Financial Statements

2018-2019

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

CONTENTS

Chair's foreword	**02**
Chief Executive's foreword	**04**
Board and Executive overview	**07**
Board of Directors appointments	07
Resignations and attendance	07
Board and Non-executive Directors	08
Non-executive Directors	08
Executive team	10
Strategic review	**12**
Operating and financial review	**14**
Financial highlights	14
Statement of comprehensive income	14
Statement of financial position	15
Our operating environment	15
Value for money	**16**
VFM governance	16
Regulatory governance	16
How we compare	17
Performance of our stock	19
Demonstrating environmental value	19
Delivering social value	19
Corporate plan – Making What Matters Brilliant	**21**
Investing in homes	21
Service first	21
Growth and partnership	21
People focused	22
Safe and strong	22
Our people	**23**
Treasury management	**24**
Financial golden rules	24
Loan facilities	24
Financial instruments	25
Risk management	**26**
Corporate governance report	**29**
Directors report	**36**
Independent auditor's report to Midland Heart Ltd	**39**
Financials	**42**

CHAIR'S FOREWORD

Delivered one year ahead of schedule, this year was the final year of our *Fit for the Future* corporate plan. *Fit for the Future* was born out of a need to change and adapt to a new external environment.

Over the course of the last three years we have focused our attention on building our financial strength, while maintaining investment in our customer services, as the housing sector dealt with four years of accumulative rent reductions.

Once again, our external environment requires us to stop, think and change. The tragic events at Grenfell Tower have rightly renewed the emphasis placed on safety, customers' needs and tackling the stigma of social housing.

What we do matters. It affects people's everyday lives and is the backdrop to thousands of children's start in life. We want to do a brilliant job and make sure that in our customers' busy lives their home is something they never have to worry about.

That is why we have named our new corporate plan *Making What Matters Brilliant.*

Over the course of the next five years we want to build as many new affordable homes as we can. We regularly review our development programme to make sure we are maximising the opportunities available to us but more importantly building the right homes in the right places. We are also undertaking a review of our care and support business to ensure it is sustainable for the future.

We know that our customers also want things to improve outside of their homes. They want us to do more to help create the kind of communities they want to live in; ones that people want to share and invest in. We will work with our partners in local government to ensure that we create more balanced and sustainable communities from now on, both in our existing areas and as we build more affordable homes.

> *"We are now in a strong position to move forward and make more of the improvements our customers want. We will spend a record amount over the course of the next five years on improvements to our homes; swiftly responding to issues raised by our customers, replacing kitchens and bathrooms more frequently and providing a repairs service that works around our customers' lives."*

We also need the right people to deliver these improvements. To ensure we attract and retain a talented team we will become one of the region's leading employers; a place where people love to work and aspire to join.

The last year has seen us build strong foundations and secure our financial strength for the future. I want to say thank you to all colleagues at Midland Heart for such a superb years' work and to my fellow Board members for ensuring that we continue to hold true to Midland Heart's mission.

We now look with excitement to building on these foundations and truly making what matters brilliant.

John Edwards, CBE
Chair, Midland Heart

CHIEF EXECUTIVE'S FOREWORD

Covering the third and final year of our *Fit for the Future* corporate plan, I am pleased to say that these results show another record year of achievement across the organisation.

Our ongoing work to become as efficient as possible in delivering the services our customers want has led us to achieve our best ever operating surplus of £77.1m and operating margin of 35.2%. This financial performance has led to Moody's awarding us an A1 stable rating which, alongside our regulators In-Depth Assessment of financial viability (V1) and governance rating (G1), illustrates our success in securing our financial strength in challenging operating conditions.

These headline figures are of course very pleasing and would not have been possible without the hard work of colleagues across the whole of our organisation. However, the real achievements as always are in the detail.

Our main achievement in these figures is maintaining our high levels of customer, colleague and repairs satisfaction, while successfully reaching some significant operational and financial milestones.

In the past year we have repatriated 13 Extra Care schemes, significantly increased the number of homes we have developed and launched our brand new customer app.

This has undoubtedly been another strong year for us and we must now focus on maintaining these high standards while delivering the improvements set out in our new corporate plan, *Making What Matters Brilliant.*

To do this I want everyone at Midland Heart to embrace our role as a landlord first and foremost. Our customers, homes and communities are the reason we are all here and should be at the centre of everything we do.

> *We all come to work to make a difference and because what we do matters. Our homes and services ensure that people living in some of the most challenging circumstances, can live fulfilling independent lives.*

We move on from *Fit for the Future* stronger and in a position to really focus on making things brilliant for our customers and colleagues.

Glenn Harris MBE
Chief Executive, Midland Heart

BOARD AND EXECUTIVE OVERVIEW

Board of Directors – appointments and resignations

Name	Position	Appointed	Resigned
John Edwards	Chair of the Board	14/05/14	
Glenn Harris	Executive Member	29/09/17	
Julian Healey	Chair of Audit and Risk Committee	23/09/13	
Kathy McAteer		23/09/13	
David Taylor	Executive Member	29/09/17	
Martin Tiplady	Chair of Remuneration and Executive Selection Committee	29/09/14	
Carole Mills	Chair of Operations Committee	29/09/17	
Mina Parmar		29/09/17	08/11/18
Chris West	Chair of Finance and New Business Committee	29/09/17	
Anna Simpson	Executive Member	01/05/19	
Darren Humphreys		01/05/19	
Llewellyn Graham		01/05/19	

Board Member attendance – 1 April 2018 to 31 March 2019

Board Member	Main Board	FNBC	Audit and Risk	Operations Committee	R&ES Committee	Board strategy event in May	Board planning day in November
Total Number of Meetings	5	6	5	6	3	1	1
John Edwards	5/5				3/3	✔	✔
Martin Tiplady	5/5	2/2			3/3	✔	✔
Chris West	5/5	6/6	3/5			✔	✔
Julian Healey	5/5	5/6	5/5			✔	✔
Kathy McAteer	5/5			5/6	3/3	✔	✔
Carole Mills	5/5		3/5	6/6		✔	✔
Mina Parmar	2/2	2/3				✔	N/A
Glenn Harris	5/5	6/6				✔	✔
David Taylor	5/5			6/6		✔	✔

BOARD AND NON-EXECUTIVE DIRECTORS

(L-R) Kathy McAteer, Glenn Harris MBE, John Edwards CBE, Chris West, Julian Healey, Carole Mills, David Taylor, Martin Tiplady OBE

John Edwards CBE – Chair, Non-executive Member

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

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

John then took on a number of Non-executive and advisory roles in the private and public sector. He was Chair of the Dudley Group of Hospitals, an NHS Foundation Trust in the Black Country, for 4 years until December 2014.

He is principal fellow and strategic advisor to WMG a department of the University of Warwick. 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 was awarded a CBE for services to the regional economy. He received Honorary Doctorates from Aston, Birmingham, Warwick and Wolverhampton Universities and was Midland's Property Personality of the Year in 2008.

Carole Mills – Non-executive Member

Carole joined our Board in September 2017. Having started her career in the private financial services sector, she has over 30 years' experience in the public sector in both the NHS and local government; with the last 17 being at Chief Officer level. Carole has particular interests in housing, mental health and social issues. She chairs our Operations Committee.

A qualified accountant and former Chief Finance Officer, she has a strong track-record in corporate governance, financial strategy and organisational transformation. She has been the Chief Executive at Derby City Council since August 2018, having held a similar role at Milton Keynes Council since 2014. Carole has experience as a charity trustee, school governor and Non-executive Board member in a number of other organisations.

NON-EXECUTIVE DIRECTORS

Chris West – Non-executive Member

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

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

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

Kathy McAteer – Non-executive Member

Kathy joined our Board in September 2013. She has over 40 years' experience of social care and health, 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.

Julian Healey – Non-Executive Member

Julian is a chartered surveyor with over 40 years' experience of asset and property management and has been a member of our Board since September 2013.

He was head of the asset and property management division in one of the UK's national surveying practices for over 20 years and subsequently as Operations Director. He is currently the CEO of The Association of Property and Fixed Charge Receivers (Nara) and has worked closely with a wide range of stakeholders in the arena of property finance.

He is also an arbitrator specialising in landlord and tenant matters, an accredited expert witness and a member of the Insolvency Practitioners' Association Investigations Committee.

Martin Tiplady OBE – Senior Independent Director

Martin is the Senior Independent Director at Midland Heart and he joined us in September 2014. He is owner of Chameleon People Solutions Ltd – HR and management consultancy which provides change management, organisational development investigations and general HR services.

He was previously Director of HR with the Metropolitan Police until his retirement.

He was also Director of HR with The Berkeley Group Plc., Westminster Health Care Holdings Plc. and The Housing Corporation.

He is regularly in the HR press as one of the most influential people in HR today and was named by the Daily Telegraph as Personnel Director of the Year.

He is also a Chartered Companion of the Chartered Institute of Personnel Development (CIPD) and was Vice President of the CIPD from 2006 – 2010. He was awarded an OBE for services to policing and human resources in The Queen's Birthday Honours 2010 and is a sought after speaker and commentator on employment, organisational development and HR matters.

Board succession

Since 31 March 2019 we have appointed Darren Humphreys and Llewellyn Graham.

EXECUTIVE TEAM

(L-R) David Taylor, Anna Simpson, Glenn Harris MBE, Baljinder Kang, Joe Reeves

Glenn Harris MBE – Chief Executive Officer and Board Member

Glenn has been Chief Executive of Midland Heart since March 2018. Prior to this he was our Executive Director of Corporate Services, responsible for strategy, finance, HR and IT.

Supported by the Executive team Glenn oversaw delivery of the final year of our *Fit for the Future* corporate plan and the development of our future strategy. Glenn is focused on us becoming a truly outstanding landlord and one of the country's leading developers of affordable homes.

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

Glenn received an MBE for services to business in 2012.

Baljinder Kang – Executive Director of People Services

Bal, who joined us in 2014, has nearly 25 years of generalist people management experience gained across the private, NHS, charitable and not-for-profit sectors. Since 2014 she has transformed our HR function and gained responsibility for the full breadth of the people agenda including, health and safety and facilities management.

A Fellow of the CIPD and named as one of HR Magazine's most influential HR practitioners in the not-for-profit sector for the past three consecutive years, Balled the team to winning the 2017 CIPD award for best reward initiative. Bal was promoted to our Executive team in May 2018.

Joe Reeves, Executive Director of Strategy and Growth

Joe joined us in July 2013 following 15 years at PwC in public sector audit and advisory and the corporate finance infrastructure and government teams. As our Director of Strategy and Growth, Joe is responsible for our housing development strategy, commercial projects, strategic planning, corporate communications, marketing and external affairs.

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

Anna Simpson – Executive Director of Finance and Resources and Board Member

Anna joined us in 2018 and leads our finance, governance and technology and transformation teams.

After graduating in Engineering and Management Studies from Cambridge University, she began her career with PwC in London where she qualified as a chartered accountant. She went on to work for them in Amsterdam and subsequently qualified as a Corporate Treasurer.

Prior to joining the housing sector, Anna worked in the private sector, mainly for FTSE 100 plc's, including Aviva, Whitbread and Cadbury Schweppes, in business facing finance roles.

In 2005, she joined Broadland Housing Association in Norfolk as Group Director of Finance, where she was promoted to Deputy Group Chief Executive after three years. More recently, she worked for Grand Union Housing Group as Group Director of Finance and Company Secretary.

David Taylor, Executive Director of Operations and Board Member

David joined us in 2009 as Head of Housing and became a member of the Executive team in 2015. He has strategic responsibility for all of our frontline services. This includes repairs, property investment, customer services and housing management.

He is a member of the Chartered Institute of Housing and has over 20 years of experience working in the sector.

His career started in housing management at Leicester City Council but his experience now spans most areas of the housing sector including resident and community engagement, homelessness, supporting people commissioning and asset management.

Registered Office:

20 Bath Row, Birmingham B15 1LZ

A registered society under the Co-operative and Community Benefits Act 2014 NO. 30069R. Registered with the Regulators of Social Housing under the Housing Act 1996 No. L4466.

Midland Heart Limited is an Exempt Charity (unregistered)

VAT Registration Number: 880 9861 74

Auditors: KPMG LLP

One Snow Hill, Snow Hill Queensway, Birmingham B4 6GH

Clearing Bankers: Lloyds TSB

125 Colmore Row, Birmingham B3 2DS

Treasury Advisors: TradeRisks Limited

21 Great Winchester Street, London EC2N 2JA

STRATEGIC REVIEW

We have emerged from our *Fit for the Future* corporate plan stronger and ready to make real our ambitions for the future. 2018/19 was another strong year both in terms of delivering customer outcomes and financial performance. This has allowed us to develop our new corporate plan *Making What Matters Brilliant* (2019-24).

Over the next five years we plan to make record investments in new and existing homes, the services we offer to customers and in our colleagues. We want to be a top class landlord, develop as much affordable homes as we can and be a great place to work. Creating an operational blueprint for the wider social housing sector.

During the year:

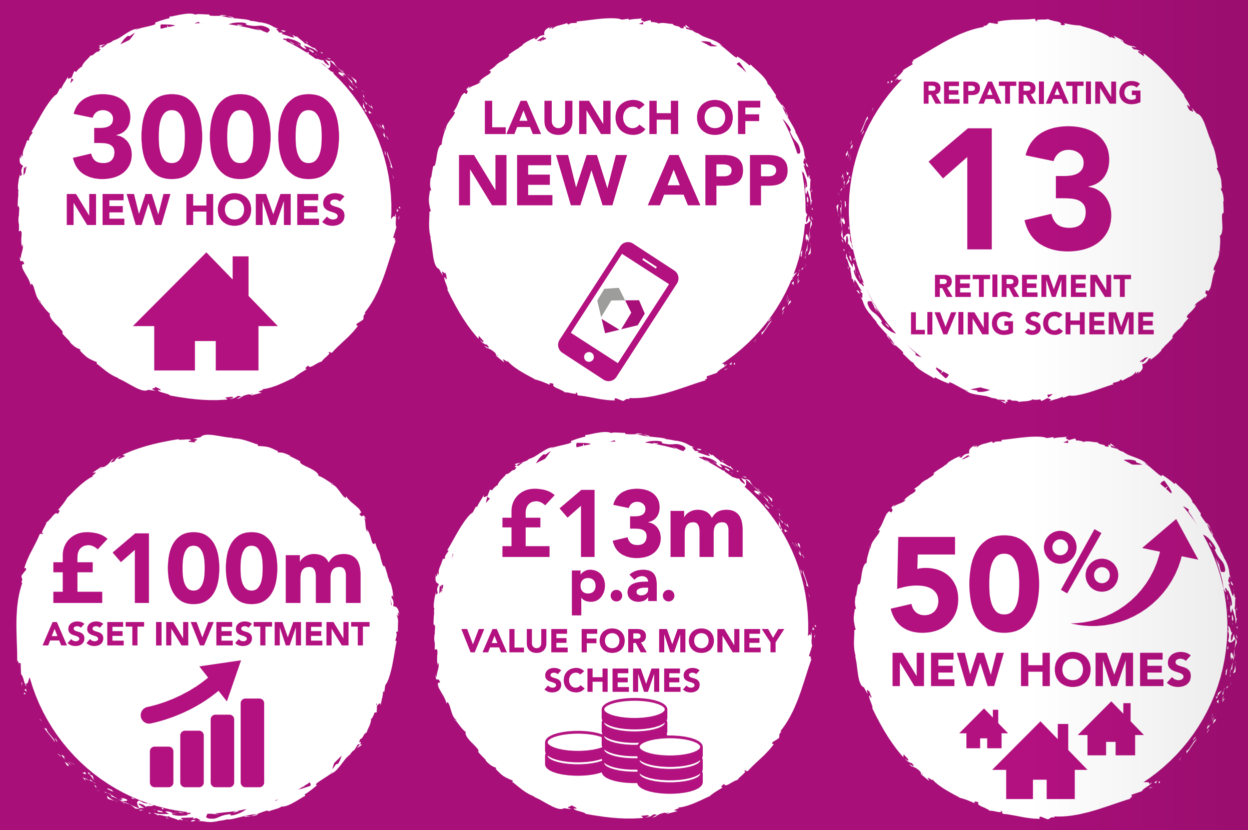
- Our Board agreed to build 3,000 new homes over the new corporate plan period, primarily for social and affordable rent, prioritising houses over flats
- There will be additional provision to build replacements for the stock sold through the Midlands voluntary right to buy (VRTB) pilot
- We launched our new digital app for customers and our mobility app for frontline colleagues
- We agreed our new asset investment strategy, seeking to invest over £100m in our assets over five years, including ensuring that our buildings continue to remain safe
- We successfully completed the process of repatriating 13 Retirement Living schemes from Extra Care Charitable Trust to Midland Heart (1100 units, 400 staff and £23m of income)
- We continue to simplify the business through delivery of our medium term asset disposals strategy, for example, seeking to divest from more complex specialist buildings
- We started the process of exiting all of our Retirement Living care services. This will allow us to focus on investing in our Retirement Living homes, catering and lifestyle activities
- We banked £13m p.a. of value for money savings. This was achieved ahead of the £10m p.a. target we set ourselves in July 2015 (to recover £41m over 4 years as a result of rent -1%)

