactions

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

2w Financial Instruments

Midland Heart accounts for its financial instruments under FRS 102.

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

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

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

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

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

Hedging

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

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

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

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

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

Impairment

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

The following financial instruments are assessed individually for impairment:
(a) All equity instruments regardless of significance; and
(b) Other financial assets that are individually significant.

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

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

2018	**Turnover £'000**	**Operating Costs £'000**	**Surplus on disposals £'000**	**Surplus on investment properties £'000**	**Operating Surplus/ (Deficit) £'000**
Social Housing Lettings	**172,361**	**104,201**	**-**	**-**	**68,160**
Other Social Housing Activities:					
Community regeneration activities	62	104	-	-	(42)
Development services and costs not capitalised	-	193	-	-	(193)
Surplus from 1st tranche shared ownership sales	5,959	4,913	-	-	1,046
Surplus on properties developed for outright sale	1,732	1,499	-	-	233
Other income	1,074	673	-	-	401
Total	**8,827**	**7,382**			**1,445**
Activities other than Social Housing Lettings:					
Charges for support services (SP income)	10,593	12,573	-	-	(1,980)
Market rent lettings	984	400	-	-	584
Student lettings	255	66	-	-	189
Nursing Homes	24	8	-	-	16
Commercial	406	254	-	-	152
NHS	-	-	-	-	-
Surplus on disposal of property, plant and equipment	-	-	5,985	-	5,985
Surplus / deficit on revaluation of investment properties	-	-	-	1,213	1,213
Other	-	-	-	-	-
Total	**12,262**	**13,301**	**5,985**	**1,213**	**6,159**
Total from Social and Non-Housing Activities	**193,450**	**124,884**	**5,985**	**1,213**	**75,764**

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

3b. Group Turnover, Operating Costs and Operating Surplus

2018	General Needs Housing £'000	Supported Housing £'000	Residential Care Homes £'000	Shared Ownership Accommodation £'000	Total £'000
Rent receivable net of identifiable service charges, net of voids	110,151	21,571	5	4,841	136,568
Service charge income	5,827	15,608	3	1,197	22,635
Amortised Government Grants (Accrual model)	5,965	1,812	31	244	8,052
Net Rental Income	**121,943**	**38,991**	**39**	**6,282**	**167,255**
Other income	627	3,540	372	567	5,106
Turnover from Social Housing Lettings	**122,570**	**42,531**	**411**	**6,849**	**172,361**
Management	14,213	12,564	37	1,277	28,091
Service charge costs	7,115	15,258	113	682	23,168
Routine maintenance	14,811	5,738	58	136	20,743
Planned maintenance	4,305	1,254	56	7	5,622
Major repairs expenditure	1,716	1,714	31	7	3,468
Depreciation of housing properties	18,095	2,775	48	493	21,411
Bad debts	1,611	90	(15)	(4)	1,682
Holiday pay accrual	3	12	-	1	16
Operating Costs on Social Housing Lettings	**61,869**	**39,405**	**328**	**2,599**	**104,201**
Operating Surplus on Social Housing Lettings	**60,701**	**3,126**	**83**	**4,250**	**68,160**
Void losses	(825)	(1,508)	-	14	(2,319)

Notes to the Financial Statements (continued)

Particulars of turnover and operating expenditure from Social Housing Lettings for the year ended 31 March 2018

2017	General Needs Housing £'000	Supported Housing £'000	Residential Care Homes £'000	Shared Ownership Accommodation £'000	Total £'000
Rent receivable net of identifiable service charges, net of voids	110,964	21,935	39	4,619	137,557
Service charge income	5,814	15,767	4	1,084	22,669
Amortised Government Grants (Accrual model)	6,112	1,208	2	254	7,576
Net Rental Income	**122,890**	**38,910**	**45**	**5,957**	**167,802**
Other income	788	6,221	3	568	7,580
Turnover from Social Housing Lettings	**123,678**	**45,131**	**48**	**6,525**	**175,382**
Management	14,209	14,936	220	1,277	30,642
Service charge costs	6,471	15,292	249	1,002	23,014
Routine maintenance	15,928	4,799	63	133	20,923
Planned maintenance	4,834	878	54	5	5,771
Major repairs expenditure	2,328	1,733	27	14	4,102
Depreciation of housing properties	18,336	2,543	13	475	21,367
Bad debts	1,642	663	(11)	10	2,304
Holiday pay accrual	(20)	(78)	(2)	(3)	(103)
Operating Costs on Social Housing Lettings	**63,728**	**40,766**	**613**	**2,913**	**108,020**
Operating Surplus on Social Housing Lettings	**59,950**	**4,365**	**(565)**	**3,612**	**67,362**
Void losses	(822)	(1,425)	(209)	(80)	(2,536)

3c. Association Turnover, Operating Costs and Operating Surplus

2018	Turnover £'000	Operating Costs £'000	Surplus on disposals £'000	Operating Surplus/ (Deficit) £'000
Social Housing Lettings	**172,361**	**104,201**	**-**	**68,160**
Other Social Housing Activities:				
Community regeneration activities	62	104	-	(42)
Development services and costs not capitalised	377	507	-	(130)
Surplus from 1st tranche shared ownership sales	5,959	4,913	-	1,046
Surplus on properties developed for outright sale	1,732	1,499	-	233
Other income	990	673	-	317
Total	**9,120**	**7,696**	**-**	**1,424**
Activities other than Social Housing Lettings:				
Charges for Support Services	10,593	12,573	-	(1,980)
Student lettings	255	66	-	189
Nursing Homes	24	8	-	16
Commercial	406	254	-	152
NHS	-	-	-	-
Surplus on disposal of property plant and equipment	-	-	5,985	5,985
Other	-	-	-	-
Total	**11,278**	**12,901**	**5,985**	**4,362**
Total from Social and Non-Housing Activities	**192,759**	**124,798**	**5,985**	**73,946**

