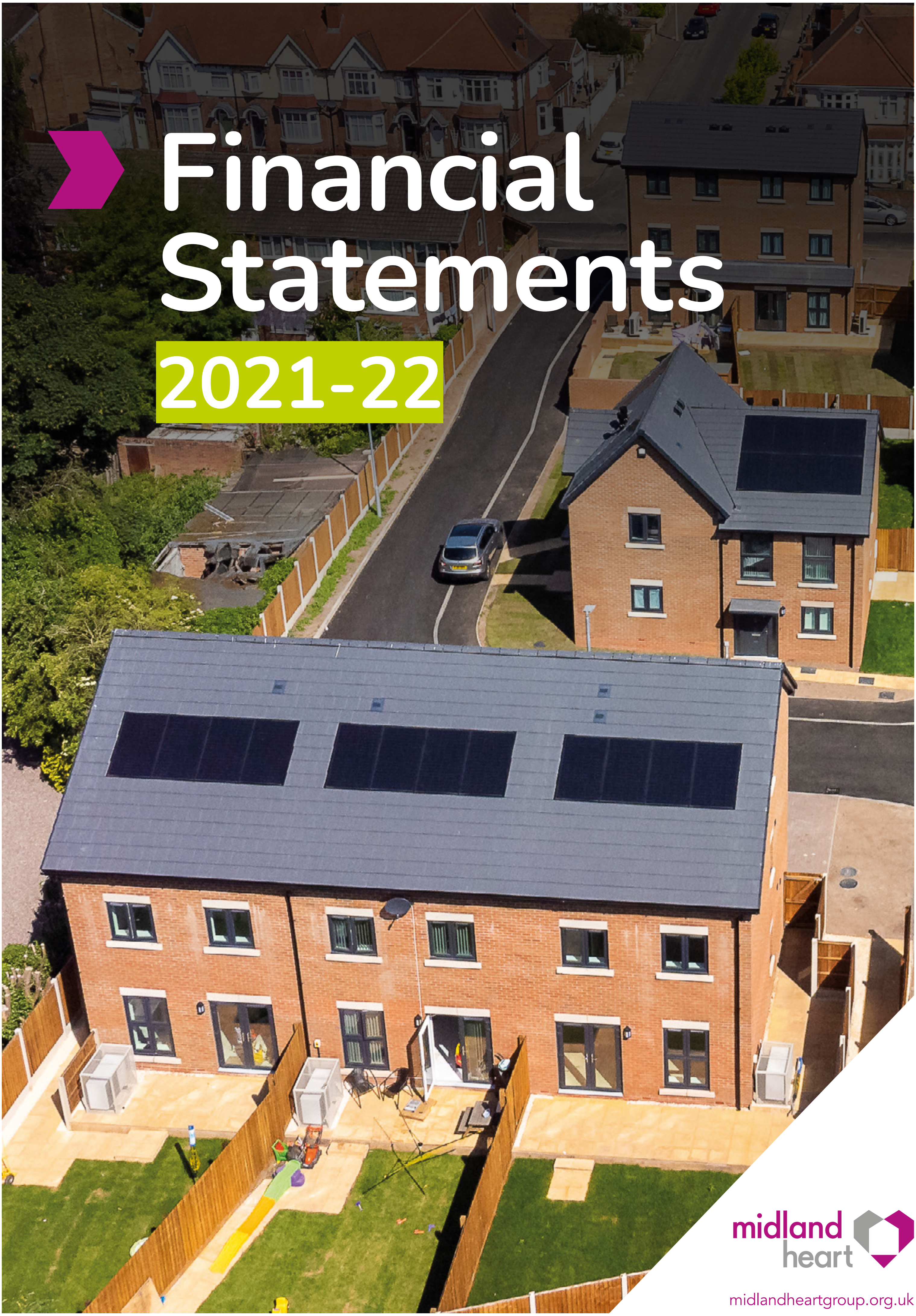
Financial Statements

2021-22



midland heart

midlandheartgroup.org.uk

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Chair's foreword

When disruption becomes the new normal you must adapt quickly to ensure that you not only deliver the services your customers rely on but that you are looking after your colleagues too.