As a result, our performance remains consistently strong. We:

- Saw a 50% increase in the number of new homes that we built to 450
- Delivered leading customer satisfaction (84%) and repairs satisfaction results (90%). Repairs satisfaction has remained above 90% for each of the last three years
- Achieved our lowest ever re-let days of 18
- Posted a surplus for the year of £52.9m and improved our credit rating from Moody's to A1
- Continued to achieve the highest governance and viability rating from the regulator (G1,V1)

Our Board continues to remain focused on both delivering new homes and value for money efficiencies with a very clear set of outcomes. Indeed, we have been so successful at meeting our key targets early that year three (2018/19) of our *Fit for the Future* corporate plan (2016-20) was our final year.

As we move into *Making What Matters Brilliant*, 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 of our value for money journey.



OPERATING AND FINANCIAL REVIEW

Financial highlights

Financial performance	**2019**	**2018**
Turnover (£m)	219.3	193.5
Operating surplus (£m)	77.1	75.8
Operating margin (%)	35.2	39.2
Surplus for the year (£m)	52.9	47.8
Interest cover (%)	371	307
Balance sheet		
Housing properties (net of depreciation) (£m)	1,506.1	1,492.4
Gearing (%)	44	48
Operational indicators		
Total housing stock	33,454	33,267
Customer satisfaction (%)	84	86
Current tenant arrears (%)	4.67	4.60
Average re-let time (days)	18.1	20.6
% Routine repairs on time	95.4	95.9

Statement of comprehensive income

- Turnover of £219.3m, shows an increase of £25.8m (13.3%) over the previous year as a result of an increase in outright sales and first tranche shared ownership sales. In addition, turnover benefitted from ending joint venture arrangements on a number of care schemes that we owned as well as growth from new units. This was partially offset by a -1% rent reduction across the majority of the housing portfolio
- Operating surplus has increased by £1.3m to £77.1m largely as a result of increased sales surpluses. This represents an operating margin of 35.2%
- Surplus for the year increased by over £5m as a result of higher operating surpluses and a fall in funding costs
- Total comprehensive income fell to £26.2m, a decrease of £31.3m from the previous year despite a higher surplus. This was due to a one-off transition of recognising the full defined benefit pension liability on Social Housing Pension Scheme (SHPS), which had a one-off impact on reserves of £24.8m, in line with the new reporting requirement. Additionally, there was a loss of £1.9m on the fair value movement of our cash flow hedged financial instruments

	Turnover		**Operating surplus**	
	2019 £m	**2018 £m**	**2019 £m**	**2018 £m**
Social housing lettings	172.9	172.4	63.7	68.2
First tranche shared ownership	9.9	6.0	1.8	1.0
Outright sales	19.7	1.7	2.9	0.2
Care contracts and other	13.7	11.3	7.1	4.4
Other social housing	2.1	1.1	0.6	0.2
Market rent	1.0	1.0	1.0	1.8
Total	**219.3**	**193.5**	**77.1**	**75.8**

Social housing turnover remains the core of the business. Although a 1% rent reduction was passed on for the year, growth in new build properties during the year has has offset this reduction delivering a slight increase overall.

Care contracts and other increased by £2.4m as we took full control over our Retirement Living assets held in a joint venture. This will be expected to reduce going forward as we exit from the care contracts on our Retirement Living portfolio whilst keeping the underlying rental assets.

First tranche sales/outright sales continue to do well with demand strong and turnover and surpluses improving over prior years. Our outright sales were done in partnership with a house builder.

Interest costs of £24.6m are £4.1m lower than 2017/18 due to tight management and repayment of high cost contractual debt.

Statement of financial position

The gross cost of housing properties has increased to £1.8bn (£1.7bn in 2017/18). This is a result of expenditure of £54.6m on new homes and a further £13.2m invested in improvements to existing properties. Properties with a cost value of £17.3m were disposed of during the year.

Social Housing Grant (SHG) has decreased by £8.3m to £702.8m, with a release of £8.1m to the Statement of Comprehensive Income during the year (2017/18, £8.1m)

Debtors increased from £11.1m to £12.9m due to an increase of £1.8m on prepayments and other debtors.

Cash at bank and in hand reduced to £75.6m (2017/18: £79.5m). This reflects a rise in development spend and net loan repayments. However, receipts from shared ownership sales and other disposals offset this. We remain in a strong cash position that together with undrawn facilities ensures that all commitments are fully funded.

Creditors of less than one year decreased by £20m to £54.7m due to a repayment of housing loans within the year. Recycled capital grant creditors increased by £2.8m due to sales of properties that do not meet our needs or are not viable.

Our operating environment

From April 2020, we know that we have greater certainty following the new rent settlement (CPI +1%). There have also been a number of mitigations and extensions announced on Universal Credit. However, some key challenges remain:

- 2019/20 is the last of the year cumulative effect of rent -1%
- More volatility in the housing market as well as uncertainty in the broader macroeconomic environment
- Continued delays on the rollout of Universal Credit
- Voluntary right to buy pilot has been launched in the Midlands

We will need to remain financially strong so that we are able to ride future waves.

VALUE FOR MONEY

Making What Matters Brilliant provided an opportunity to review our value for money (VFM) strategy as well as more closely reflecting the new VFM standard which came into force in April 2018 and the VFM metrics.

The below sections set out the following:

- VFM governance
- Regulatory VFM metrics
- How we compare to others
- Performance of our stock

Strong VFM Governance

As a not-for-profit organisation we aim to deliver social gain to our customers and their communities. Our governance surrounding VFM remains consistent and strong. This is driven by our Board who recognise how integral VFM is to the delivery of our corporate direction.

We have three key VFM drivers, our corporate plan, continuous improvement and regulation and our three VFM pillars:

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

These are underpinned by a strong VFM culture where information is transparently available and accessible to stakeholders. In order to deliver social value we need to be financially sound and make the most of our resources to deliver the services that our customers need. We also need to provide assurance to our lenders and funders.

Regulatory VFM metrics

From April 2018, new VFM metrics were introduced by the regulator, our results are shown below:

	per RSH**	Actual		Forecast
	2017/18	2018/19	2019/20	2020/21
Gearing %*	32.0	30.2	29.5	31.8
Operating margin (SHL) %	39.5	36.9	35.0	34.6
Operating margin (overall) %	35.4	30.9	31.4	31.6
New supply delivered (SHL) %	1.0	1.2	1.1	2.0
EBITDA MRI interest cover %	2.47	2.83	2.70	2.38
Headline CPU £	3,114	3,085	3,442	3,503
ROCE %	4.8	4.8	4.5	3.9
New supply delivered (non SHL) %	0.1	0.3	0.3	0.0
Reinvestment %	4.0	4.6	6.2	7.6

* The gearing % as calculated by the regulator differs to how gearing is calculated in our financial covenants.

**These results show our performance graded as per the 2018 Global Accounts from the regulators.

Gearing – this shows an improving trend to 2019/20 as loans are serviced. Gearing increases in 2020/21 due to drawdown of new borrowing to support increased planned investment in new homes.

Operating margin (SHL and **overall)** – a downward trend reflecting the rent minus 1% reductions to 2019/20, combined with significantly increased investment in our *Making What Matters Brilliant* corporate plan, for example in property, building safety, digital and our colleagues.

New supply delivered (all) – this doubles to 2% in 2020/21 as a result of increased new homes delivery.

EBITDA MRI interest cover – our interest cover is expected to fall because of increased investment in new stock and higher interest rates anticipated in our business planning. Our EBITDA cover is very strong.

Headline CPU – the direction of travel reflects our increased investment in our properties and customer services.

ROCE – this falls reflecting increases in operating costs and on increased investment in new build which tends to have a lower return than the existing stock.

New supply delivered (non SHL) – this reduces to nil in 2020/21 as a result of our new homes delivery strategy, which focuses primarily on affordable and social rented homes.

Reinvestment – this increases over time as we scale up our investment programme in existing and new homes.

How do we compare to others?

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

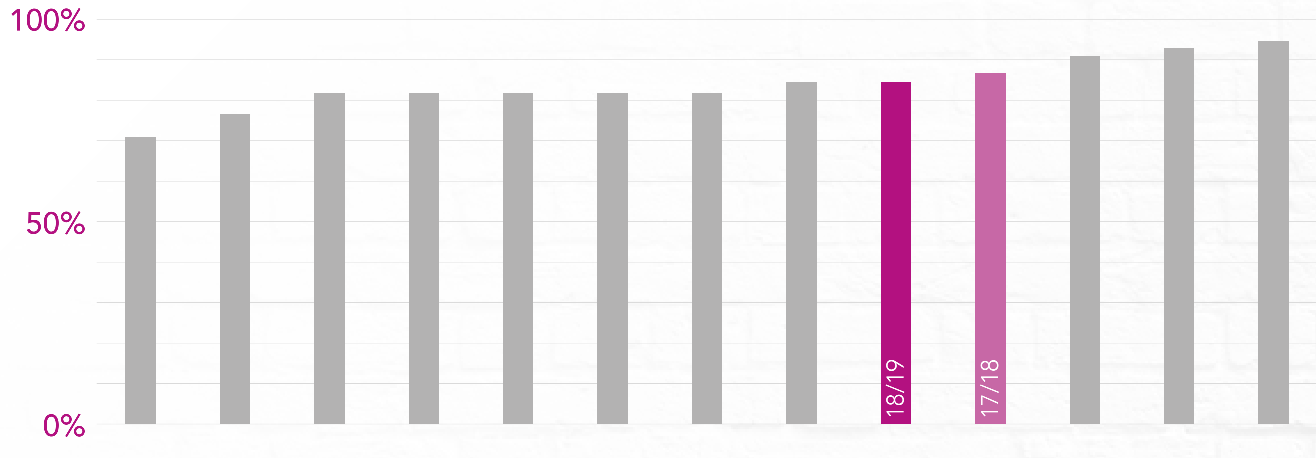
As in previous years, we continue to compare ourselves to a core number of housing and care providers. We have selected organisation all geographies which represent some of the largest and most efficient registered providers as well as including those that largely have strong governance and viability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

Our benchmarking group consists of:

- Accord Housing Association
- Orbit Group
- Paragon Asra Housing
- Waterloo Housing Group
- Riverside
- WM Housing (Citizen)
- East Midlands Housing Group
- Home Group
- Housing and Care 21
- Bromford Group
- Notting Hill

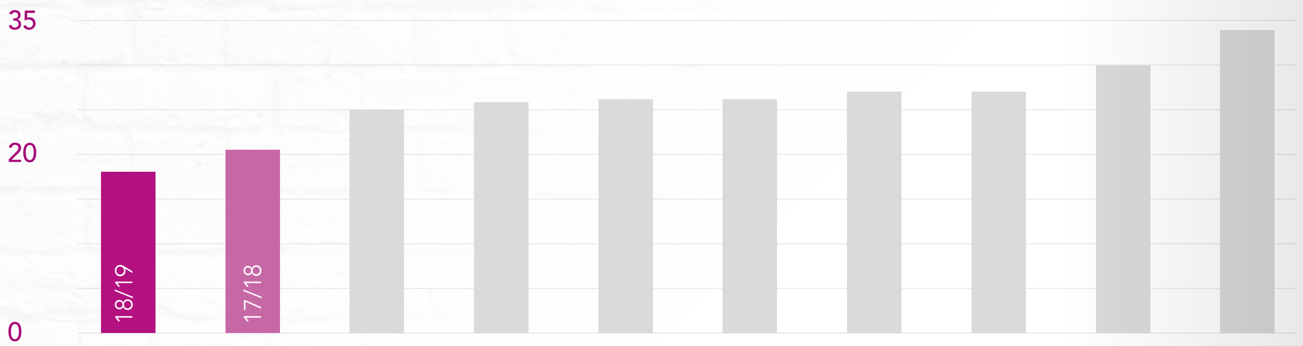
The results for our core metrics are detailed in the graphs below. Performance levels relate to 2017/18 unless otherwise indicated.

Overall customer satisfaction (%)



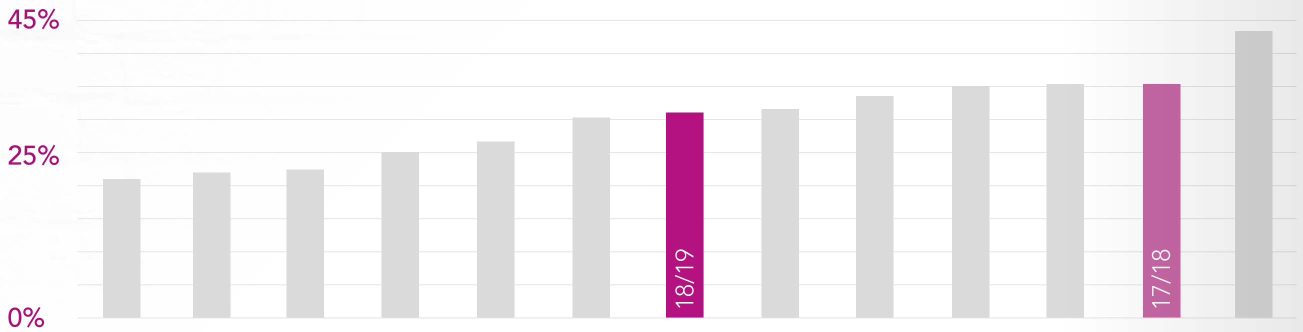
Our performance remains consistently good. Based on our 2018/19 results, we rank 4 out of 12 (all things being equal).