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

3d. Association Turnover, Operating Costs and Operating Surplus

2018	General Needs Housing £'000	Supported Housing £'000	Residential Care Homes £'000	Shared Ownership Accommodation £'000	Total £'000
Rent receivable net of identifiable service charges, net of voids	110,151	21,571	5	4,841	136,568
Service charge income	5,827	15,608	3	1,197	22,635
Amortised Government Grants (Accrual model)	5,965	1,812	31	244	8,052
Net Rental Income	**121,943**	**38,991**	**39**	**6,282**	**167,255**
Other income	627	3,540	372	567	5,106
Turnover from Social Housing Lettings	**122,570**	**42,531**	**411**	**6,849**	**172,361**
Management	14,213	12,564	37	1,277	28,091
Service charge costs	7,115	15,258	113	682	23,168
Routine maintenance	14,811	5,738	58	136	20,743
Planned maintenance	4,305	1,254	56	7	5,622
Major repairs expenditure	1,716	1,714	31	7	3,468
Depreciation of housing properties	18,095	2,775	48	493	21,411
Bad debts	1,611	90	(15)	(4)	1,682
Holiday pay accrual	3	12	-	1	16
Operating Costs on Social Housing Lettings	**61,869**	**39,405**	**328**	**2,599**	**104,201**
Operating Surplus on Social Housing Lettings	**60,701**	**3,126**	**83**	**4,250**	**68,160**
Void losses	(825)	(1,508)	-	14	(2,319)

Particulars of turnover and operating expenditure from Social Housing Lettings for the year ended 31 March 2018

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Rent receivable net of identifiable service charges, net of voids	110,964	21,935	39	4,619	137,557
Service charge income	5,814	15,767	4	1,084	22,669
Amortised Government Grants (Accrual model)	6,112	1,208	2	254	7,576
Net Rental Income	**122,890**	**38,910**	**45**	**5,957**	**167,802**
Other income	788	6,221	3	568	7,580
Turnover from Social Housing Lettings	**123,678**	**45,131**	**48**	**6,525**	**175,382**
Management	14,209	14,936	220	1,277	30,642
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Operating Costs on Social Housing Lettings	**63,728**	**40,766**	**613**	**2,913**	**108,020**
Operating Surplus on Social Housing Lettings	**59,950**	**4,365**	**(565)**	**3,612**	**67,362**
Void losses	(822)	(1,425)	(209)	(80)	(2,536)

Notes to the Financial Statements (continued)

4. Directors' Emoluments

for the year ended 31 March 2018

	2018 £'000	2017 £'000
Aggregate Emoluments payable to Directors (including pension contributions and benefits in kind)	1,157	1,245
Emoluments (excluding pension contributions) payable to the former Chief Executive who was also the highest paid Director	298	266

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

Glenn Harris was appointed as Chief Executive on 29 March 2018.

There were four Directors in the Group's pension scheme described in note 25 (2017:4). Two other Directors (including the former Chief Executive) received contributions paid as a supplement to their salary.

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

The members of the Executive Board were remunerated as follows:

Director	Position	Date of Appointment	Date of Resignation	Salaries £'000	Taxable benefits £'000	Pension £'000	Total 2018 £'000	Total 2017 £'000
Ruth Cooke	Chief Executive Officer	17/04/2012	29/03/2018	236	62	-	298	266
Glenn Harris	Executive Director of Corporate Resources (appointed Chief Executive 29/03/2018)	02/07/2012		165	16	-	181	167
Carl Larter	Executive Director of Assets	29/01/2008	31/07/2017	196	7	4	207	143
David Taylor	Executive Director of Operations	15/04/2015		147	9	12	168	141
Andrew Foster	Executive Director of Governance & Contracts, & Company Secretary	23/11/2012		134	9	11	154	138
Joe Reeves	Executive Director of Corporate Affairs	08/07/2013		134	9	6	149	139

4. Directors' Emoluments (continued)

for the year ended 31 March 2018

The aggregate amount of Directors' Pensions recognised within these financial statements for the year ended 31 March 2018 is £33k (2017: £35k)
The post of Director of Assets was made redundant on 31 July 2017, and compensation for loss of office of £149k was included within the payments during the year.

The aggregate compensation for loss of office of key management personnel was £149k (2017: £137k). Since the year end, Baljinder Kang was appointed to the Executive Board as Executive Director of HR on 1st June 2018.

Twenty-three members of the Board of Management, subsidiary Boards and Committees received emoluments totalling £138,000 (2017: £148,000). All Board members are listed below including their renumeration over financial years 2017 and 2018.

They have been remunerated as follows:

		2018 £'000	2017 £'000
Greg Croydon	Resigned 29/03/2018	11	11
Anna East	Resigned 29/09/2017	6	11
John Edwards		25	25
Karl George	Resigned 29/09/2017	6	11
Julian Healey		9	9
Robert Lake	Resigned 29/09/2017	6	11
Kathleen McAteer		9	8
Peter Pawsey	Resigned 29/09/2017	5	9
Martin Tiplady		11	11
Carole Mills	Appointed 29/09/2017	5	-
Chris West	Appointed 29/09/17	5	-
Mina Parmar	Appointed 29/09/17	5	-

5. Employee Information

for the year ended 31 March 2018

	Group		Association	
	2018 Number	2017 Number	2018 Number	2017 Number
Average number of employees expressed as full time equivalents	**1,188**	**1,520**	**1,188**	**1,520**

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

Staff Costs (for the above persons)	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Wages & Salaries	33,505	40,435	33,505	40,435
Social Security Costs	3,265	3,643	3,265	3,643
Other Pension Costs	737	1,065	737	1,065
	37,507	**45,143**	**37,507**	**45,143**

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	2018 Number	2017 Number
£290,000 to £300,000	1	-
£280,000 to £290,000	-	-
£270,000 to £280,000	-	-
£260,000 to £270,000	-	1
£250,000 to £260,000	-	1
£240,000 to £250,000	-	-
£230,000 to £240,000	-	-
£220,000 to £230,000	-	-
£210,000 to £220,000	-	-
£200,000 to £210,000	1	-
£190,000 to £200,000	-	-
£180,000 to £190,000	1	-
£170,000 to £180,000	-	1
£160,000 to £170,000	1	1
£150,000 to £160,000	1	-
£140,000 to £150,000	1	3
£130,000 to £140,000	-	2
£120,000 to £130,000	-	2
£110,000 to £120,000	1	-
£100,000 to £110,000	1	1
£90,000 to £100,000	3	6
£80,000 to £90,000	6	7
£70,000 to £80,000	7	11
£60,000 to £70,000	15	15
	39	**51**