We had hoped that the third year of our corporate plan, Making What Matters Brilliant, would see an end to the disruption caused by the Coronavirus pandemic and a beginning of collective recovery, like all organisations. However, for much of the year we were still having to work around some form of restriction and having to change how we worked to ensure that we kept both our customers and colleagues safe.

Nevertheless, I'm proud to say we continued to stay ahead of the curve and adapted quickly to the changes around us. Understanding the difficult economic environment that we were entering, we used our financial strength to sell a further £75m of our retained bonds at a value we are now unlikely to see for the next few years.

We also made changes to the way we delivered services to our customers, as well as maintaining many more services than most of our peers. As a result, this year we were able to spend c.£18m on planned improvements to our customers' homes, which saw us fit over a thousand new bathrooms and kitchens, maintain 100% safety compliance, and refurbish 21 retirement living schemes.

As well as our investment in maintaining and improving our existing homes, we spent over £110m on 700 new affordable homes, ensuring we remain on track to deliver our goal of 4,000 new affordable homes by 2025. Most of these homes are two and three bed family homes with EPC ratings of B or higher.

Alongside our focus on the issues that matter most to our customers, we also completed several strategically important projects, executing a 1,100 home stock swap, launched a repairs colleague app so that we can provide a more proactive service when we are in customers' homes and obtaining a Memorandum of Understanding with British Gas to support our activities on our journey of becoming a net zero landlord.

Reducing the carbon footprint of our organisation over the coming years is one of our key priorities but also one of our key challenges. Our partnership with British Gas to pilot retrofit interventions in our older homes forms part of our low carbon plan, as 80% of our carbon footprint comes from the homes we own. Our low carbon initiatives seek to find a sustainable and financially viable way to improve the EPC ratings of our pre-second world war terraced homes in inner city Birmingham. This work will provide a roadmap that will help towns and cities across the country to reduce the carbon footprint of their most environmentally challenging homes.

Finally, this year we continued our progress towards being a leading employer, securing 8th, 24th and 50th positions in the Housing, Regional and National Best Companies 2022 league tables respectively. We also maintained our position in the top 25 most inclusive places to work in the UK. These achievements are underpinned by record levels of colleague engagement, something that as a Board we have always placed as a high priority.

In addition, we've maintained our focus on being a great place to work and build a career, launching new development programmes for female and black colleagues, increasing our internal mobility and funding development for over 150 high potential colleagues. As a result, we have maintained our record levels of colleague engagement.

John Edwards CBE
Chair, Midland Heart

> *We enter the next year of Making What Matters Brilliant in a strong financial position, well-placed in service delivery, clear plans for carbon reduction and with an engaged, motivated team who want to complete our journey to brilliance.*

Chief Executive's foreword

As a result of the choices we have made over the last few years and our colleagues' continued focus on providing high quality services to our customers; we're on track to complete our journey to brilliance.

We enter the second half of our corporate plan, Making What Matters Brilliant having built our second highest number of new homes, with customer satisfaction of 90%, retained our G1 V1 status from the Regulator of Social Housing and having become one of Homes England's new strategic partners.

These achievements are a result of continued focus on the core issues, services and improvements that our customers have told us matter the most to them. Whilst we speak to every one of our customers at least once a year as we complete our annual safety checks in their homes, we also sit down every month with customers to hear what matters most to them and what we can do to make things better and hopefully brilliant.

Our customers told us that our repairs service was one of their biggest priorities. To make improvements to our repairs service, we have insourced contracts that weren't providing the best service to customers. We've recruited more operatives to ensure that we can get to customers' homes quicker but also stay longer to make sure our work is of the highest quality. Following these changes, customers satisfaction with our repairs increased to a record 91%.

Our customers also told us that some factors outside of their home really matter too. That is why this year we have continued our investment to turn around some of our most challenging schemes. Throughout this corporate plan we have improved the environment, safety and security of 86 general needs schemes through this project. I am proud to say that 80% of these customers would now recommend their scheme to a friend.

As well as the 700 new affordable homes we handed over this year, we've also developed the first UK homes to meet the new Future Homes Standard - reducing carbon emissions by 80% and anticipated to save customers 65% on their energy bills. These properties, which were built by local construction firms using traditional methods and local material, are now homes to local families.