Re-let time (days)

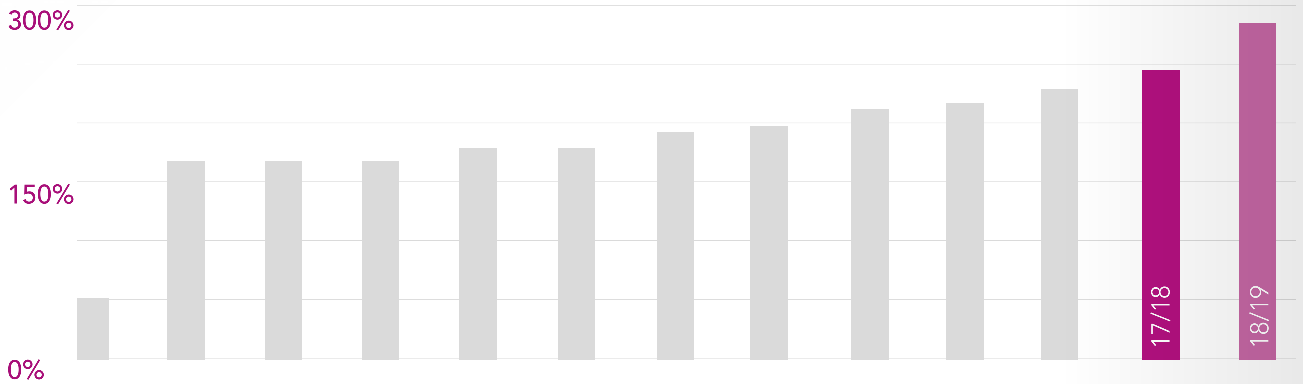


Our performance on re-let times remains leading, we continue to be ranked first (all things being equal).

Operating margin – overall (%)

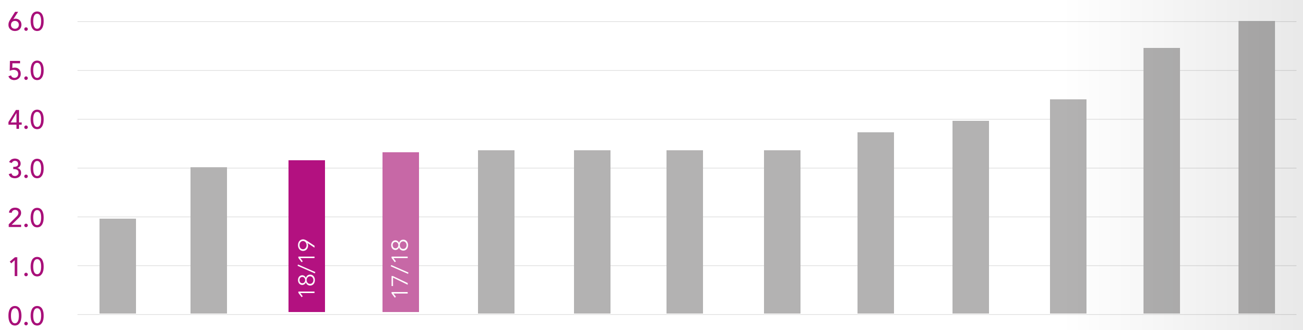


EBITDA MRI interest rate cover – overall (%)



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

Headline cost per unit (£)



Our performance on cost per unit is consistently very good, especially as a mixed provided (including care and support). It reflects the strong VFM agenda set out and delivered as part of our *Fit for the Future* corporate plan.

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 161 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 analyses property performance from a financial perspective and the output is a 30 year discounted cash flow of future income net of expenditure (present value or PV) for each property. This is achieved by projecting forward expected income and costs associated with each property over 30 years.

The analysis identified 161 units that have a negative PV and these have been earmarked for disposal. Our current average PV for our general needs properties is £43,794. Through disposing of these units, the average PV will improve to £44,190.

Demonstrating environmental value

Of equal importance to demonstrating financial and social gains that we generate, we also strive to consider the environmental value that we deliver. As we build new homes and implement our disposals strategy this will have a positive impact on our SAP rating. There are a number of local projects which include accessing eco funds and working with partners to improve the insulation of our homes. Other local examples include beginning to use 'hive' in schemes and the piloting of electric vehicles in our in-house maintenance team.

Our new *Making What Matters Brilliant* corporate plan has an environmental underpinning. We are investing in our offices and touchdown points, with a focus on renewable sources of energy such as the use of solar and rain water. During 2019/20, we will set out our plans for smart working, ensuring journey times are reduced and that colleagues have access to the right equipment and information out in the field. Both will reduce the impact on the environment and allow us to be more responsive to customers.

Delivering social value

Our work to provide high quality housing and support services is underpinned by our continued commitment to deliver social value. We work with a number of local partners across our region to create opportunities or bring about mutually beneficial outcomes 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 us and creates some great opportunities for our customers and the communities in which we operate.

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

- Provided money advice to c850 customers, of these customers 99% sustained their tenancy
- Achieved £2.2m in income maximisation for customers – increasing income and reducing debt liability
- Secured Universal Credit awards of £364k and obtained £65k in discretionary housing payment (DHP) for tenants struggling to meet their rent shortfall due to financial hardship and the effects of welfare reforms
- Obtained £76k in attendance allowance for customers aged 65 and over and £44k in the value of payments secured from charities and trust funds to pay reduced debt, pay bankruptcy fees and purchase essential items
- Issued £3k worth of Tesco/Asda vouchers and 71 food bank vouchers to customers in financial hardship
- Received 80 applications to the Tenant Hardship and Customer Welfare Fund for assistance

We successfully completed our commitments for the Birmingham Business Charter for the fourth consecutive year in 2019.

CORPORATE PLAN – MAKING WHAT MATTERS BRILLIANT

We have developed strong foundations over the last few years; we have discovered how to be truly efficient, how to use our resources well and to focus on the outcomes we want to achieve.

This year we launched our 2019-24 corporate plan, *Making What Matters Brilliant*. This will see us make a record investment over the next five years in the services we offer our customers, in the quality of our homes and in our employees.

We have a clear vision for the organisation and who we want to be. The five sections in our new corporate plan are: investing in our homes, service first, growth and partnerships, people focused and safe and strong.

Investing in homes

What matters to us is:

- An asset investment plan that delivers on c£100m of spend over five years. This includes an extra £15m for Retirement Living and an £8m investment to provide balanced and sustainable communities. This plan will support the provision of safe, secure and well maintained homes that customers choose to live in. In turn, this will impact our drive to sustained levels of demand for our homes and ensure void loss is kept at less than 1% overall
- Having complete (100%) stock condition data as routine to allow for stock intelligence data to better inform investment decisions and optimise the value of our homes
- Evaluating our stock to optimise the return on assets and strengthen the quality of our core product offering. We will deliver a plan over the strategy period to tackle poorly performing properties and those that are difficult to manage due to their specialist nature or are more complex

We will achieve these aims by:

- Seeing the home not just the house
- Treating our properties as our own
- Doing the right thing
- Spending money wisely
- Fixing the problem not the symptom

Service first

What matters to us is:

- Engaging and listening to our customers' priorities to achieve high levels of customer service excellence year in year out (85% - 92% overall and repairs satisfaction)
- Having a sector leading digital offer for our customers, providing choice, meeting the aspirations of customer access and service delivery
- Providing schemes and neighbourhoods where customers want to live and, more importantly, choose to stay
- Making a step change with the responsiveness of our service delivery, colleagues achieving more outcomes proactively and working together as a team before customers have to report issues to us

We will achieve these aims by:

- Taking pride in our services
- Accepting nothing but brilliance
- Responding quickly to customers' needs
- Providing solutions not barriers
- Getting it right first time

Growth and partnerships

What matters to us is:

- Increasing our new build programmes over the next five years by a third to develop at least 3,000 new affordable homes by March 2024, prioritising houses over flats. We will seek to acquire additional homes, with two thirds of our programme being focused on social and affordable rented
- Remaining committed to building homes for shared ownership, with 27% of our current programme helping first time buyers onto the housing ladder. We also acknowledge the wider housing shortage across our areas of operation and the need to consider some market homes which currently equates to 6% of our overall programme
- Using all receipts from voluntary right to buy to secure replacement of homes sold

2018/19

Homes completed	450 (228 affordable rent, 32 social rent, 111 shared ownership and 79 outright sale)
Costs	£54,628,379
Grant received	£5,128,625
Recycled capital grant fund committed	£390,000

- Participating in partnerships with developers, peers and government to grow housing supply to deliver at least two thirds of our new build completions
- Actively engage with like-minded housing associations open to the prospect of a merger

We will achieve these aims by:

- Being an expert in what we do
- Ensuring we build safe, high-quality homes
- Staying ahead of the curve and working with others
- Building our reputation
- Learning from others and sharing successes
- Working on our ambitious partnership with Countryside, which will specifically see 395 new homes with a range of tenures built in the city of Leicester and is well on the way to completion. Dozens of families have now moved in and are enjoying their brand new homes, with the final homes due to be delivered and occupied during 2019 ahead of schedule

People focused

What matters to us is:

- Being recognised externally as a leading employer across our geography within three years of the strategy being launched, including external accreditation as an inclusive employer
- Maintaining colleague engagement as we re-shape services and increase to 80% thereafter
- Reducing voluntary turnover so that it is not exceeding 12% within three years

We will achieve these aims by:

- Developing teams, people and processes that deliver
- Being the best we can be
- Working as a team to make things better
- Enjoying work and delivering results
- Trusting those around us

Safe and strong

What matters to us is:

- Providing safe homes to our customers, and safe places to work for our employees, by achieving full (or 100%) compliance with health and safety and regulatory standards. We will also reflect on learning and reviews on building safety and adopt relevant recommendations as best practice
- Proactively engaging customers on safety issues and provide a clear route to raise concerns on safety matters. Clearly demonstrate how customer concerns about safety have been addressed, including speed of response
- Achieving an operating surplus of 35% (excluding sales) and meeting our financial golden rules on interest cover, gearing and liquidity
- Strong value for money metrics, including cost per unit being in lower quartile (c£3k-£3.2k)
- Securing well priced long term funding (c£250m) to support the delivery of our corporate plan

We will achieve this by:

- Being serious about safety
- Staying on the ball
- Being open and transparent
- Making it happen
- Taking ownership

To read more about our corporate plan visit our website.

OUR PEOPLE

Our people are critical to our success as a business and this year we have continued to invest in their development and growth.

This year we have:

- Strengthened our Leadership Academy with over 110 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 to develop a culture of empowerment and collaboration
- Over 25 colleagues in the second cohort 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. 50% of the first cohort secured their first managerial positions
- Funded 94 apprenticeships to either upskill existing colleagues or as a route to employment into new hard to fill roles
- Successfully repatriated c400 colleagues into our workforce from another provider. Despite this period of change colleague engagement remained consistently high with 70% of respondents recommending us as a place to work
- Continued to review and revise our range of benefits so that colleagues can access meaningful options to suit their lifestyles. We implemented important changes to our pension arrangements to ensure all colleagues have access to equitable pension arrangements that are well above the statutory requirements
- Recognised that financial difficulties are one of the main causes of stress related absences nationally, so we provided colleagues with financial awareness workshops run by independent advisors to enable them to seek practice support and guidance on a range of financial matters
- Continued to have a wide range of colleague consultation through our Partnership Council. Members have had another busy year gathering feedback on a number of important issues including our new corporate plan and the annual pay award
- Seen two of our teams – HR and payroll – become finalists for Team of the Year for their respective professional bodies (The Charted Institute of Personnel and Development and the Chartered Institute of Payroll Professionals)
- Achieved disability confident employer accreditation, as well as establishing our first inclusion network for disabled colleagues

Alongside other employers, we published our gender pay gap results for 2018 and will continue to do so annually. Due to changes in the size and shape of our workforce during 2018, we saw our gender pay gap increase slightly but still mirror the national average.

- Our median gender pay gap was 17.9%, the UK median gender pay gap was 17.9%
- Our mean gender pay gap was 20.7%, the UK mean gender pay gap was 17.1%
- Our median gender pay gap was 9.9% (excluding social care roles)
- Our mean gender pay gap was 13.4% (excluding social care roles)

Due to our robust policies and pay procedures, we pay men and women who work for us equally for doing equivalent jobs. 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 reflect 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.

TREASURY MANAGEMENT

We continue to reduce our interest costs through strong debt management as older more expensive debt is repaid. It is important to note that interest costs do not currently feature in the regulators definition of cost per unit even though their mitigation contributes significantly to our underlying cash flow.

Financial golden rules

All of our financial golden rules continue to be met:

- Gearing target 70%: this was 44% at year end and is currently projected to peak at 56% in April 2020, which is still 19% below covenant levels. We set our target to operate at 70% to give ourselves a buffer against unforeseen fluctuations or accounting changes
- Interest cover target 150%: at year-end we were well in excess at 371%. Interest cover is projected to be at its lowest in 2022 at 224%; and
- Cash (min £20m): we are strong on liquidity, with currently circa £75m cash, £103m facilities and £325m in unencumbered securities (Existing Use basis). 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 18 months expenditure including net committed development spend but excluding any development sales receipts. This provides a firm foundation for us to deliver an average of 600 affordable homes (up from 550) over our 2019-24 corporate plan. These amounts will be further increased by reinvesting our voluntary right to buy proceeds in new stock

We have charged over 5,000 unencumbered properties into our security trustee in preparation for potential future debt issuance.

Loan facilities

Our 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. Our 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.

We have a liquidity policy that states there should be sufficient cash and secured loan facilities to cover 18 months net committed development excluding anticipated development receipts from outright sale/shared ownership sales. As at 31 March 2019 we had group facilities of over £103m available in undrawn fully secured facilities and c£75m in cash. This is sufficient to fully fund our current development pipeline and lay the foundations for our increased development ambition in our 2019-24 corporate plan.

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

	2019	**2018**
Within one year	13,147	32,119
Between one and two years	12,325	12,326
Between two and five years	46,036	42,522
After five years	458,195	469,901
	529,703	**556,868**

During the year, despite growing our development programme, we reduced our loan exposure supported by strong underlying cash surpluses and sales receipts.

86.5% of our debt matures in over 5 years' time.

We have diversified our funder base, such that there is now an almost equal split in our portfolio between bank and capital market funding. As at 31 March 2019, 52% of our debt came from the capital markets and 48% from banks and building societies.

Financial instruments

We are financed by a combination of retained reserves, long-term loan facilities and grants from the Government. We have a formal treasury management policy that is approved by the Executive team. This policy seeks to address funding and liquidity risk and ensure covenant compliance; it states which types of financial instrument can be authorised for use, covering both borrowings and investments. In addition, the policy identifies the maximum value of financial instruments and with whom they may be agreed.

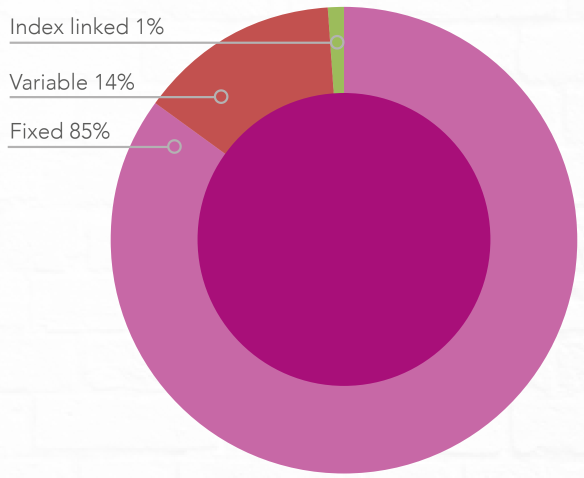
We use embedded instruments (such as fixed rate bank loans and bond issues) and standalone interest rate swaps to reduce the impact to us of increases in interest rates. They are only used to hedge existing variable rate debt liabilities and are prohibited from being used for speculative purposes. As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

As at 31 March 2019 this amounted to just over £68.5m and all counterparties' exposure was fully covered by property collateral and credit thresholds. We manage this exposure on a daily basis. Our treasury policy is to cover at least a 50 basis points fall in interest rates and maintain a minimum of £20m in cash.