6a. Surplus on Sale of Fixed Assets - Group

for the year ended 31 March 2018

	2018			2017		
	Proceeds £'000	Cost of Sales £'000	Surplus £'000	Proceeds £'000	Cost of Sales £'000	Surplus £'000
Staircasing on Shared Ownership	6,307	4,264	2,043	5,683	3,859	1,824
Other Property Sales	10,543	6,601	3,942	8,860	8,022	838
	16,850	**10,865**	**5,985**	**14,543**	**11,881**	**2,662**

6b. Surplus on Sale of Fixed Assets - Association

	2018			2017		
	Proceeds £'000	Cost of Sales £'000	Surplus £'000	Proceeds £'000	Cost of Sales £'000	Surplus £'000
Staircasing on Shared Ownership	6,307	4,264	2,043	5,683	3,859	1,824
Other Property Sales	10,543	6,601	3,942	8,864	8,022	842
	16,850	**10,865**	**5,985**	**14,547**	**11,881**	**2,666**

7. Interest receivable and similar income

	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Interest receivable on financial assets measured at amortised cost:				
Interest on investments	642	361	642	361
Equity Investment realisation	217	287	217	287
Total interest receivable and similar income	**859**	**648**	**859**	**648**

8. Interest and Financing costs

for the year ended 31 March 2018

	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Interest payable on financial liabilities measured at amortised cost:				
Housing loans	17,069	20,176	16,949	20,114
Discounted bonds	1,415	1,377	1,415	1,377
Interest on finance leases	617	622	617	622
Notional interest on Recycled Capital Grant Fund	29	34	29	34
Interest on derivatives treated as fair value hedging instruments:	**19,130**	**22,209**	**19,010**	**22,147**
Interest payable on loan swap arrangements	6,797	6,448	6,797	6,448
Interest capitalised	(1,119)	(423)	(1,064)	(423)
Loan fees	924	825	825	758
Interest paid on early repayment of loan	3,022	-	3,022	-
Unwinding of discount on Social Housing Pension Scheme liability	324	544	324	544
Change to measurement of net finance cost on Social Housing Pension Scheme liability	(331)	777	(331)	777
Total interest and financing costs	**28,747**	**30,380**	**28,583**	**30,251**

Interest was capitalised at an average rate of 4.5% (2017: 5.0%).

9. Surplus before Taxation

for the year ended 31 March 2018

	Group		Association	
	2018 £'000	**2017 £'000**	**2018 £'000**	**2017 £'000**
Surplus before Taxation is stated after charging:				
Depreciation of housing property fixed assets	21,336	21,355	21,336	21,355
Depreciation on non-housing property fixed assets	3,100	2,693	2,906	2,495
Auditors' remuneration - Audit fees				
Group fees	87	110	87	110
Other Group services	39	49	39	49
Payments under Operating Leases				
Plant	58	102	58	102
Office	85	115	85	115

10. Taxation on Surplus on Ordinary Activities

for the year ended 31 March 2018

a) Analysis of charge in the period - Group

	2018 £'000	2017 £'000
United Kingdom Corporation Tax on surplus of the period	116	100
Adjustments in respect of prior years	-	-
	116	100
Deferred tax	(23)	-
	93	100

b) Analysis of charge in the period - Association

	2018 £'000	2017 £'000
United Kingdom Corporation Tax on surplus of the period	45	100
Adjustments in respect of prior years	-	-
	45	100
Deferred tax	-	-
	45	100

Factors affecting the tax charge for the year
The Corporation Tax charge is lower (2017: lower) than that resulting from applying the standard rate of Corporation Tax of 19% (2017: 20%) to the surplus before taxation. The differences are explained below:

	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Surplus on ordinary activities before tax	**47,876**	**39,884**	**46,305**	**38,217**
Tax payable at 19% (2017: 20%) thereon	**9,096**	**7,977**	**8,798**	**7,643**
Expenses not deductible for tax purposes	-	-	-	-
Income not taxable for tax purposes	(230)	(237)	-	-
Amounts charged/(credited) directly to equity or otherwise transferred	(16)	(4)	-	-
Current tax charged/(credited) directly to equity	-	4	-	-
Fixed Asset differences	(7)	16	-	-
Prior period adjustments - deferred tax	2	-	-	-
Capital gains/(losses)	-	-	-	-
Adjust closing deferred tax to average rate	3	3	-	-
Adjust opening deferred tax to average rate	(3)	(3)	-	-
Exemption due to charitable status	(8,726)	(7,647)	(8,753)	(7,643)
Deferred tax not recognised	(26)	(9)	-	-
Total tax charge	**93**	**100**	**45**	**-**

Notes to the Financial Statements (continued)

11. Investment Properties held for letting: Group

for the year ended 31 March 2018

	Work in Progress £'000	Market Rent Properties £'000	2018 £'000	2017 £'00
Valuation:				
At 1 April 2017	1,913	12,550	14,463	11,300
Additions during the year	2,677	47	2,724	1,993
Gain in valuation	-	1,213	1,213	1,170
At 31 March 2018	**4,590**	**13,810**	**18,400**	**14,463**