We monitor our exposure daily and stress test it. Currently we calculate that if interest rates were to fall by 100bps we would have to provide cash collateral of around £9m to support the swaps transactions. This would be fully covered by our treasury policy that requires a minimum of £20m of cash to be held.

As at 31 March 2019 our debt portfolio was 85% fixed, 14% variable and inflation linked 1%. We do not have any non-sterling or exchange rate exposures.

In recognition of our credit strength and strong financial management we were upgraded this year from an A2 to A1 rating with stable outlook by Moody's Investors Services. This maintains our strong status as one of the leading credits in the sector.



RISK MANAGEMENT

We are, like all businesses, exposed to a number of risks that may have material and adverse effects on our reputation, performance and financial position.

Our Executive team has overall responsibility for risk management and the system of internal control within the business. The Audit and Risk Committee reviews the systems in place to identify and manage risk, and receives reports from the internal auditors, advising on the effectiveness of our internal control systems in managing risk. We use an enterprise-wide risk management (ERM) framework in order to support the identification and management of risk.

ERM enables us to identify, measure and manage the entire range of business opportunities and risks.

Under the ERM Framework, each functional area of the business regularly reports on its major risks and how these are being managed or eliminated.

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

Our risk management process seeks to identify the key risk factors that may have a material impact on us and to manage them appropriately.

The risk factors cover financial, operational and reputational risk. They include:

Risk factor	Management actions to mitigate risk
Financial Impact on rents of Universal Credit (UC) and welfare reform	• Reporting to Board the number of customers affected by UC and welfare reform and the impact of this on arrears, with a provision made in budget for anticipated impact on income • Proactive action from Income team in contacting customers at risk of arrears and of the Money Advice team in helping customers to improve their financial management • The full UC rollout is expected to be completed by 2023, with a gradual introduction starting in 2019. The slow rollout somewhat mitigates the potential impact of a large amount of customers transferring on rent arrears
Adverse impact on financial plan of rent reduction until 2020	• *Fit for the Future* change programme implemented which has delivered value for money. • Surplus generated in 2018/19 assists in riding out future financial shocks. Multi-variate stress testing of financial plan was completed and reported to Board for required corrective actions to be identified and acted upon • Awarded A1 credit rating from Moody's in 2018
People Adverse operational performance due to not having the right people, behaviours, capacity and/or capability	• Resourcing requirements have been mapped against the corporate plan objectives • Business critical roles and replacement plans have been developed. Wider talent management and succession planning framework launched alongside a new behaviours and standards framework
Assets Inability to maintain/improve asset quality	• Strategic asset management group oversight and value based judgements • 30 year asset investment plan including agreed replacement cycles for key property components • Medium term strategic disposal strategy of poor performing and more complex specialised stock

Risk factor	Management actions to mitigate risk
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 care and support staff (including agency) who come into contact with or have access to information on vulnerable and/or challenging customers • Inclusion of health and safety policy in 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; providing second line assurance through testing of building safety compliance controls • Continue to closely monitor and act as appropriate on information arising from the Hackitt report on the Grenfell Tower incident, and other changes in building regulation • Continue to review fire risks related to our stock and how we can reduce fire related risks • Fire risk assessments continue to be our main means of identifying and eliminating/mitigating fire risks. All fire risk assessments are up-to-date and we have no high risk tower blocks • 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 • Continue identifying fire risks in our buildings and, where necessary, quickly making the improvements required to ensure that our buildings are safe • Promptly respond to changes made to legislation and guidance, and benefit from fire safety advice provided to us by West Midlands Fire Service under a Primary Authority Agreement we have entered into with them
Development Failure to build homes that meet demand at the required rate and quality	• Unlike other registered providers, we do not rely on sales for financial viability. The core of our business is rented accommodation • Development project management processes and procedures ensure sound project governance, with project status reported to Board • Development Quality Manager oversees new builds to reduce the number of defects resulting in rework • Operations and New Business Group sign off on development projects to ensure customer demand is met
Change Failure to embed new ways of working required to achieve strategic objectives	• Programme management controls and governance in place over change programmes via Programme Board and project steering groups • Measure of staff turnover and engagement to identify any pockets of lower morale and take appropriate action
Brexit We have reviewed our contingency plans in relation to Brexit including a no-deal Brexit. The key areas we have considered are: • Deteriorating housing market conditions • Interest, inflation and currency risk • Access to finance • Availability of labour • Access to materials and components • Access to data	• We have significant cash reserves and facilities in place to withstand a no deal Brexit. Our financial plans have been robustly stress tested with mitigations in place • We only have a relatively small number of new build homes for outright sale • Of all our staff base, we only have a very small proportion of colleagues who are EU passport holders • In terms of our critical service delivery functions, we have undertaken a lot of work on this as part of our business resilience and continuity planning, specifically in relation to our supply chain (medication and materials). At this stage we consider our contingency plans are comprehensive

Looking forward to 2019/20, there will be changes in our risk profile:

- We will be divesting of the care provision for Retirement Living. This reduces risk significantly, for example, in relation to administering medicine as well staff related risks
- We face an uncertain external political and economic environment that may have implications for the sector. However, we have modelled and stress tested our business plan and this continues to remain robust

CORPORATE GOVERNANCE REPORT

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

To provide our stakeholders with assurance the Board has adopted the National Housing Federation's (NHF) code of governance to measure our governance practices.

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

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

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

The Board of Directors

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

As of 31 March 2019, there were eight Board members, of whom six are Non-executives and two are Executive members, 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 governing of Midland Heart. Executive directors attend all Board meetings and members are provided with appropriate papers and information in advance of all meetings.

On 31 March 2019, the Board had five committees, a pensions sub-group and operates one property owning subsidiary, Cygnet Property Management plc.

Audit and risk committee

The committee, chaired by Julian Healey, is responsible for six key areas, 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 and general data protection regulation (GDPR), business resilience, and reviews the governance and control framework (Midland Heart's standing orders).

At the March 2019 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 2019. 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. They also heard about other areas of focus, and sought assurances as to how these would be addressed during the audit process.

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

The committee received assurances on how the external auditor's objectivity and independence is safeguarded in the provision of non-audit services. The committee were advised at their March 2019 meeting by the external auditor, that in 2018/19, the ratio of non-audit fees (£36k) to audit fees (£85k) was 0.4:1. 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 Finance and New Business 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 £15m.

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

- Plans to optimise treasury arrangements to reduce risks and costs
- Delivery plans for investment in planned maintenance of our stock
- Oversight of our income collection operations, including monitoring the level of rent arrears and overseeing 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 associated mitigation plans
- Overseeing delivery of our development programme and targets and ensuring that funding is in place for this
- Review of capital appraisal parameters for new build projects
- Approving specific new build schemes, up to £15m capital value
- Considering certain finance and new build aspects of the new corporate plan

Remuneration and Executive Selection Committee

The committee, chaired by Martin Tiplady OBE, is responsible for approving remuneration packages for Executive Directors, based on advice received from external remuneration consultants, assessing the performance of Executives and selecting new Executive Directors. It also reviews the Group's pension arrangements and people strategies (including remuneration), and reviews succession planning arrangements for senior management.

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

- Review of pensions strategy
- Appraisal of Chief Executive and Executive team
- Annual pay review for Chief Executive and Executive team
- Review of gender pay gap findings
- Review of new people strategy
- Review of plans for Executive restructure

Pensions sub-group

This sub-group has delegated authority from the Remuneration and Executive Selection Committee to consider and make recommendations to that committee on the major pension's issues and risks facing us and our future pension strategy. It receives independent advice from a firm of pension's actuaries.

Nominations Committee

This committee is chaired by John Edwards CBE. It is responsible for our Board and committees succession planning and recommends new appointees to the Board. It is responsible for recommending what the remuneration should be for Non-executive Directors and for the members of Board and committees.

It also carries out the annual appraisal of the Chair and approves the approach towards, and considers the outputs from, the annual appraisal process for Board and committees within Midland Heart. As well as this, it is responsible for assessing and reporting on overall governance effectiveness.

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

- Approval of plans for, and then outputs from, Board, committee and Chair appraisal
- Board and committee succession planning
- Annual pay review for Board and committees

Operations Committee

The Operations Committee is chaired by Carole Mills. The committee's main responsibilities are; overseeing the effectiveness of our customer engagement and customer scrutiny, ensuring they provide positive outcomes for our customers. The committee also develops and approves our customer facing policies.

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

- Review of approach towards ensuring our buildings are safe
- Review of asset management strategy
- Review of customer annual report
- Review of 'service first' plans for improved landlord services
- Plans for improving repairs services
- Plans for customer digital access to our services
- Review of plans to improve our Retirement Living offer
- Recommendations from the customer scrutiny panel regarding measures to improve fire safety and regarding our response to the Hackitt review
- Reviewed plans to make improvement to the allocation of our properties and how we manage schemes so as to produce more balanced and sustainable communities

Cygnet Property Management plc

Cygnet oversees the acquisition and management of a small portfolio of properties for market rent. Normally any 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 discrete funding arrangements (currently with Handelsbanken), separate from those used by Midland Heart, and operates through a separate legal entity. It is chaired by Chris West.

Executive team

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

Customer involvement

Our customers are the reason we are here and sit at the centre of everything we do. The Regulator for Social Housing requires us to work with customers to shape services and hold Board to account through the Tenant Involvement and Empowerment Consumer Standard.

The Social Housing Green Paper, 'A new deal for social housing', placed further emphasis on landlords being transparent and accountable to its customers and the wider sector.

The National Housing Federation's report 'Together with Tenants' sets out draft commitments to customers and gives them a louder voice, a stronger role in scrutiny and more influence locally and nationally.

We involve as many customers as possible in the co-regulation and improvement of our services with the aims of sustaining tenancies, ensuring services are accessible and delivering a high quality customer experience as well as representing value for money.

We work hard to make sure that the customers we engage with represent all of the communities we serve. Our involved customers scrutinise our performance against the consumer standards within the regulatory framework and act as a consultative mechanism for us to gain feedback on our customer experience and service improvement opportunities.

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

- Oversight group – centres 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 finish activity
- Scrutiny panel - undertakes a commissioned, in-depth evaluation against aspects of the performance of our services, identifying best practices and recommending service improvement proposals
- Task and finish group – provides a 'reality check' to policies and procedures as well as undertaking mystery shopping

Customers are given relevant accredited and non-accredited training enabling them to 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.

We are aware that highly engaged and satisfied customers demonstrate more loyalty. This impacts on tenancy sustainment and many of our additional corporate objectives which supports our aim to be a leading provider of social housing.

Over the last 12 months we have had:

- 600 pieces of customer feedback on fire safety
- 140 customers testing our customer app
- 78 customers contributing to our response to the Green paper
- Our highest engagement in online surveys with 200 in 2018 (10 in 2017)
- 349 customers feeding back through formal complaints

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

Control system	Contribution
Governance arrangements	Provides regular and significant oversight of and scrutiny over the business and its performance.
Terms of reference for the audit and risk committee	Provides for a detailed system of scrutiny and checks the effectiveness of management processes and the overall system of internal control, using both internal and external sources of assurance.
Governance and control framework	Detailed scheme of delegation for all parts of the business, including financial delegation.
Whistleblowing/anti-fraud measures	Whistleblowing and anti-fraud policies are approved by the Board and their effectiveness monitored by Audit and Risk Committee.
Policy, strategy and procedure sign off and ongoing review process	Leads to strategies, policies and procedures which are designed to comply with the law and remain fit for purpose. This includes the governance and control framework which sets out the levels of financial delegation from the Board to management.
Performance information - non-financial (e.g. key performance indicators)	Regularly reporting on operational performance at Board, committees, Executive team and divisional levels allowing for review of performance and prompt action to be taken where performance is below target levels. This includes monitoring of delivery against targets included in our *Fit for the Future* corporate plan.
Performance information – financial (e.g. management accounts and budget reports)	Regularly reporting financial performance information at Board, committees, Executive team and divisional levels together with a forecast of financial performance to year end. This allows any deviation from agreed budgets or failure to meet financial KPIs (or any future risk of this occurring) to be quickly identified, and any necessary remedial measures to be agreed. This includes monitoring of delivery against targets included in our corporate plan.
Treasury management	A group-wide treasury management function monitors compliance with our obligations to lenders (including in relation to performance against our financial and non-financial covenants) and external treasury risk factors, whilst also proactively taking steps to improve the efficiency, and reduce the risk of our loan book. It also ensures we have sufficient cash to meet our short term commitments and access to loan facilities sufficient to finance our long term plans and commitments. It reports regularly to the Finance and New Business Committee, which in turn reports to the Board.
Appraisal of investment decisions	All housing new build investment decisions and other major commitments are subject to appraisal and approval by the relevant governance forum depending on the value of the transaction. All transactions with a capital value in excess of £5m are approved by a forum with a majority of Non-executives.

Control system	Contribution
Internal audit	These are carried out in an audit programme focusing on the areas of highest risk within the business as well as some key controls which are subjected to a continuous audit process. This is an outsourced service which in 2018/19 was delivered by our advisers, PwC. The internal audit programme is determined by the audit and risk committee annually by reference to a rolling three year programme which aims to ensure all key risk areas are audited at least every three years. Audit reports then identify any control weaknesses or areas for improvement and require management to implement corrective actions in relation to those areas of weakness/improvement.
Quality assurance reports	These look at specific areas of operational risk in our customer services, and the outcome of these reviews are reported to and considered at Executive team and Audit and Risk Committee.
Regulatory standards compliance	An annual report provides evidence of compliance against the RSH regulatory standards which is reviewed by the Board and enables the Chair, on behalf of the Board, to certify compliance against the regulatory standards.
Health and safety risk monitoring	A Health and Safety Committee meets regularly to monitor the extent to which we meet our health and safety responsibilities. Reporting of health and safety key performance indicators and review of risks and controls occurs at each meeting of Executive team, Audit and Risk Committee and the Board to determine if health and safety risks are being adequately managed.

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

- The internal auditors who expressed this opinion in the 2018/19 internal audit annual report
- The external auditors who gave an unqualified opinion on the 2018/19 financial statements
- Financial controls that have shown themselves to be effective through the delivery of on budget financial performance in 2018/19
- A group-wide risk management function which seeks to proactively manage risk so as to avoid any serious damage or impact to the Group, its customers or its assets. This includes a formal requirement to report on risk and how this will be mitigated in relation to new business and major development initiatives
- The ongoing monitoring and scrutiny of our assurance framework by both the Executive team and the Audit and Risk Committee

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

- Internal audit
- External audit
- Care Quality Commission (CQC) annual inspection programme of care services
- Supporting people inspections by local authorities of our supported housing
- 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, the Regulator of Social Housing
- Ad hoc audit reviews
- Whistleblowing reports
- Regulator of Social Housing regulatory judgement (last updated November 2018)
- 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 key performance indicators to be quickly understood and corrective actions put in place.

On behalf of the Board, the Audit and Risk Committee has reviewed and obtained advice from the external auditors on the effectiveness of the system of internal control for the year ended 31 March 2019. No significant weaknesses were found in the internal controls as at the date of signing that resulted in material losses, contingencies or uncertainties that require disclosure in the financial statements or in the auditors' report on the financial statements.

Regulator of Social Housing regulatory standards compliance

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

During the year, a stability check was carried out on us by the RSH. This resulted in a positive outcome with the regulator confirming our regulatory judgement as G1/V1, the highest possible rating.

Voluntary right to buy agreement

The Board previously approved a resolution to enter into a voluntary agreement with the government to implement the voluntary right to buy (VRTB) policy. The Midlands' VRTB pilot commenced in summer 2018 and based on applications received to date and the scale of the pilot, we anticipate that around 500 properties will be sold as a result. Additional properties to be developed as part of our new build programme will replace these properties.

Mergers and partnerships

The Board previously decided 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:

- Enable 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 our approach towards mergers and partnerships:

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

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

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

Directors report

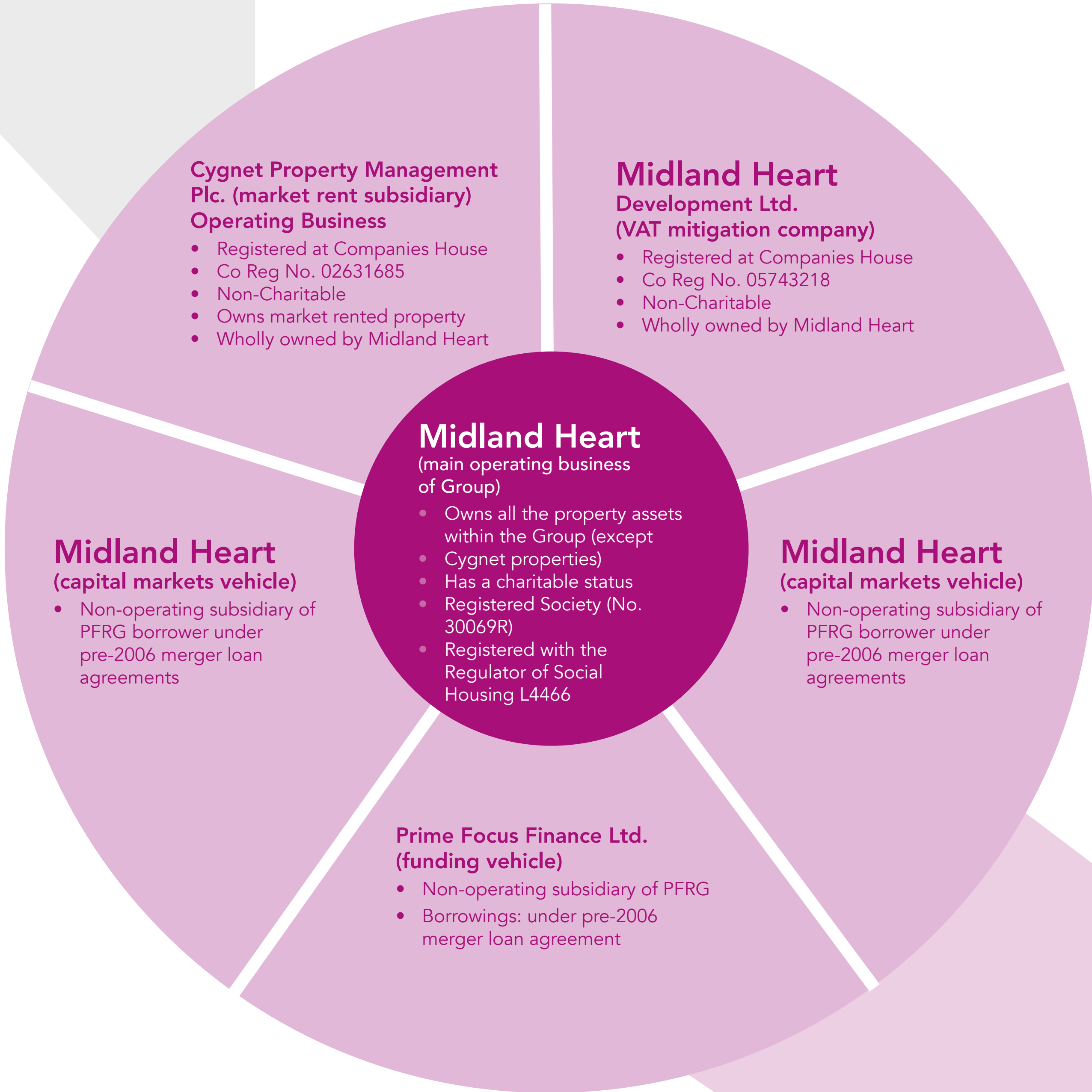
The Board of Directors present their report, together with the audited financial statements for the year ended 31 March 2019.

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 set out below the legal entity structure within the Group for which Midland Heart Limited is both the parent and the main operating business.



DIRECTORS REPORT

A review of our operational and financial performance for the year ended 31 March 2019 can be found in the strategic review from page 42.

Income and surplus for the year

The Group's activities generated turnover for the period of £219.3m (2018 - £193.5m) on which a surplus of £77.1m (2018 - £47.8m) was achieved. On 31 March 2019, revenue reserves totalled £328m (2018 - £300m).

Legal proceedings

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

Financial instruments

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

Equality and diversity

Equality and diversity has always been at the very centre of who we are. 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 our business.

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 vibrant and diverse region we serve. When recruiting to our Board we actively reach out to those groups currently under-represented on our Board (especially women and black minority ethnicity (BME) candidates) so as to encourage applications from these groups, but we look to receive applications from persons representing all strands of diversity.

Our Board recruitment practices enable us to reach out to underrepresented groups and our approach meets the standards required by the Parker and Davies reviews.

Modern Slavery Act

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

Health and safety

Our customer and colleague safety is our number one priority. We provide safe homes for our customers and safe places to work for our colleagues, for us that means health and safety is more than simply a tick box exercise.

We have put customer and colleague safety at the centre of our new corporate plan. Responding to events outside of our business we are committed to ensuring concerns about safety can be raised as quickly and seamlessly as possible. We make sure that we respond to any concerns connected to safety; we are open and transparent about what needs to be improved and how that will be done.

We have established a new safety dashboard which provides clear and transparent information about customer and colleague safety. We also have a new overarching group to monitor and oversee both building and health and safety issues; ensuring a collaborative approach to keeping ourselves and others safe.

Investment for the future

We are committed to investing in our properties and the communities in which we serve. During the year we invested £17.2m (2018: £15.5m) on planned improvements and major repairs to our properties. Our asset management strategy also provides for the disposal of a number of properties which sit outside of our core operational area. Proceeds from these properties are used to fund development of properties within our core area.

Policy on payment to suppliers

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

Environmental matters

We do business in a sustainable way. We strive to meet exacting environmental standards for all of our new developments funded by 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.

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 operate 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 important issues for colleagues 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 question time with exec sessions, 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 all colleagues.

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 and they have indicated their willingness to continue in office. The Resolutions for their re-appointment and to authorise the directors to determine their remuneration will be proposed at the AGM on 20 September 2019. The auditors' fees for audit and non-audit work are disclosed in note 9 to the financial statements.

Going concern

The Board has considered those areas that could give rise to significant financial exposure and 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 efficiency savings through our *Fit for the Future* corporate plan which has realised savings that have fully mitigated this risk.

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

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

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

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

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

The financial statements are required by law to give a true and fair view of the state of affairs of the Group and the Association and of 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
- Use the going concern basis of accounting unless it either intends to liquidate the Group or the Association or to cease operations, or has no realistic alternative but to do so

The Board is responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Association and enable them to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. It is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the Association and to prevent and detect fraud and other irregularities.

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

Statement as to disclosure of information to auditors

The directors who held office at the date of approval of these financial statements confirm that, 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

Anna Simpson	**John Edwards, CBE**
Company Secretary	Chair
26 July 2019	26 July 2019

INDEPENDENT AUDITOR'S REPORT TO MIDLAND HEART LTD

Opinion

We have audited the financial statements of Midland Heart Limited ("the Association") for the year ended 31 March 2019 which comprise the Group Statement of Comprehensive Income, Association Statement of Comprehensive Income, Group Statement of Financial Position, Association Statement of Financial Position, Group Cash Flow Statement, Group and Association Statement of Movement in Reserves and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- Give a true and fair view, in accordance with UK accounting standards, 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 2019 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
- 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.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the Directors such as the valuation of the defined benefit pension liability, impairment of stock and fixed assets and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing Group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for an association and this is particularly the case in relation to Brexit.

Going concern

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

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 a year from the date of approval of the financial statements. In our evaluation of the Board's conclusions, we considered the inherent risks to the Group's business model, including the impact of Brexit, and analysed how those risks might affect the Group and Association's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group or the Association will continue in operation.

Other information

The Association's Board is responsible for the other information, which comprises the Board's annual report, including the strategic review, value for money, risk management and corporate governance report, the statement on internal control and the directors report. 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 37, 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
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants, One Snowhill, Snow Hill Queensway
Birmingham B4 6GH
26 July 2019

GROUP STATEMENT OF COMPREHENSIVE INCOME

	Note	2019 £'000	2018 £'000
Turnover	3	219,277	193,450
Operating expenditure	3	(151,498)	(124,884)
Surplus on disposal of property, plant and equipment	6	8,781	5,985
Surplus on revaluation of investment properties	11	500	1,213
Operating surplus	**3**	**77,060**	**75,764**
Interest receivable	7	1,019	859
Interest and financing costs	8,24	(24,611)	(28,747)
Surplus before tax	**9**	**53,468**	**47,876**
Taxation	10	(586)	(93)
Surplus for the year		**52,882**	**47,783**
Other comprehensive income			
Movement in fair value of cash flow hedged financial instruments	23	(1,869)	9,730
SHPS opening balance adjustment on initial recognition	24	(14,567)	-
Actuarial loss on defined benefit scheme	24	(10,203)	-
Total comprehensive income for the year		**26,243**	**57,513**

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

These financial statements were approved by the Board of Directors on 26 July 2019 and signed on its behalf by:

Member	Member	Member
John Edwards, CBE	**Julian Healey**	**Glenn Harris, MBE**

ASSOCIATION STATEMENT OF COMPREHENSIVE INCOME

	Note	2019 £'000	2018 £'000
Turnover	3	219,011	192,759
Operating costs	3	(151,031)	(124,798)
Surplus on disposal of property, plant and equipment	6	8,771	5,985
Operating surplus	**3**	**76,751**	**73,946**
Interest receivable	7	1,018	859
Interest and financing costs	8,24	(24,401)	(28,583)
Gift Aid receivable		175	83
Surplus before tax	**9**	**53,543**	**46,305**
Taxation	10	(552)	(45)
Surplus for the year		**52,991**	**46,260**
Other comprehensive income			
Movement in fair value of cash flow hedged financial instruments	23	(1,869)	9,730
SHPS opening balance adjustment on initial recognition	24	(14,567)	-
Actuarial loss on defined benefit scheme	24	(10,203)	-
Total comprehensive income for the year		**26,352**	**55,990**

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

These financial statements were approved by the Board of Directors on 26 July 2019 and signed on its behalf by:

Member	Member	Member
John Edwards, CBE	**Julian Healey**	**Glenn Harris, MBE**

GROUP STATEMENT OF FINANCIAL POSITION

	Note	2019 £'000	2018 £'000
Fixed assets			
Tangible assets			
Housing properties	12	1,506,068	1,492,386
Investment properties	11	23,337	18,400
Other fixed assets	13	28,468	29,427
Fixed asset investments	14	2,451	2,834
Total fixed assets		**1,560,324**	**1,543,047**
Current assets			
Debtors	16	12,895	11,142
Properties for sale and work in progress	17	5,422	3,428
Cash and cash equivalents	18	75,598	79,541
		93,915	**94,111**
Creditors: amounts falling due within one year	19	(54,657)	(74,683)
Net current assets		**39,258**	**19,428**
Total assets less current liabilities		**1,599,582**	**1,562,475**
Creditors: amounts falling due after more than one year	20	(1,295,472)	(1,329,563)
Pension – defined benefit liability	24a	(44,955)	-
Total net assets		**259,155**	**232,912**
Reserves			
Revenue reserves		327,691	299,579
Cash flow hedge reserve		(68,536)	(66,667)
Total reserves		**259,155**	**232,912**

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

These financial statements were approved by the Board of Directors on 26 July 2019 and signed on its behalf by:

Member	Member	Member
John Edwards, CBE	**Julian Healey**	**Glenn Harris, MBE**

ASSOCIATION STATEMENT OF FINANCIAL POSITION

	Note	2019 £'000	2018 £'000
Fixed assets			
Tangible assets			
Housing properties	12	1,510,749	1,496,197
Other fixed assets	13	20,282	21,068
Investments	14	2,451	2,834
Investments in subsidiaries	15	6,067	6,067
Total fixed assets		**1,539,549**	**1,526,166**
Current assets			
Debtors	16	13,770	11,620
Properties for sale and work in progress	17	5,422	3,428
Cash and cash equivalents	18	74,594	78,625
		93,786	**93,673**
Creditors: amounts falling due within one year	19	(60,894)	(81,458)
Net current assets		**32,892**	**12,215**
Total assets less current liabilities		**1,572,441**	**1,538,381**
Creditors: amounts falling due after more than one year	20	(1,274,182)	(1,311,429)
Pension – defined benefit liability	24a	(44,955)	-
Total net assets		**253,304**	**226,952**
Reserves			
Revenue reserves		321,840	293,619
Cash flow hedge reserve		(68,536)	(66,667)
Total reserves		**253,304**	**226,952**

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

These financial statements were approved by the Board of Directors on 26 July 2019 and signed on its behalf by:

Member	Member	Member
John Edwards, CBE	**Julian Healey**	**Glenn Harris, MBE**

GROUP CASH FLOW STATEMENT

	Note	2019 £'000	2018 £'000
Cash flows from operating activities			
Operating Surplus		77,060	75,764
Adjustments for:			
Depreciation and impairment charges		26,833	24,436
Amortisation of grant		(8,140)	(8,052)
Surplus on disposal of property, plant and equipment		(8,781)	(5,985)
Surplus on revaluation of investment properties		(500)	(1,213)
Interest received		1,019	859
Interest and financing costs (including capitalised interest)		(26,403)	(30,138)
Increase in debtors		(1,762)	(1,166)
Increase in stock		(3,240)	(906)
Decrease in creditors		(58,077)	(9,047)
Increase in pension defined benefit liability		44,955	-
Tax paid		(376)	(142)
Net cash flow from operating activities		**42,588**	**44,410**
Cash flows from investing activities			
Acquisition and construction of housing properties		(71,820)	(60,289)
Social Housing Grant received		5,129	3,779
Sales of housing properties		50,389	24,000
Net decrease in investments and loans to other associations		383	183
Purchase of other tangible fixed assets		(2,402)	(3,597)
Sales of other tangible fixed assets		-	1,068
Decrease in short term deposits		-	595
Net cash flow from investing activities		**(18,321)**	**(34,261)**
Cash flows from financing activities			
Loan advances received		3,795	36,654
Loan principal repayments		(32,005)	(35,201)
Net cash flow from financing activities		**(28,210)**	**1,453**
Net (decrease)/increase in cash and cash equivalents	**32**	**(3,943)**	**11,602**
Cash and cash equivalents at the start of the year		79,541	67,939
Cash and cash equivalents at the end of the year		**75,598**	**79,541**

STATEMENT OF MOVEMENTS IN RESERVES

Group	**Income and Expenditure Reserves**	**Cash Flow Hedge Reserves**	**Total Reserves**
	£'000	**£'000**	**£'000**
At 1st April 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**
Surplus for the year	52,882	-	52,882
Movement in cash flow hedge	-	(1,869)	(1,869)
Movement in defined benefit pension obligations	(24,770)	-	(24,770)
At 31 March 2019	**327,691**	**(68,536)**	**259,155**

Association			
At 1st April 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**
Surplus for the year	52,991	-	52,991
Movement in cash flow hedge	-	(1,869)	(1,869)
Movement in defined benefit pension obligations	(24,770)	-	(24,770)
At 31 March 2019	**321,840**	**(68,536)**	**253,304**

NOTES TO THE FINANCIAL STATEMENTS

(forming part of the financial statements)

1. Legal status

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

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

Details of the Group entities are set out in note 30.