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

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

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

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

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

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

for the year ended 31 March 2018

	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 2017	1,591,335	20,596	84,911	6,037	1,702,879
Additions	674	35,005	-	11,416	47,095
Improvements	12,018	-	-	-	12,018
Interest capitalised	-	687	-	377	1,064
Transferred on completion	17,774	(17,774)	4,450	(4,450)	-
Change of tenure	(2,875)	-	2,875	-	-
Transfer to current assets	(218)	-	-	(5,775)	(5,993)
Transfer from current assets	8	-	-	-	8
Disposals	(7,094)	-	(4,838)	-	(11,932)
At 31 March 2018	**1,611,622**	**38,514**	**87,398**	**7,605**	**1,745,139**
Depreciation and impairment					
At 1 April 2017	226,333	-	8,288	-	234,621
Charge for the year	20,628	-	708	-	21,336
Change of tenure	(205)	-	205	-	-
Transfer to current assets	(7)	-	-	-	(7)
Eliminated on disposal	(2,823)	-	(374)	-	(3,197)
At 31 March 2018	**243,926**	**-**	**8,827**	**-**	**252,753**
Net Book Value					
At 31 March 2018	**1,367,696**	**38,514**	**78,571**	**7,605**	**1,492,386**
At 31 March 2017	1,365,002	20,596	76,623	6,037	1,468,258

Notes to the Financial Statements (continued)

12b. Housing Properties - Association

for the year ended 31 March 2018

	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 2017	1,595,084	20,596	84,911	6,037	1,706,628
Additions	674	35,067	-	11,416	47,157
Improvements	12,018	-	-	-	12,018
Interest capitalised	-	687	-	377	1,064
Transferred on completion	17,774	(17,774)	4,450	(4,450)	-
Change of tenure	(2,875)	-	2,875	-	-
Transfer to current assets	(218)	-	-	(5,775)	(5,993)
Transfer from current assets	8	-	-	-	8
Disposals	(7,094)	-	(4,838)	-	(11,932)
At 31 March 2018	**1,615,371**	**38,576**	**87,398**	**7,605**	**1,748,950**
Depreciation and impairment					
At 1 April 2017	226,333	-	8,288	-	234,621
Charge for the year	20,628	-	708	-	21,336
Change of tenure	(205)	-	205	-	-
Transfer to current assets	(7)	-	-	-	(7)
Eliminated on disposal	(2,823)	-	(374)	-	(3,197)
At 31 March 2018	**243,926**	**-**	**8,827**	**-**	**252,753**
Net Book Value					
At 31 March 2018	**1,371,445**	**38,576**	**78,571**	**7,605**	**1,496,197**
At 31 March 2017	1,368,751	20,596	76,623	6,037	1,472,007

12c. Housing Properties

for the year ended 31 March 2018

Expenditure on works to existing properties	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Components capitalised	12,018	13,024	12,018	13,024
Amounts charged to the Income and Expenditure account	3,468	4,102	3,468	4,102
	15,486	**17,126**	**15,486**	**17,126**

Completed housing properties book value, net of depreciation and impairment	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Freehold land and buildings	1,338,151	1,327,421	1,341,900	1,330,873
Leasehold land and buildings	108,116	114,204	108,116	114,501
Total Net Book Value	**1,446,267**	**1,441,625**	**1,450,016**	**1,445,374**

13.Other Tangible Fixed Assets

for the year ended 31 March 2018

Other Tangible Fixed Assets - Group	Office Premises £'000	Furniture & Equipment £'000	Total £'000
Cost:			
At 1 April 2017	13,366	28,957	42,323
Additions	201	3,396	3,597
Disposals	(1,785)	(81)	(1,866)
At 31 March 2018	**11,782**	**32,272**	**44,054**
Depreciation:			
At 1 April 2017	2,749	9,473	12,222
Charge for the year	209	2,891	3,100
Eliminated on disposal	(663)	(32)	(695)
At 31 March 2018	**2,295**	**12,332**	**14,627**
Net Book Value			
At 31 March 2018	**9,487**	**19,940**	**29,427**
At 31 March 2017	10,617	19,484	30,101

Other Tangible Fixed Assets - Association	Office Premises £'000	Furniture & Equipment £'000	Total £'000
Cost:			
At 1 April 2017	2,956	28,757	31,713
Additions	201	3,376	3,577
Disposals	(1,785)	(81)	(1,866)
At 31 March 2018	**1,372**	**32,052**	**33,424**
Depreciation:			
At 1 April 2017	800	9,345	10,145
Charge for the year	41	2,865	2,906
Eliminated on disposal	(663)	(32)	(695)
At 31 March 2018	**178**	**12,178**	**12,356**
Net Book Value			
At 31 March 2018	**1,194**	**19,874**	**21,068**
At 31 March 2017	2,156	19,412	21,568

14. Fixed Asset Investments - Group and Association

for the year ended 31 March 2018

	2018 £'000	2017 £'000
Investments - Mutuals	2,814	3,017
Investments - Social Homebuy initiative - equity investment	132	132
Investments - SH initiative - grant	(132)	(132)
Investments - Other	20	-
	2,834	**3,017**

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

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

15. Investment in Subsidiaries - Association

	£'000
Investment at 1 April 2017	6,067
Investment at 31 March 2018	**6,067**

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

16. Debtors

	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Gross rent and service charge arrears	13,900	12,498	13,873	12,474
Less: provision for bad and doubtful debts	(7,799)	(7,485)	(7,783)	(7,464)
Net rent arrears	**6,101**	**5,013**	**6,090**	**5,010**
Social Housing Grant receivable	-	3,036	-	3,036
Amounts due from Group undertakings	-	-	528	71
Prepayments and other debtors	5,018	4,963	5,002	4,963
Deferred tax asset	23	-	-	-
	11,142	**13,012**	**11,620**	**13,080**

17. Current Asset Investments - Group and Association for the year ended 31 March 2018

	2018 £'000	2017 £'000
Short term deposits	-	595

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

	2018 £'000	2017 £'000
Stock and work in progress	932	1,266
Schemes developed for shared ownership disposal	2,496	1,596
	3,428	**2,862**

19. Cash and Cash Equivalents

	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Bank Accounts	79,496	67,855	78,580	66,894
Cash in hand	45	84	45	84
Cash equivalents	79,541	67,939	78,625	66,978
Total Cash and Cash Equivalents	**79,541**	**67,939**	**78,625**	**66,978**