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 the Income and Expenditure account. The Group engaged independent valuation specialists to determine fair value at 31 March 2019. The valuer used a valuation technique based on a discounted cash flow model. The determined fair value of the investment property is most sensitive to the estimated yield as well as the long term vacancy rate. The key assumptions used to determine the fair value of investment property are further explained in note 11.

Pension and other post-employment benefits

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

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

Social Housing Pension Scheme (SHPS)

SHPS is a multi-employer scheme which provides benefits to non-associated employers. The scheme is classified as a defined benefit scheme. At 31 March 2018 it was not possible for the Association to obtain sufficient information to account for the liability on a full FRS 102 valuation basis so it was accounted for as a defined contribution scheme where the net present value of the deficit contributions were recognised in the accounts as creditors falling within and more than one year.

As a result of additional information, SHPS are now able to split the pension liability by employer which has resulted in the scheme liability being accounted for adopting a full FRS 102 valuation at 31 March 2019. In accordance with FRED 71, no restatement of prior year figures has been made in these accounts with the opening balance adjustment being recorded through OCI. Further details are given in note 24.

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 2019 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 Income and Expenditure 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 conomic 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 2019, interest has been capitalised at an average rate of 4.5% (2018: 4.5%) 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.

Current asset investments

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

2i Social Housing and other government grants

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

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

SHG must be recycled by the Group under certain conditions, if a property is sold, or if another relevant event takes place. In these cases, the SHG can be used for projects approved by Homes England 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)

This fund is now closed and the creditor is carried forward until it is used to fund the acquisition of new social housing.

Properties developed for outright sale

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

2j Non-Government grants

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

2k Supported housing managed by agencies

Social housing capital grants are claimed by the Group as developer and owner of the property and included in the 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 income and expenditure is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

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

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 (SHPS), a multi-employer defined benefit final salary scheme managed by The Pensions Trust.

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

A full actuarial valuation for the scheme which was carried out with an effective date of 30 September 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 24 to the financial statements.

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

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

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

Changes in the defined benefit obligation that arise from:

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

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

The defined benefit scheme was closed to new members in October 2010. A defined contribution scheme is in place to new members. Employer contributions to this scheme are charged to the 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.

2r Provisions

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

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

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 Homes England under the accrual model.

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

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, 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 Income and Expenditure 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 the Income and Expenditure 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 the Income and Expenditure account. 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 income and expenditure using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the Income and Expenditure account (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of Housing Properties that take a substantial time to be prepared for use are capitalised up to the date of practical completion of the scheme based on the average rate paid on borrowings.

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

Interest income and interest payable are recognised in the Income and Expenditure as they accrue. Dividend income is recognised in the Income and Expenditure 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 team 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 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 the Income and Expenditure account.

They are measured at fair value at each reporting date. Gains and losses on cash flow hedges which are highly effective are recognised in other comprehensive income and accumulated in the cash flow hedge reserve. Any ineffective portion of a gain or loss on cash flow hedges is recognised in the income and expenditure account.

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

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

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

Impairment

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

The following financial instruments are assessed individually for impairment:

- All equity instruments regardless of significance
- 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

2019

	Turnover	Operating costs	Surplus on disposals	Surplus on investment properties	Operating surplus/ (deficit)
	£'000	£'000	£'000	£'000	£'000
Social housing lettings	**172,896**	**109,153**	**-**	**-**	**63,743**
Other social housing activities					
Community regeneration activities	9	8	-	-	1
Development services and costs not capitalised	-	37	-	-	(37)
First tranche shared ownership sales	9,887	8,131	-	-	1,756
Properties developed for outright sale	19,745	16,840	-	-	2,905
Other income	2,113	1,491		-	622
Total	**31,754**	**26,507**	**-**	**-**	**5,247**
Activities other than social housing lettings					
Charges for support services	12,513	14,947	-	-	(2,434)
Market rent lettings	961	467	-	-	494
Student lettings	270	101	-	-	169
Nursing homes	-	-	-	-	-
Commercial	883	323	-	-	560
Disposal of property, plant and equipment	-	-	8,781	-	8,781
Revaluation of investment properties	-	-	-	500	500
Total	**14,627**	**15,838**	**8,781**	**500**	**8,070**
Total from social and non-housing activities	**219,277**	**151,498**	**8,781**	**500**	**77,060**

3a. Group turnover, operating costs, operating expenditure and operating surplus (continued)

2018

	Turnover	Operating costs	Surplus on disposals	Surplus on investment properties	Operating surplus/ (deficit)
	£'000	£'000	£'000	£'000	£'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)
First tranche shared ownership sales	5,959	4,913	--	--	1,046
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	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
Disposal of property, plant and equipment	-	-	5,985	-	5,985
Revaluation of investment properties	-	-	-	1,213	1,213
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**

3b. Particulars of turnover and operating expenditure from social housing lettings

2019

	General needs housing £'000	Supported housing £'000	Residential care homes £'000	Shared ownership accomm. £'000	Total £'000
Rent receivable net of identifiable service charges, net of voids	111,200	20,278	5	5,086	136,569
Service charge income	5,936	16,204	4	1,135	23,279
Amortised government grants (accrual model)	6,085	1,734	31	247	8,097
Net rental income	**123,221**	**38,216**	**40**	**6,468**	**167,945**
Other income	353	3,615	373	610	4,951
Turnover from social housing lettings	**123,574**	**41,831**	**413**	**7,078**	**172,896**
Management	16,873	11,224	46	1,501	29,644
Service charge costs	6,401	15,436	99	1,062	22,998
Routine maintenance	16,789	4,421	70	163	21,443
Planned maintenance	4,404	1,328	18	7	5,757
Major repairs expenditure	1,867	2,165	38	7	4,077
Depreciation of housing properties	18,533	3,965	74	717	23,289
Bad debts	1,600	304	-	(13)	1,891
Holiday pay accrual	15	36	-	3	54
Operating costs on social housing lettings	**66,482**	**38,879**	**345**	**3,447**	**109,153**
Operating surplus on social housing lettings	**57,092**	**2,952**	**68**	**3,631**	**63,743**
Void losses	(820)	(1,094)	-	(31)	(1,945)

Financials

3b. Particulars of turnover and operating expenditure from social housing lettings (continued)

2018

	General needs housing £'000	Supported housing £'000	Residential care homes £'000	Shared ownership accomm. £'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)

3c. Association turnover, operating costs, operating expenditure and operating surplus

2019

	Turnover £'000	Operating costs £'000	Surplus on disposals £'000	Operating surplus/(deficit) £'000
Social housing lettings	**173,064**	**109,153**	**-**	**63,911**
Other social housing activities				
Community regeneration activities	9	8	-	1
Development services and costs not capitalised	695	37	-	658
First tranche shared ownership sales	9,887	8,131	-	1,756
Properties developed for outright sale	19,745	16,840	-	2,905
Other income	1,945	1,491	-	454
Total	**32,281**	**26,507**	**-**	**5,774**
Activities other than social housing lettings				
Charges for support services	12,513	14,947	-	(2,434)
Student lettings	270	101	-	169
Nursing homes	-	-	-	-
Commercial	883	323	-	560
Disposal of property, plant and equipment	-	-	8,771	8,771
Total	**13,666**	**15,371**	**8,771**	**7,066**
Total from social and non-housing activities	**219,011**	**151,031**	**8,771**	**76,751**

3c. Association turnover, operating costs, operating expenditure and operating surplus (continued)

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)
First tranche shared ownership sales	5,959	4,913	-	1,046
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
Disposal of property, plant and equipment	-	-	5,985	5,985
Total	**11,278**	**12,901**	**5,985**	**4,362**
Total from social and non-housing activities	**192,759**	**124,798**	**5,985**	**73,946**

3d. Association turnover, operating costs and operating surplus

2019

	General needs housing £'000	Supported housing £'000	Residential care homes £'000	Shared ownership accomm. £'000	Total £'000
Rent receivable net of identifiable service charges, net of voids	111,200	20,278	5	5,086	136,569
Service charge income	5,936	16,204	4	1,135	23,279
Amortised government grants (accrual model)	6,085	1,734	31	247	8,097
Net rental income	**123,221**	**38,216**	**40**	**6,468**	**167,945**
Other income	521	3,615	373	610	5,119
Turnover from social housing lettings	**123,742**	**41,831**	**413**	**7,078**	**173,064**
Management	16,873	11,224	46	1,501	29,644
Service charge costs	6,401	15,436	99	1,062	22,998
Routine maintenance	16,789	4,421	70	163	21,443
Planned maintenance	4,404	1,328	18	7	5,757
Major repairs expenditure	1,867	2,165	38	7	4,077
Depreciation of housing properties	18,533	3,965	74	717	23,289
Bad debts	1,600	304	-	(13)	1,891
Holiday pay accrual	15	36	-	3	54
Operating costs on social housing lettings	**66,482**	**38,879**	**345**	**3,447**	**109,153**
Operating surplus on social housing lettings	**57,260**	**2,952**	**68**	**3,631**	**63,911**
Void losses	(820)	(1,094)	-	(31)	(1,945)

3d. Association turnover, operating costs and operating surplus (continued)

2018

	General needs housing £'000	Supported housing £'000	Residential care homes £'000	Shared ownership accomm. £'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)

4. Directors' emoluments

	2019 £'000	2018 £'000
Aggregate Emoluments payable to Directors (including pension contributions and benefits in kind)	938	1,157
Emoluments (excluding pension contributions) payable to the Chief Executive who was also the highest paid Director	248	298

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

There were four Directors in the Group's pension scheme described in note 24 (2018: 4).
Two other Directors (including the Chief Executive) received contributions paid as a supplement to their salary.

For the purposes of this note, Directors are defined as members of the Board of Management and the Executive 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 team were remunerated as follows:

Director	Position	Date of appointment	Date of resignation	Salaries £'000	Taxable benefits £'000	Pension £'000	Total 2019 £'000	Total 2018 £'000
Glenn Harris	Chief Executive Officer	29/03/2018		221	27	-	248	181
Anna Simpson	Executive Director of Finance and Resources	13/11/2018		58	3	4	65	-
David Taylor	Executive Director of Operations	15/04/2015		157	9	13	179	168
Andrew Foster	Executive Director of Governance and Contracts and Company Secretary	23/11/2012	18/04/2019	136	20	-	156	154
Joe Reeves	Executive Director of Strategy and Growth	08/07/2013		153	9	9	171	149
Baljinder Kang	Executive Director of People Services	01/06/2018		105	7	7	119	-

The aggregate amount of Directors' Pensions recognised within these financial statements for the year ended 31 March 2019 is £33k (2018: £33k).

The aggregate compensation for loss of office of key management personnel was £156k (2018: £149k). The post of Executive Director of Governance and Contracts and Company Secretary was made redundant, and compensation for loss of office of £156k has been accrued in these financial statements and was paid after the year end.

4. Directors' emoluments (continued)

22 members of the Board of Management, subsidiary Boards and Committees received emoluments totalling £119,000 (2018: £138,000). The Board members listed below are the highest remunerated over financial year 2019.

They have been remunerated as follows:

		2019 £'000	2018 £'000
John Edwards		25	25
Julian Healey		11	9
Kathleen McAteer		9	9
Martin Tiplady		11	11
Carole Mills	Appointed 29/09/2017	11	5
Chris West	Appointed 29/09/2017	11	5
Mina Parmar	Resigned 08/11/2018	6	5

5. Employee information

	Group		Association	
	2019 Number	2018 Number	2019 Number	2018 Number
Average number of employees expressed as full time equivalents	1,351	1,188	1,351	1,188

A full time equivalent employee is classified as working a fully contracted 35 hour week.

Staff Costs (for the above persons)

	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Wages and salaries	37,805	33,505	37,805	33,505
Social security costs	3,526	3,265	3,526	3,265
Other pension costs	1,327	737	1,327	737
	42,658	**37,507**	**42,658**	**37,507**

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

5. Employee information (continued)

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	2019 Number	2018 Number
£310,000 to £320,000	1*	-
£300,000 to £310,000	-	-
£290,000 to £300,000	-	1
£250,000 to £290,000	-	-
£240,000 to £250,000	1	-
£210,000 to £240,000	-	-
£200,000 to £210,000	-	1
£190,000 to £200,000	-	-
£180,000 to £190,000	-	1
£170,000 to £180,000	2	-
£160,000 to £170,000	-	1
£150,000 to £160,000	-	1
£140,000 to £150,000	-	1
£130,000 to £140,000	1	-
£120,000 to £130,000	1	-
£110,000 to £120,000	-	1
£100,000 to £110,000	4	1
£90,000 to £100,000	5	3
£80,000 to £90,000	3	6
£70,000 to £80,000	4	7
£60,000 to £70,000	18	15
Total	**40**	**39**

*This is a combination of salary paid during 18/19 and compensation for loss of office accrued for 19/20 (refer to note 4).

6a. Surplus on sale of fixed assets – Group

	2019			2018		
	Proceeds £'000	Cost of Sales £'000	Surplus £'000	Proceeds £'000	Cost of Sales £'000	Surplus £'000
Staircasing on shared ownership	6,561	3,907	2,654	6,307	4,264	2,043
Other property sales	13,948	7,821	6,127	10,543	6,601	3,942
Total	**20,509**	**11,728**	**8,781**	**16,850**	**10,865**	**5,985**

6b. Surplus on sale of fixed assets - Association

	2019			2018		
	Proceeds £'000	Cost of Sales £'000	Surplus £'000	Proceeds £'000	Cost of Sales £'000	Surplus £'000
Staircasing on shared ownership	6,561	3,907	2,654	6,307	4,264	2,043
Other property sales	13,840	7,723	6,117	10,543	6,601	3,942
Total	**20,401**	**11,630**	**8,771**	**16,850**	**10,865**	**5,985**

7. Interest receivable and similar income

	Group		Association	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Interest receivable on financial assets measured at amortised cost:				
Interest on investments	438	642	437	642
Equity investment realisation	581	217	581	217
Total interest receivable and similar income	**1,019**	**859**	**1,018**	**859**

8. Interest and financing costs

	Group		Association	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Interest receivable on financial assets measured at amortised cost				
Housing loans	16,343	17,069	16,107	16,949
Discounted bonds	1,456	1,415	1,456	1,415
Interest on finance leases	622	617	622	617
Notional interest on Recycled Capital Grant Fund	30	29	30	29
	18,451	**19,130**	**18,215**	**19,010**
Interest payable on loan swap arrangements	6,048	6,797	6,048	6,797
Interest capitalised	(1,682)	(1,119)	(1,551)	(1,064)
Loan fees	873	924	768	825
Interest paid on early repayment of loan	-	3,022	-	3,022
Unwinding of discount on Social Housing Pension Scheme liability	-	324	-	324
Change to measurement of net finance cost on Social Housing Pension Scheme liability	921	(331)	921	(331)
Total interest and financing costs	**24,611**	**28,747**	**24,401**	**28,583**

Interest was capitalised at an average rate of 4.5% (2018: 4.5%).

9. Surplus before taxation is stated after charging

	Group		Association	
	2019 £'000	2018 Restated £'000	2019 £'000	2018 Restated £'000
Depreciation of housing property fixed assets	23,526	21,336	23,526	21,336
Depreciation of non-housing property fixed assets	3,307	3,100	3,110	2,906
Auditors' remuneration - audit fees				
Group fees	85	87	85	87
Other Group services	38	39	38	39
Payments under operating leases				
Plant	507	514	507	514
Office	28	76	28	76

The prior year comparatives for operating leases has been restated to include vehicles used in our repairs hub.

10. Taxation on surplus on ordinary activities

a) Analysis of charge in the period - Group	2019 £'000	2018 £'000
United Kingdom Corporation Tax on surplus of the period	577	116
Adjustments in respect of prior years	-	-
	577	**116**
Deferred tax	9	(23)
	586	**93**

a) Analysis of charge in the period - Association	2019 £'000	2018 £'000
United Kingdom Corporation Tax on surplus of the period	552	45
Adjustments in respect of prior years	-	-
	552	**45**
Deferred tax	-	-
	552	**45**

Factors affecting the tax charge for the year

The Corporation Tax charge is lower (2018: lower) than that resulting from applying the standard rate of Corporation Tax of 19% (2018: 19%) to the surplus before taxation.

The differences are explained below:

	Group		Association	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Surplus on ordinary activities before tax	53,468	47,876	53,543	46,305
Tax payable at 19% (2018: 19%) thereon	10,159	9,096	10,173	8,798
Expenses not deductible for tax purposes	-	-	-	-
Income not taxable for tax purposes	(120)	(230)	-	-
Amounts charged/(credited) directly to equity equity or otherwise transferred	-	(16)	-	-
Current tax charged/(credited) directly to equity	-	-	-	-
Fixed Asset differences	4	(7)	-	-
Prior period adjustments - deferred tax	-	2	-	-
Capital gains/(losses)	-	-	-	-
Adjust closing deferred tax to average rate	2	3	-	-
Adjust opening deferred tax to average rate	(3)	(3)	-	-
Exemption due to charitable status	(9,621)	(8,726)	(9,621)	(8,753)
Deferred tax not recognised	165	(26)	-	-
Total tax charge	**586**	**93**	**552**	**45**

11. Investment properties held for letting: Group

	Work in progress £'000	Market rent properties £'000	2019 £'000	2018 £'000
Valuation				
At 1 April	4,590	13,810	18,400	14,463
Additions during the year	4,455	75	4,530	2,724
Disposals during the year	-	(93)	(93)	-
Gain in valuation	-	500	500	1,213
At 31 March	**9,045**	**14,292**	**23,337**	**18,400**

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

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

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

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

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

The yield applied to net income varies from 5% or less for prime property, to 7% or more for poorer locations.
This equates to a yield on gross income (after deductions for management, maintenance and voids) of between 7% and 10%.

The discount and yield applied to Assured and Secure Tenancies is adjusted to reflect the additional security of tenure such tenants benefit from.

12a. Housing properties - Group

Cost	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
At 1 April 2018	1,611,622	38,514	87,398	7,605	1,745,139
Additions	394	35,928	-	18,307	54,629
Improvements	13,157	-	-	-	13,157
Interest capitalised	-	996	-	527	1,523
Transferred on completion	18,326	(18,326)	4,450	(4,450)	-
Change of tenure	(1,868)	-	1,868	-	-
Transfer to current assets	(212)	(13,701)	-	(6,593)	(20,506)
Transfer from current assets	41	-	-	-	41
Disposals	(12,696)	-	(4,568)	-	(17,264)
At 31 March 2019	**1,628,764**	**43,411**	**89,148**	**15,396**	**1,776,719**
Depreciation and impairment					
At 1 April 2018	243,926	-	8,827	-	252,753
Charge for the year	22,801	-	725	-	23,526
Change of tenure	(114)	-	114	-	-
Transfer to current assets	(9)	-	-	-	(9)
Eliminated on disposal	(5,174)	-	(445)	-	(5,619)
At 31 March 2019	**261,430**	**-**	**9,221**	**-**	**270,651**
Net book value					
At 31 March 2019	**1,367,334**	**43,411**	**79,927**	**15,396**	**1,506,068**
At 31 March 2018	1,367,696	38,514	78,571	7,605	1,492,386

12b. Housing properties - Association

Cost	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
At 1 April 2018	1,615,371	38,576	87,398	7,605	1,748,950
Additions	394	36,798	-	18,307	55,499
Improvements	13,157	-	-	-	13,157
Interest capitalised	-	996	-	527	1,523
Transferred on completion	18,326	(18,326)	4,450	(4,450)	-
Change of tenure	(1,868)	-	1,868	-	-
Transfer to current assets	(212)	(13,701)	-	(6,593)	(20,506)
Transfer from current assets	41	-	-	-	41
Disposals	(12,696)	-	(4,568)	-	(17,264)
At 31 March 2019	**1,632,513**	**44,343**	**89,148**	**15,396**	**1,781,400**
Depreciation and impairment					
At 1 April 2018	243,926	-	8,827	-	252,753
Charge for the year	22,801	-	725	-	23,526
Change of tenure	(114)	-	114	-	-
Transfer to current assets	(9)	-	-	-	(9)
Eliminated on disposal	(5,174)	-	(445)	-	(5,619)
At 31 March 2019	**261,430**	**-**	**9,221**	**-**	**270,651**
Net book value					
At 31 March 2019	**1,371,083**	**44,343**	**79,927**	**15,396**	**1,510,749**
At 31 March 2018	1,371,445	38,576	78,571	7,605	1,496,197

12c. Housing properties

Expenditure on works to existing properties	Group		Association	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Components capitalised	13,157	12,018	13,157	12,018
Amounts charged to the Income and Expenditure account	4,077	3,468	4,077	3,468
	17,234	**15,486**	**17,234**	**15,486**

Completed housing properties book value, net of depreciation and impairment	Group		Association	
	2019 £'000	2018 restated £'000	2019 £'000	2018 restated £'000
Freehold land and buildings	1,373,913	1,363,361	1,377,662	1,367,110
Leasehold land and buildings	73,348	82,906	73,348	82,906
Total net book value	**1,447,261**	**1,446,267**	**1,451,010**	**1,450,016**

The prior year comparatives have been restated due to a realignment with our regulatory data.

13. Other tangible fixed assets - Group

	Office premises £'000	Furniture and equipment £'000	Total £'000
Cost			
At 1 April 2018	11,782	32,272	44,054
Additions	4	2,398	2,402
Disposals	-	(67)	(67)
At 31 March 2019	**11,786**	**34,603**	**46,389**
Depreciation			
At 1 April 2018	2,295	12,332	14,627
Charge for the year	195	3,112	3,307
Eliminated on disposal	-	(13)	(13)
At 31 March 2019	**2,490**	**15,431**	**17,921**
Net book value			
At 31 March 2019	**9,296**	**19,172**	**28,468**
At 31 March 2018	9,487	19,940	29,427

13a. Other tangible fixed assets - Association

	Office premises £'000	Furniture and equipment £'000	Total £'000
Cost			
At 1 April 2018	1,372	32,052	33,424
Additions	4	2,374	2,378
Disposals	-	(67)	(67)
At 31 March 2019	**1,376**	**34,359**	**35,735**
Depreciation			
At 1 April 2018	178	12,178	12,356
Charge for the year	27	3,083	3,110
Eliminated on disposal	-	(13)	(13)
At 31 March 2019	**205**	**15,248**	**15,453**
Net book value			
At 31 March 2019	**1,171**	**19,111**	**20,282**
At 31 March 2018	1,194	19,874	21,068

14. Fixed asset investments - Group and Association

	2019 £'000	2018 £'000
Investments - mutuals	2,431	2,814
Investments - social homebuy initiative - equity investment	112	132
Investments - SH initiative - grant	(112)	(132)
Investments - other	20	20
	2,451	**2,834**

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 2018	6,067
Investment at 31 March 2019	**6,067**

The investment in subsidiaries represents shares in Group undertakings as described in Note 30.

16. Debtors

Expenditure on works to existing properties	**Group**		**Association**	
	2019 £'000	**2018 £'000**	**2019 £'000**	**2018 £'000**
Gross rent and service charge arrears	14,318	13,900	14,302	13,873
Less: provision for bad and doubtful debts	(8,176)	(7,799)	(8,164)	(7,783)
Net rent arrears	**6,142**	**6,101**	**6,138**	**6,090**
Amounts due from Group undertakings	-	-	919	528
Prepayments and other debtors	6,740	5,018	6,713	5,002
Deferred tax asset	13	23	-	-
	12,895	**11,142**	**13,770**	**11,620**

17. Properties for sale and work in progress - Group and Association

	2019 £'000	**2018 £'000**
Stock and work in progress	2,600	932
Schemes developed for shared ownership disposal	2,822	2,496
	5,422	**3,428**

18. Cash and cash equivalents

	Group		**Association**	
	2019 £'000	**2018 £'000**	**2019 £'000**	**2018 £'000**
Bank accounts	75,566	79,496	74,562	78,580
Cash in hand	32	45	32	45
Total cash and cash equivalents	**75,598**	**79,541**	**74,594**	**78,625**

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.

19. Creditors: amounts falling due within one year

	Group		Association	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Housing loans (note 20a)	13,008	31,984	7,401	26,513
Rents received in advance	3,900	3,358	3,889	3,343
Obligations due under finance leases (note 20a)	139	135	139	135
Trade creditors	470	410	470	410
Amounts due to Group undertakings	-	-	15,754	15,738
Recycled Capital Grant and Disposals Proceeds Fund (note 21)	4,667	1,882	4,667	1,882
Other taxation and social security costs	1,638	1,896	1,654	1,914
UK Corporation Tax	273	73	287	44
Accruals and deferred income	22,399	23,338	18,470	19,872
Deferred social housing grant	8,140	8,164	8,140	8,164
Social Housing Pension Scheme Liability (note 24b)	23	3,443	23	3,443
	54,657	**74,683**	**60,894**	**81,458**

Amounts due to group undertakings for the Association include interest bearing loans due to group undertakings of £5,263k (2018: £5,012k). 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 £1,671k (2018: £1,143k). Social Housing Pension Scheme liabilities are now presented separately on the Statement of Financial Position. The Growth Plan liabilities remain presented within Creditors.

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

20. Creditors: amounts falling due after more than one year

	Group		Association	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Housing loans	499,764	508,219	204,020	210,548
Discounted bonds	13,038	12,620	13,038	12,620
Obligations due under finance leases	3,754	3,910	3,754	3,910
Premium on bond issues	13,174	13,699	4,481	4,658
Loan and bond arrangement fees	(5,372)	(5,400)	(2,949)	(2,809)
Amounts due to Group undertaking	-	-	280,724	285,987
Deferred social housing grant	694,625	702,979	694,625	702,979
Derivative financial instruments designated as hedges of variable interest rate risk (note 23)	68,536	66,667	68,536	66,667
Social Housing Pension Scheme Liability (note 24b)	116	19,431	116	19,431
	1,287,635	**1,322,125**	**1,266,345**	**1,303,991**
Recycled Capital Grant and Disposal Proceeds Fund	7,837	7,438	7,837	7,438
	1,295,472	**1,329,563**	**1,274,182**	**1,311,429**

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

20a. Creditors: amounts falling due after more than one year (continued)

Housing loans:

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

	Group		Association	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
By instalments				
In one year or less	13,008	11,754	7,401	6,283
Between one and two years	12,186	12,191	6,201	6,470
Between two and five years	35,069	35,363	15,402	16,567
In five years or more	249,210	261,160	139,666	144,761
	309,473	**320,468**	**168,670**	**174,081**
Lump sum repayments				
In one year or less	-	20,230	-	20,230
Between one and two years	-	-	-	-
Between two and five years	10,550	6,755	-	-
In five years or more	205,787	205,370	55,789	55,370
	216,337	**232,355**	**55,789**	**75,600**
Finance lease liabilities				
Total of future minimum lease payments				
In one year or less	139	135	139	135
Between one and two years	139	135	139	135
Between two and five years	417	404	417	404
In five years or more	3,198	3,371	3,198	3,371
	3,893	**4,045**	**3,893**	**4,045**

Fixed rate financial liabilities bear a weighted average interest rate of 5.75% and are fixed for a weighted average period of 21 years. Including swaps the average weighted interest rate is 4.68%.

Interest rates on fixed rate borrowings range between 2.89% and 8.63%.

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

The interest rate profile to the Group's debt at 31 March 2019 was:

	Variable rate £'000	Fixed rate £'000	Total £'000
Instalment loans	256,597	56,537	313,134
Non-instalment loans	25,550	191,019	216,569
	282,147	**247,556**	**529,703**

As at 31 March 2019, 52% (£273,985k) of the above debt came from the capital markets and 48% (£255,718k) from banks and building societies.

20b. Creditors

Discounted bonds	Group		Association	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Amount advanced				
5% debenture Stock 2027	9,000	9,000	9,000	9,000
In issue at 31 March	**9,000**	**9,000**	**9,000**	**9,000**
Loan discount amortised	4,038	3,620	4,038	3,620
Net value at 31 March	**13,038**	**12,620**	**13,038**	**12,620**

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 £6,046k (2018: £6,464k).

20c. Cumulative social housing grant (displayed regardless of age)

	Group		Association	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Opening SHG cumulative amortisation	-	-	-	-
Opening Balance of SHG received/receivable	711,143	719,480	711,143	719,480
SHG received during the year	5,128	3,746	5,128	3,746
SHG recycled	(6,422)	(4,580)	(6,422)	(4,580)
Amortisation write back on sale of fixed assets	1,056	549	1,056	549
Cumulative total of Social Housing Grant received or receivable	**710,905**	**719,195**	**710,905**	**719,195**
Less grant amortised in the year	(8,140)	(8,052)	(8,140)	(8,052)
	702,765	**711,143**	**702,765**	**711,143**
Amount held as Social Housing Grant under UKGAAP				
Opening SHG	832,752	833,586	832,752	833,586
SHG received net of recycling	(1,293)	(834)	(1,293)	(834)
less investment property	-	-	-	-
less eliminated on disposal	-	-	-	-
	(1,293)	(834)	(1,293)	(834)
Closing SHG	**831,459**	**832,752**	**831,459**	**832,752**

21. Recycled capital grant and disposal proceeds funds (including amounts due in less than one year)

	Group and Association		
	RCGF £'000	DPF £'000	Total £'000
Balance at 1 April 2018	**8,816**	**504**	**9,320**
Grants recycled	3,862	-	**3,862**
Interest accrued	29	1	**30**
Allocated to new build developments	(390)	(318)	**(708)**
Balance at 31 March 2019	**12,317**	**187**	**12,504**

Withdrawals from the recycled capital grant and disposal proceeds funds were used for the purchase and development of new housing schemes for letting.

22. Financial instruments

The carrying amounts of the financial assets and liabilities include:

	Group		Association	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Liabilities measured at amortised cost				
Loans	533,612	561,122	522,469	553,255
Finance Leases	3,893	4,045	3,893	4,045

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

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

23a. Financial instruments: hedge accounting

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

Midland Heart has entered into £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 2019 was £68.5m (2018 £66.7m).

The measurement basis for these swaps is at fair value through income and expenditure, 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 2019.