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

20. Creditors: Amounts falling due within one year

for the year ended 31 March 2018

	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Housing loans (Note 21a)	31,984	36,011	26,513	30,779
Rents received in advance	3,358	3,349	3,343	3,335
Obligations due under finance leases (Note 21a)	135	129	135	129
Trade creditors	410	1,369	410	1,369
Amounts due to Group undertakings	-	-	15,738	7,829
Recycled Capital Grant and Disposals Proceeds Fund (Note 22)	1,882	3,494	1,882	3,494
Other taxation and social security costs	1,896	1,798	1,914	1,802
UK Corporation Tax	73	100	44	-
Accruals and deferred income	23,338	16,965	19,872	14,435
Deferred social housing grant	8,164	8,205	8,164	8,205
Social Housing Pension Scheme Liability (Note 25)	3,443	3,319	3,443	3,319
	74,683	**74,739**	**81,458**	**74,696**

Amounts due to group undertakings for the Association include interest bearing loans due to group undertakings of £5,012k (2017: £4,773k). All other amounts due to group undertakings are non-interest bearing

Liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of ninety days was £1,143k (2017: £1,308k).

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

for the year ended 31 March 2018

	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Housing loans	508,219	512,405	210,548	211,764
Discounted bonds	12,620	12,244	12,620	12,244
Obligations due under finance leases	3,910	3,995	3,910	3,995
Premium on bond issues	13,699	13,423	4,658	4,035
Loan and bond arrangement fees	(5,400)	(5,413)	(2,809)	(2,790)
Amounts due to Group undertaking	-	-	285,987	297,813
Deferred social housing grant	702,979	711,275	702,979	711,275
Derivative financial instruments designated as hedges of variable interest rate risk (note 24)	66,667	76,397	66,667	76,397
Social Housing Pension Scheme Liability (Note 25)	19,431	22,881	19,431	22,881
	1,322,125	1,347,207	1,303,991	1,337,614
Recycled Capital Grant and Disposal Proceeds Fund	7,438	2,902	7,438	2,902
	1,329,563	**1,350,109**	**1,311,429**	**1,340,516**

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

Housing Loans:

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

	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
By instalments:				
In one year or less	11,754	12,281	6,283	7,049
Between one and two years	12,191	12,190	6,470	6,719
Between two and five years	35,363	38,536	16,567	20,570
In five years or more	261,160	252,674	144,761	129,725
	320,468	**315,681**	**174,081**	**164,063**

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

for the year ended 31 March 2018

	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Lump Sum Repayments:				
In one year or less	20,230	23,730	20,230	23,730
Between one and two years	-	19,206	-	19,206
Between two and five years	6,755	2,702	-	-
In five years or more	205,370	199,341	55,370	47,788
	232,355	**244,979**	**75,600**	**90,724**

Finance lease liabilities Total of future minimum lease payments:	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
In one year or less	135	129	135	129
Between one and two years	135	148	135	148
Between two and five years	404	444	404	444
In five years or more	3,371	3,403	3,371	3,403
	4,045	**4,124**	**4,045**	**4,124**

Fixed rate financial liabilities bear a weighted average interest rate of 5.97% and are fixed for a weighted average period of 21 years. Including swaps the average weighted interest rate is 4.85%. Interest rates on fixed rate borrowings range between 5% and 11.5%. Floating rate financial liabilities bear interest at rates based on LIBOR and are fixed for periods of up to 12 months. The interest rate profile of the groups' debt at 31 March 2018 was:

	Variable rate £'000	Fixed rate £'000	Total £'000
Instalment loans	264,605	59,907	324,512
Non-instalment loans	21,755	210,601	232,356
	286,360	**270,508**	**556,868**

As at 31 March 2018, 53% (£296,380k) of the above debt came from the capital markets and 47% (£266,488k) from banks and building societies.

Notes to the Financial Statements (continued)

21b. Creditors

for the year ended 31 March 2018

Discounted Bonds:	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Amount Advanced:				
5% Debenture Stock 2027	9,000	9,000	9,000	9,000
In issue at 31 March 2018	9,000	9,000	9,000	9,000
Loan discount amortised	3,620	3,244	3,620	3,244
Net Value at 31 March 2018	**12,620**	**12,244**	**12,620**	**12,244**

The 5% Debenture Stock 2027 have an interest yield of 10.786% and represent funds raised from The Housing Finance Corporation Limited ('THFC') and are for designated housing schemes which have been approved by THFC. The loans are secured by a fixed charge over the properties purchased with the loans and a fixed charge on any designated account. Discount unwound/unamortised on discounted bonds was £6,464k (2017: £6,840k).

21c. Cumulative Social Housing Grant

(Displayed regardless of age)

	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Opening SHG cumulative amortisation	-	-	-	-
Opening Balance of SHG received/ receivable	719,480	717,984	719,480	717,984
SHG received during the year	3,746	12,487	3,746	12,487
SHG recycled	(4,580)	(3,980)	(4,580)	(3,980)
Surplus on sale of Fixed Asset adjustment	549	565	549	565
Cumulative total of Social Housing Grant received or recievable	719,195	727,056	719,195	727,056
Less grant amortised in the year	(8,052)	(7,576)	(8,052)	(7,576)
Amount held as	**711,143**	**719,480**	**711,143**	**719,480**
Social Housing Grant under UKGAAP				
Opening SHG	833,586	825,080	833,586	825,080
SHG received net of recycling	(834)	8,506	(834)	8,506
Less investment property	-	-	-	-
Less eliminated on disposal	-	-	-	-
	(834)	8,506	(834)	8,506
Closing SHG	**832,752**	**833,586**	**832,752**	**833,586**

22. Recycled Capital Grant and Disposal Proceeds Funds for the year ended 31 March 2018 (including amounts due in less than one year).

Group and Association	RCGF £'000	DPF £'000	Total £'000
Balance at 1 April 2017	5,893	503	6,396
Grants recycled	3,919	-	3,919
Interest accrued	26	1	27
Allocated to new build developments	(1,022)	-	(1,022)
Balance at 31 March 2018	**8,816**	**504**	**9,320**

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

23. Financial Instruments

The carrying amounts of the financial assets and liabilities include:	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Liabilities measured at amortised cost				
Loans	561,122	568,670	553,255	561,674
Finance Leases	4,045	4,124	4,045	4,124

Financial liabilities measured at amortised cost comprise convertible loan stock, irredeemable preference shares, bank loans and overdrafts, trade creditors and other creditors. Derivative financial instruments designated as hedges of variable interest rate risk comprise interest rate swaps. Financial liabilities measured at fair value through profit or loss comprise nil.

24a. Financial Instruments: Hedge Accounting

for the year ended 31 March 2018

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 ato 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 £210m standalone interest rate swap contracts to fix the rates of £210m of its borrowing portfolio until various dates up to 2038. ·
The negative fair value of these swap contracts as at 31 March 2018 was £66.7m (2017 £76.4m). 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 2018.

The total change in fair value during the year ended 31 March 2018 of £9.73m (2017: £2.89m) 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	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Barclays Swap £20m 4.815% 2038	11,697	12,904	11,697	12,904
Barclays Swap £30m 5.01% 2037	17,788	19,638	17,788	19,638
Barclays ex-European Cancellable Swap with Double Up £10m 4.24% 2031	6,958	8,082	6,958	8,082
Credit Suisse Swap £10m 1.405% 2020	99	249	99	249
Credit Suisse Swap £40m 1.19% 2020	180	861	180	861
Credit Suisse Swap £40m 2.345% 2020	1,305	2,535	1,305	2,535
Lloyds Swap £50m 5.432% 2034 (ex-Bermudan)	28,640	32,128	28,640	32,128
Fair values of financial instruments designated as hedging instruments	**66,667**	**76,397**	**66,667**	**76,397**

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.

2018

	Carrying amount £000	Expected cash flows £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Interest rate swaps:						
Hedged items cashflows (liabilities)	210,000	38,007	2,310	2,931	6,598	26,168

2017

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

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

Notes to the Financial Statements (continued)

24b. Financial Instruments: Hedges

for the year ended 31 March 2018

	Barclays Swap £20m 4.815% 2038	Barclays Swap £30m 5.01% 2037	Barclays ex-European Swap with Double Up £10m 4.24% 2031	Credit Suisse Swap £10m 1.405% 2020
Description of the hedge	The objective of the hedge is to mitigate the variability of the cash flows stemming from the floating rate interest payments related to the Lloyds £75m Fl Loan 2043 loan, a floating rate loan entered into by Midland Heart against unfavourable movements in the 1 Month LIBOR rate.	The objective of the hedge is to mitigate the variability of the cash flows stemming from the floating rate interest payments related to the Lloyds £75m Fl Loan 2043 loan, a floating rate loan entered into by Midland Heart against unfavourable movements in the 1 Month LIBOR rate.	The objective of the hedge is to mitigate the variability of the cash flows stemming from the floating rate interest payments related to the Nationwide £130m Fl Loan 2036 loan, a floating rate loan entered into by Midland Heart against unfavourable movements in the 1 Month LIBOR rate.	The objective of the hedge is to protect the variability of the cash flows stemming from the floating rate coupon payments related to a debt instrument issued by the entity against unfavourable movements in the LIBOR 6 month rate.
Description of the financial instruments designated as hedging instruments	The interest rate swap, Barclays Swap £20m 4.815% 2038. The counterparty to the swap is Lloyds and the credit risk associated with this counterparty is considered to be low. The credit risk is reflected in the Credit Valuation Adjustment amount to the risk free fair value of the derivative instrument.	The interest rate swap, Barclays Swap £30m 5.01% 2037. The counterparty to the swap is Lloyds and the credit risk associated with this counterparty is considered to be low. The credit risk is reflected in the Credit Valuation Adjustment amount to the risk free fair value of the derivative instrument.	The interest rate swap, Barclays ex- European Cancellable Swap with Double Up £10m 4.24% 2031. The counterparty to the swap is Nationwide and the credit risk associated with this counterparty is considered to be low. The credit risk is reflected in the Credit Valuation Adjustment amount to the risk free fair value of the derivative instrument.	The interest rate swap, Credit Suisse Swap £10m 1.405% 2020. The counterparty to the swap is EIB GBP and the credit risk associated with this counterparty is considered to be low. The credit risk is reflected in the Credit Valuation Adjustment amount to the risk free fair value of the derivative instrument.
Nature of the risks being hedged including a description of the hedged item	The variability of cash flows stemming from the interest payments of the Lloyds £75m Fl Loan 2043 due to movements in the 1 Month LIBOR rate.	The variability of cash flows stemming from the interest payments of the Lloyds £75m Fl Loan 2043 due to movements in the 1 Month LIBOR rate.	The variability of cash flows stemming from the interest payments of the Nationwide £130m Fl Loan 2036 loan due to movements in the 1 Month LIBOR rate.	The variability of cash flows stemming from the interest payments of the EIB £10m 2031 Fl Loan due to movements in the 6 Month LIBOR rate.
Fair values of financial instruments designated as hedging instruments £'000	11,697	17,788	6,958	99