The total change in fair value during the year ended 31 March 2019 of £1.87m (2018: £9.73m credit) 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:

23a. Financial instruments: hedge accounting (continued)

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

	Group		Association	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Barclays Swap £20m 4.815% 2038	12,213	11,697	12,213	11,697
Barclays Swap £30m 5.01% 2037	18,493	17,788	18,493	17,788
Barclays ex-European Cancellable Swap with Double Up £10m 4.24% 2031	7,268	6,958	7,268	6,958
Credit Suisse Swap £10m 1.405% 2020	70	99	70	99
Credit Suisse Swap £40m 1.19% 2020	191	180	191	180
Credit Suisse Swap £40m 2.345% 2020	956	1,305	956	1,305
Lloyds Swap £50m 5.432% 2034 (ex-Bermudan)	29,345	28,640	29,345	28,640
Fair values of financial instruments designated as hedging instruments	**68,536**	**66,667**	**68,536**	**66,667**

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:

2019						
Interest rate swaps:	**Carrying amount £'000**	**Expected cash flows £'000**	**1 year or less £'000**	**1 to <2years £'000**	**2 to <5years £'000**	**5 years and over £'000**
Hedged items cash-flows (liabilities)	210,000	29,991	2,259	1,505	4,746	21,481
2018						
Hedged items cash-flows (liabilities)	210,000	38,007	2,310	2,931	6,598	26,168

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.

23b. Financial instruments: hedges

	Barclays Swap £20m 4.815% 2038	Barclays Swap £30m 5.01% 2037	Barclays ex-European Swap with Double Up £10m 4.24% 2031	Credit Suisse Swap £10m 1.405% 2020
Description of the hedge	The objective of the hedge is to mitigate the variability of the cash flows stemming from the floating rate interest payments related to the Lloyds £75m Fl Loan 2043 loan, a floating rate loan entered into by Midland Heart against unfavourable movements in the 1 Month LIBOR rate.	The objective of the hedge is to mitigate the variability of the cash flows stemming from the floating rate interest payments related to the Lloyds £75m Fl Loan 2043 loan, a floating rate loan entered into by Midland Heart against unfavourable movements in the 1 Month LIBOR rate.	The objective of the hedge is to mitigate the variability of the cash flows stemming from the floating rate interest payments related to the Nationwide £130m Fl Loan 2036 loan, a floating rate loan entered into by Midland Heart against unfavourable movements in the 1 Month LIBOR rate.	The objective of the hedge is to protect the variability of the cash flows stemming from the floating rate coupon payments related to a debt instrument issued by the entity against unfavourable movements in the LIBOR 6-month rate.
Description of the financial instruments designated as hedging instruments	The interest rate swap, Barclays Swap £20m 4.815% 2038. The counterparty to the swap is Lloyds and the credit risk associated with this counterparty is considered to be low. The credit risk is reflected in the Credit Valuation Adjustment amount to the risk free fair value of the derivative instrument.	The interest rate swap, Barclays Swap £30m 5.01% 2037. The counterparty to the swap is Lloyds and the credit risk associated with this counterparty is considered to be low. The credit risk is reflected in the Credit Valuation Adjustment amount to the risk free fair value of the derivative instrument.	The interest rate swap, Barclays ex-European Cancellable Swap with Double Up £10m 4.24% 2031. The counterparty to the swap is Nationwide and the credit risk associated with this counterparty is considered to be low. The credit risk is reflected in the Credit Valuation Adjustment amount to the risk free fair value of the derivative instrument.	The interest rate swap, Credit Suisse Swap £10m 1.405% 2020. The counterparty to the swap is EIB GBP and the credit risk associated with this counterparty is considered to be low. The credit risk is reflected in the Credit Valuation Adjustment amount to the risk free fair value of the derivative instrument.
Nature of the risks being hedged including a description of the hedged item	The variability of cash flows stemming from the interest payments of the Lloyds £75m Fl Loan 2043 due to movements in the 1 Month LIBOR rate.	The variability of cash flows stemming from the interest payments of the Lloyds £75m Fl Loan 2043 due to movements in the 1 Month LIBOR rate.	The variability of cash flows stemming from the interest payments of the Nationwide £130m Fl Loan 2036 loan due to movements in the 1 Month LIBOR rate.	The variability of cash flows stemming from the interest payments of the EIB £10m 2031 Fl Loan due to movements in the 6 Month LIBOR rate.
Fair values of financial instruments designated as hedging instruments £'000	**12,213**	**18,493**	**7,268**	**70**

23b. Financial instruments: hedges (continued)

	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	**191**	**956**		**29,345**

24a. Social housing pension scheme (SHPS)

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

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

The last triennial valuation of the scheme for funding purposes was carried out as at 30 September 2017. This valuation revealed a deficit of £1,522m. A Recovery Plan has been put in place with the aim of removing this deficit by 30 September 2026.

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

At 31 March 2018 it was not possible for the Group to obtain sufficient information to account for the liability on a full FRS 102 valuation basis so it was accounted for as a defined contribution scheme where the net present value of the deficit contributions were recognised in the accounts as creditors falling within and more than one year.

As a result of additional information, SHPS are now able to split the pension liability by employer which has resulted in the scheme liability being accounted for adopting a full FRS 102 valuation at 31 March 2019.
In accordance with FRED 71, no restatement of prior year figures has been made in these accounts with the opening balance adjustment being recorded through Other Comprehensive Income.

A reconciliation between the liability at 31 March 2018 and the provision at 31 March 2019 is shown below:.

SHPS pension reconciliation	£'000
Liability as previously calculated based on the net present value of deficit contributions payable	(22,687)
SHPS opening balance adjustment recorded in OCI	(14,567)
Liability re-stated using the full valuation method at 31 March 18	**(37,254)**

Present values of defined benefit obligation, fair value of assets and defined benefit asset (liability)	31 Mar 2019 £'000	31 Mar 2018 £'000
Fair value of plan assets	128,868	124,333
Present value of defined benefit obligation	(173,823)	(161,587)
Net defined benefit asset (liability) to be recognised	**(44,955)**	**(37,254)**

24a. Social housing pension scheme (SHPS) (continued)

Reconciliation of opening and closing balances of the defined benefit obligation	Period ended 31 Mar 2019 £'000
Defined benefit obligation at start of period	161,587
Current service cost	-
Expenses	106
Interest expense	4,107
Contributions by plan participants	-
Actuarial losses due to scheme experience	527
Actuarial losses due to changes in demographic assumptions	488
Actuarial losses due to changes in financial assumptions	11,740
Benefits paid and expenses	(4,732)
Liabilities acquired in a business combination	-
Liabilities extinguished on settlements	-
Losses (gains) on curtailments	-
Losses (gains) due to benefit changes	-
Exchange rate changes	-
Defined benefit obligation at end of period	**173,823**

Reconciliation of opening and closing balances of the fair value plan assets	Period ended 31 Mar 2019 £'000
Fair value of plan assets at start of period	124,333
Interest income	3,190
Experience on plan assets (excluding amounts included in interest income) - gain (loss)	2,552
Contributions by the employer	3,525
Contributions by plan participants	-
Benefits paid and expenses	(4,732)
Assets acquired in a business combination	-
Assets distributed on settlements	-
Exchange rate changes	-
Fair value of plan assets at end of period	**128,868**

The actual return on the plan assets (including any changes in share of assets) over the period ended 31 March 2019 was £5,842,000

24a. Social housing pension scheme (SHPS) (continued)

Defined benefit costs recognised in statement of comprehensive income (SOCI)	Period from 31 Mar 2018 to 31 Mar 2019 £'000
Current service cost	-
Expenses	106
Net interest expense	918
Losses (gains) on business combinations	-
Losses (gains) on settlements	-
Losses (gains) on curtailments	-
Losses (gains) due to benefit changes	-
Defined benefit costs recognised in statement of comprehensive income (SOCI)	**1,024**

Defined benefit costs recognised in other comprehensive income	Period ended 31 Mar 2019 £'000
Experience on plan assets (excluding amounts included in net interest cost) - gain	2,552
Experience losses arising on the plan liabilities - (loss)	(527)
Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation - (loss)	(488)
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation - (loss)	(11,740)
Total actuarial losses (before restriction due to some of the surplus not being recognisable) - (loss)	(10,203)
Effects of changes in the amount of surplus that is not recoverable (excluding amounts included in net interest cost) - gain (loss)	-
Total amount recognised in other comprehensive income - gain (loss)	**(10,203)**

24a. Social housing pension scheme (SHPS) (continued)

Assets	31 Mar 2019 £'000	31 Mar 2018 £'000
Global equity	21,684	24,558
Absolute return	11,150	15,188
Distressed opportunities	2,343	1,201
Credit relative value	2,359	-
Alternative risk premia	7,432	4,715
Fund of hedge funds	580	4,095
Emerging markets debt	4,446	5,014
Risk sharing	3,892	1,151
Insurance-linked securities	3,696	3,266
Property	2,900	5,723
Infrastructure	6,758	3,187
Private debt	1,729	1,107
Corporate bond fund	6,013	5,106
Long lease property	1,896	-
Secured income	4,614	4,609
Over 15 year gilts	-	-
Liability driven investment	47,129	45,296
Net current assets	247	117
Total assets	**128,868**	**124,333**

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

Key assumptions	31 Mar 2019 % per annum	31 Mar 2018 % per annum
Discount rate	2.31	2.58
Inflation (RPI)	3.29	3.18
Inflation (CPI)	2.29	2.18
Salary growth	3.29	3.18
Allowance for commutation of pension for cash at retirement	75% of maximum allowance	75% of maximum allowance

Life expectancy at age 65 (years)	
Male retiring in 2019	21.8
Female retiring in 2019	23.5
Male retiring in 2039	23.2
Female retiring in 2039	24.7

24b. The Pensions Trust - The Growth Plan

The Association participates in the above scheme, a multi-employer scheme which provides benefits to some 950 non-associated employers. The scheme is a defined benefit scheme in the UK.

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

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

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

A full actuarial valuation for the scheme was carried out at 30 September 2017. This actuarial valuation showed assets of £794.9m, liabilities of £926.4m and a deficit of £131.5m. To eliminate this funding shortfall, the trustees and the participating employers have agreed that additional contributions will be paid, in combination from all employers, to the scheme as follows:

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

The scheme's previous valuation was carried out with an effective date of 30 September 2014. This valuation showed assets of £793.4m, liabilities of £969.9m and a deficit of £176.5m. To eliminate this funding shortfall, the Trustee has asked the participating employers to pay additional contributions to the scheme as follows:

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

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

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

Where the scheme is in deficit and where the company has agreed to a deficit funding arrangement the company recognises a liability for this obligation.

The amount recognised is the net present value of the deficit reduction contributions payable under the agreement that relates to the deficit. The present value is calculated using the discount rate detailed in these disclosures. The unwinding of the discount rate is recognised as a finance cost.

24b. The Pensions Trust - The Growth Plan (continued)

Present values of provision	**31 Mar 2019 £'000**	**31 Mar 2018 £'000**
Present value of provision	139	187
Reconciliation of opening and closing provision		
Provision at start of period	187	211
Unwinding of the discount factor (interest expense)	3	2
Deficit contribution paid	(24)	(23)
Re-measurements - impact of any change in assumptions	1	(3)
Re-measurements - amendments to the contribution schedule	(28)	-
Provision at end of period	**139**	**187**
Income and Expenditure impact		
Unwinding of the discount factor (interest expense)	3	2
Re-measurements - impact of any change in assumptions	1	(3)
Re-measurements - amendments to the contribution schedule	(28)	-
Costs recognised in income and expenditure account	**(24)**	**(1)**

The above cost is presented as follows in the statement of comprehensive income:

	2019 £'000	**2018 £'000**
Operating costs (pension deficit costs)	(3)	(3)
Interest and financing costs	2	2
	(1)	**(1)**

Assumptions	**2019 % per annum**	**2018 % per annum**
Rate of discount	1.39	1.71

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.

24b. The Pensions Trust - The Growth Plan (continued)

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

Deficit contributions schedule	2019 £'000	2018 £'000
Year ending		
Year 1	23	24
Year 2	24	25
Year 3	24	26
Year 4	25	26
Year 5	26	27
Year 6	22	28
Year 7	-	29
Year 8	-	15
Year 9	-	-
Year 10		-

The Association 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.

25. Share capital

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

2019	
Allotted, called up and fully paid shares of £1 each	**£**
At end of year	40
Number	
At 1 April 2018	42
Issued	-
Cancelled	(2)
At 31 March 2019	**40**

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.

26. Operating leases - Group and Association

Total of future minimum lease payments under non-cancellable operating leases	2019 £'000	2018 Restated £'000
Plant - leases which expire		
Within one year	428	330
Between one year and two years	408	178
Between two and five years	824	313
Office premises - leases which expire		
Within one year	19	29
Between one year and two years	19	19
Between two and five years	50	69
After five years	-	-
	1,748	**938**

During the year £535k was recognised as an expense in the Income and Expenditure account in respect of operating leases (2018: £590k).

27. Capital commitments - Group and Association

	Group		Association	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Capital expenditure contracted not provided for	79,758	60,983	77,395	54,296
Capital expenditure authorised by the Board of Directors but not contracted for	73,310	29,304	73,310	29,304

The expenditure represents the total bids submitted to the 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 £4.2m (2018 £4.9m) funded by Social Housing Grant.

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

28. Contingent liabilities

There are no contingent liabilities (2018: Nil).

29. Housing stock

Social housing	2019 Number	2018 Number
Social rent	20,907	20,782
Affordable rent	2,470	2,250
Long leasehold	969	918
Accommodation managed for others	1,704	1,713
Supported housing and housing for older people	4,520	4,825
Residential care homes	139	143
Shared ownership accommodation	2,082	2,051
Lease Scheme for the elderly	165	165
Other	122	124
Total social housing	**33,078**	**32,971**
Non-social housing		
Market rent	115	116
Commercial lettings	72	70
Leasehold	128	49
Student accommodation	61	61
Total non-social housing	**376**	**296**
Grand total	**33,454**	**33,267**
Being		
Owned and managed	28,915	28,754
Managed only	2,801	2,680
Owned but managed by others	1,738	1,833
Total	**33,454**	**33,267**

30. Disclosure of Group activity

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

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

The members of the Midland Heart Group are as follows:

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

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

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.

31. Related parties

Midland Heart Limited participates in the Social Housing Pension Scheme, this provides benefits to employees that choose to take part (see note 24).

32. Notes to the cash flow statement

A - Reconciliation of net cash flow to movement in net debt	2019 £'000	2018 £'000
(Decrease)/Increase in cash	(3,943)	11,602
Cash flow from increase/(decrease) in debt finance	28,080	8,003
Increase in short term deposits	-	(595)
Discounted bonds	(418)	(376)
	23,719	**18,634**
Net debt at beginning of year	(485,626)	(504,260)
Net debt at end of year	**(461,907)**	**(485,626)**

B- Analysis of changes in net debt	At 1 April 2018 £'000	Cash flows £'000	At 31 March 2019 £'000
Cash at bank and in hand	79,541	(3,943)	75,598
Discounted bonds	(12,620)	(418)	(13,038)
Other loans due less than one year	(31,984)	18,976	(13,008)
Other loans due in more than one year	(508,219)	8,455	(499,764)
Finance lease	(4,045)	152	(3,893)
Premium on bond issue	(13,699)	525	(13,174)
Issue expenses	5,400	(28)	5,372
Net debt	**(485,626)**	**23,719**	**(461,907)**