	Credit Suisse Swap £40m 1.19% 2020	Credit Suisse Swap £40m 2.345% 2020	Lloyds Swap £50m 5.432% 2034 (ex-Bermudan)	
Description of the hedge	The objective of the hedge is to protect the variability of the cash flows stemming from the floating rate coupon payments related to a debt instrument issued by the entity against unfavourable movements in the LIBOR 1-month rate.	The objective of the hedge is to mitigate the variability of the cash flows stemming from the floating rate interest payments related to the Nationwide £130m Fl Loan 2036 loan, a floating rate loan entered into by Midland Heart against unfavourable movements in the 1 Month LIBOR rate.	The objective of the hedge is to mitigate the variability of the cash flows stemming from the floating rate interest payments related to the Nationwide £130m Fl Loan 2036 loan, a floating rate loan entered into by Midland Heart against unfavourable movements in the 1 Month LIBOR rate.	The objective of the hedge is to mitigate the variability of the cash flows stemming from the floating rate interest payments related to the Lloyds £75m Fl Loan 2043 loan, a floating rate loan entered into by Midland Heart against unfavourable movements in the 1 Month LIBOR rate.
Description of the financial instruments designated as hedging instruments	The interest rate swap, Credit Suisse Swap £40m 1.19% 2020. The counterparties to the swap are Lloyds, AIB, Dexia, THFC and Nationwide GBP and the credit risk associated with this counterparty is considered to be low. The credit risk is reflected in the Credit Valuation Adjustment amount to the risk free fair value of the derivative instrument.	The interest rate swap, Credit Suisse Swap £40m 2.345% 2020. The counterparty to the swap is Nationwide and the credit risk associated with this counterparty is considered to be low. The credit risk is reflected in the Credit Valuation Adjustment amount to the risk free fair value of the derivative instrument.	The interest rate swap, Lloyds Swap £50m 5.432% 2034 (ex-Bermudan). The counterparty to the swap is Nationwide and the credit risk associated with this counterparty is considered to be low. The credit risk is reflected in the Credit Valuation Adjustment amount to the risk free fair value of the derivative instrument.	The interest rate swap, 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, AIB, Dexia, THFC and Nationwide loans due to movements in the 1 Month LIBOR rate.	The variability of cash flows stemming from the interest payments of the Nationwide £130m Fl Loan 2036 due to movements in the 1 Month LIBOR rate.	The variability of cash flows stemming from the interest payments of the Nationwide £130m Fl Loan 2036 due to movements in the 1 Month LIBOR rate.	The variability of cash flows stemming from the interest payments of the Lloyds £75m Fl Loan 2043 due to movements in the 1 Month LIBOR rate.
Fair values of financial instruments designated as hedging instruments £'000	180	1,305	28,640	

Notes to the Financial Statements (continued)

25a. Social Housing Pension Scheme (SHPS)

for the year ended 31 March 2018

The company participates in the above scheme, a multi-employer scheme which provides benefits to some 500 non-associated employers. The scheme is a defined benefit scheme in the UK. It is not possible for the company to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore it accounts for the scheme as a defined contribution scheme.

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

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

A full actuarial valuation for the scheme was carried out with an effective date of 30 September 2014. This actuarial valuation was certified on 23 November 2015 and showed assets of £3,123m, liabilities of £4,446m and a deficit of £1,323m. To eliminate this funding shortfall, the trustees and the participating employers have agreed that additional contributions will be paid, in combination from all employers, to the scheme as follows:

Deficit Contributions

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

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

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

25a. Social Housing Pension Scheme (SHPS) (continued) for the year ended 31 March 2018

Present Values of Provision

	31 March 2018 £'000	31 March 2017 £'000
Present value of provision	22,687	25,989

Reconciliation of Opening and Closing Provisions

	31 March 2018 £'000	31 March 2017 £'000
Provision at start of period	25,989	27,857
Unwinding of the discount factor (interest, expense)	322	539
Deficit contribution paid	(3,296)	(3,177)
Remeasurements - impact of any change in assumptions	(328)	770
Remeasurements - amendments to the contribution schedule	-	-
Provision at end of period	**22,687**	**25,989**

Income and Expenditure Impact

	31 March 2018 £'000	31 March 2017 £'000
Unwinding of the discount factor (interest, expense)	322	539
Remeasurements - impact of any change in assumptions	(328)	770
Remeasurements - amendments to the contribution schedule	-	-
Contributions paid in respect of future service	-	-
Costs recognised in income and expenditure account	**(6)**	**1,309**

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

	2018 £'000	2017 £'000
Operating costs (employer current year contributions)	-	-
Operating costs (pension deficit costs)	-	-
Interest and financing costs	(6)	1,309
	(6)	**1,309**

25a. Social Housing Pension Scheme (SHPS) (continued) for the year ended 31 March 2018

Assumptions	31 Mar 2018	31 Mar 2017
Rate of discount	% per annum 1.72	% per annum 1.33

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

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

Deficit Contributions Schedule Year Ending	31 March 2018 £'000	31 March 2017 £'000
Year 1	3,419	3,296
Year 2	3,548	3,419
Year 3	3,190	3,548
Year 4	2,790	3,190
Year 5	2,886	2,790
Year 6	2,588	2,886
Year 7	2,256	2,588
Year 8	2,324	2,256
Year 9	1,197	2,324
Year 10	-	1,197
Year 11	-	-
Year 12	-	-

The company must recognise a liability measured as the present value of the contributions payable that arise from the deficit recovery agreement and the resulting expense in the income and expenditure account i.e. the unwinding of the discount rate as a finance cost in the period in which it arises. It is these contributions that have been used to derive the company's balance sheet liability.

25b. The Pensions Trust - The Growth Plan

for the year ended 31 March 2018

The company participates in the above scheme, a multi-employer scheme which provides benefits to some 1,300 non-associated employers. The scheme is a defined benefit scheme in the UK. It is not possible for the company to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore it accounts for the scheme as a defined contribution scheme.

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

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

A full actuarial valuation for the scheme was carried out with an effective date of 30 September 2011. This actuarial valuation showed assets of £781m, liabilities of £928m and a deficit of £148m. To eliminate this funding shortfall, the trustees and the participating employers have agreed that additional contributions will be paid, in combination from all employers, to the scheme as follows:

Deficit contributions

From 1 April 2013 to 31 March 2023:	
£13.9m per annum	(payable monthly and increasing by 3% each on 1st April)

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

Deficit contributions

From 1 April 2016 to 30 September 2025:	
£12,945,440 per annum	(payable monthly and increasing by 3% each on 1st April)
From 1 April 2016 to 30 September 2028:	
£54,560 per annum	(payable monthly and increasing by 3% each on 1st April)

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

Notes to the Financial Statements (continued)

25b. The Pensions Trust - The Growth Plan (continued) for the year ended 31 March 2018

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

Present Values of Provision	**2018 £'000**	**2017 £'000**
Present value of provision	187	211

Reconciliation of Opening and Closing Provisions

	2018 £'000	**2017 £'000**
Provision at start of period	211	222
Unwinding of the discount factor (interest expense)	2	5
Deficit contribution paid	(23)	(23)
Remeasurements - impact of any change in assumptions	(3)	7
Remeasurements - amendments to the contribution schedule	-	-
Provision at end of period	**187**	**211**

Income and Expenditure Impact

	2018 £'000	**2017 £'000**
Unwinding of the discount factor (interest expense)	2	5
Remeasurements - impact of any change in assumptions	-	-
Remeasurements - amendments to the contribution schedule	(3)	7
Costs recognised in income and expenditure account	**(1)**	**12**

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

25b. The Pensions Trust - The Growth Plan (continued) for the year ended 31 March 2018

	2018 £'000	2017 £'000
Operating costs (pension deficit costs)	(3)	7
Interest and financing costs	2	5
	(1)	**12**

Assumptions	**2018**	**2017**
Rate of discount	% per annum 1.71	% per annum 1.32

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

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

Deficit Contributions Schedule Year Ending	2018 £'000	2017 £'000
Year 1	24	23
Year 2	25	24
Year 3	26	25
Year 4	26	26
Year 5	27	26
Year 6	28	27
Year 7	29	28
Year 8	15	29
Year 9	-	15
Year 10	-	-

The company must recognise a liability measured as the present value of the contributions payable that arise from the deficit recovery agreement and the resulting expense in the income and expenditure account i.e. the unwinding of the discount rate as a finance cost in the period in which it arises. It is these contributions that have been used to derive the company's balance sheet liability.

26. Share Capital

for the year ended 31 March 2018

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

	2018 £
Allotted, called up and fully paid shares of £1 each:	
At end of year	42

	Number
At 1 April 2017	54
Issued	5
Cancelled	(17)
At 31 March 2018	**42**

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

27. Operating Leases - Group and Association

Total of future minimum lease payments under non-cancellable operating leases	**2018 £'000**	**2017 £'000**
Plant - Leases which expire:		
Within one year	42	60
Between one and two years	25	23
Between two and five years	17	3
Office premises - Leases which expire:		
Within one year	10	54
Between one and two years	-	10
Between two and five years	-	-
After more than 5 years	-	-
	94	**150**

During the year £144k was recognised as an expense in the profit and loss account in respect of operating leases (2017: £217k).

28. Capital Commitments - Group and Association for the year ended 31 March 2018

	2018 £'000	2017 £'000
Capital expenditure contracted not provided for	60,983	77,284
Capital expenditure authorised by the Board of Directors but not contracted for	29,304	11,095

The expenditure represents the total bids submitted to Homes England and other bodies. Under Standing Orders approved by the Board, expenditure to certain levels may be authorised by appropriate officers, employees or sub-committees and such authorised expenditure is included above. The above commitments will be funded primarily through cash and funds available for draw-down on existing loan arrangements and £4.9m (2017 £2.2m) funded by Social Housing Grant. The above figures include the full cost of shared ownership properties contracted for.

29. Contingent Liabilities

There are no contingent liabilities (2017: NIL).

Notes to the Financial Statements (continued)

30. Housing Stock

for the year ended 31 March 2018

Social Housing	2018 Number	2017 Number
- Social rent	20,782	20,886
- Affordable rent	2,250	2,049
Long leasehold	918	859
Accommodation managed for others	1,713	1,707
Supported housing and housing for older people	4,825	4,880
Residential care homes	143	170
Shared ownership accommodation	2,051	2,016
Lease scheme for the elderly	165	165
Other	124	125
Total social housing	**32,971**	**32,857**

Non-Social Housing		
Market rent	116	116
Commercial lettings	70	70
Leasehold	49	49
Student accommodation	61	61
Total non-social housing	**296**	**296**
Grand total	**33,267**	**33,153**

Being		
Owned and managed	28,754	28,340
Managed only	2,680	2,615
Owned but managed by others	1,833	2,198
Total	**33,267**	**33,153**

31. Disclosure of Group Activity

for the year ended 31 March 2018

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

Midland Heart Limited provides accounting, IT and management services to other group entities. The members of the Midland Heart Group are as follows:

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

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

Intra Group Transactions

Midland Heart - Cygnet Property Management plc	Cygnet charges Midland Heart £152k per annum in respect of a fee for managing Midland Heart's Intermediate Market Rent and Rent To Home Buy properties.
Midland Heart - Midland Heart Development (MHDL)	A 3% charge on cost on all invoices recharged to Midland Heart is levied by MHDL. A 2.5% charge on cost on all MHDL invoices received is levied by Midland Heart to cover staff time and use of facilities.
Midland Heart - Prime Focus Regeneration Group (PFRG)	A £246k charge is levied by PFRG to Midland Heart to cover the costs of premises provided.
Midland Heart - Midland Heart Capital plc (MHC)	MHC recharges its interest and other loan administration costs to Midland Heart.
Midland Heart - Prime Focus Finance (PFF)	PFF recharges its interest and other loan administration costs to Midland Heart.

There has been no other cost apportionment within the Group.

32. Notes to the Cash Flow Statement

for the year ended 31 March 2018

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

	2018 £'000	2017 £'000
Increase in cash	11,602	29,311
Cash flow from increase/(decrease) in debt finance	8,003	(4,744)
Increase in short term deposits	(595)	(37)
Discounted bonds	(376)	(339)
	18,634	24,191
Net debt at beginning of year	(504,260)	(528,451)
Net debt at end of year	**(485,626)**	**(504,260)**

B - Analysis of changes in net debt

	At 1 April 2017 £'000	Cash flows £'000	At 31 March 2018 £'000
Cash at bank and in hand	67,939	11,602	79,541
	67,939	**11,602**	**79,541**
Short term deposits	595	(595)	-
Discounted bonds	(12,244)	(376)	(12,620)
Other loans due less than one year	(36,011)	4,027	(31,984)
Other loans due in more than one year	(512,405)	4,186	(508,219)
Finance lease	(4,124)	79	(4,045)
Premium on bond issue	(13,423)	(276)	(13,699)
Issue expenses	5,413	(13)	5,400
Net debt	**(504,260)**	**18,634**	**(485,626)**

Financial Statements 2017-2018

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