The homes and the green technology they contain will be monitored by academics at Birmingham City University to evaluate how well it works as well as the benefits this has such as lower energy bills, and how our customers find living in such a technologically advanced home. This work will provide our sector with a blueprint for how to not just meet this new standard but how to make it work for the environment and customers.

Our customers have also told us that they want the accessibility of our services to keep pace with the other services they rely on. So, we rebuilt our customer webpage prioritising self-service options for customers who do not necessarily want to call us and created customer friendly videos on how to decorate, maintain and manage a home. Customers will also be able to book repairs appointments 24 hours a day via our Midland Heart app, as we continue to increase the options and ease with which customers can access our services.

Our aim through this corporate plan was to become a first-class landlord who provides high quality homes and responsive services to our customers, every single time they contact us. That is and will remain our main focus. To deliver these improvements means we have to remain financially strong and stable, so I am glad to say that we have ended another year in good financial health and with the ability to look at some of the challenges forecast for the coming year with confidence.

Glenn Harris MBE
Chief Executive, Midland Heart

> *While there is still work to do we are nearer to our goals than we were at the beginning of this year and I believe we are heading in the right direction to Make What Matters Brilliant for our customers, communities and colleagues. I want to thank everyone who has made this year another successful one for Midland Heart.*

Strategic annual review

The third year of our corporate plan Making What Matters Brilliant (2019-25), has seen us continue to deliver a robust set of operational and financial results in an increasingly demanding operating environment. These results continue to demonstrate our underlying strength and resilience as we pass the halfway point in our corporate plan.

Our financial position means that we are able to deliver on our plans and make significant investment in the organisation, including customer and digital services, new and existing homes, building safety, environmental sustainability and colleagues.

The fundamentals of our strategy remain:

- being a top-class landlord;
- building as many affordable homes as we can; and
- being a great place to work and develop a career.

Delivering customer service first:

- overall customer and repair satisfaction have consistently achieved c.90% each year for the last three years
- 13,286 of our customers are using our customer app, an increase of c.3,000 from the previous year.

Delivering on growth and partnerships:

- the keys to 700 new homes were handed to new customers
- delivered 1,620 of the 4,000 new homes we aim to build by 2025
- we became a strategic partner with Homes England on the new Affordable Homes Programme (2021-26) that will provide £84m in grant funding until March 2026
- we completed a stock swap of over 1,100 homes with Orbit Group
- we signed a Memorandum of Understanding with British Gas for both parties to co-operate and share learning on our journeys towards a net zero future.

Investing in homes:

- delivered c.£18m on our planned capital works despite the national resourcing and material challenges
- we continue to deliver sector leading building safety compliance
- successfully bid with the West Midlands Combined Authority and Leicester City Council to receive over £2m of grant funding from the HM Governments' Social Housing Decarbonisation Fund.

Delivering strong governance and keeping our finances strong:

- posted a surplus before hedging and pension movements of £55.6m and £38.1m in 2020-21. We sold a further £75m of our retained bonds in February 2021, prior to the onset of tightening market conditions
- achieved the highest possible rating from the Regulator during our In-Depth Assessment (IDA), a G1 V1 (Governance and Viability rating). We also retained our A1 stable rating from Moody's, the highest in the sector
- launched our first ESG report.

People focused:

- we ranked 8th, 24th and 50th for housing, regional and large UK places to work respectively through Best Companies. We also ranked 24th on the national top 50 Inclusive Employers listings
- delivered on our smart working ambitions, ensuring our colleagues are enabled to work and collaborate effectively from wherever they are and whenever they need to
- published our inaugural ethnicity pay report as part of our commitment to be transparent on pay gap information and actions to improve.

90%
customer and repair satisfaction for the last three years

700
keys to new build homes

13,286
customers are using our app

Operating and financial highlights

Our surplus for the year of £55.6m has increased by £17.5m against last year's surplus of £38.1m, principally as a result of two key one off transactions.

In this financial year, there were additional surpluses made from the disposal of property, particularly arising from a stock swap with Orbit Group. This single transaction yielded a surplus on disposal of £7.5m. The previous financial year incurred termination charges of £7.5m as a result of early repayment of loans. This exceptional item has not occurred this financial year. When these two exceptional items are moved from the figures, the operating surplus for the last two years remains largely static.

We have used the full amount of this surplus and additional borrowing to invest in new and existing homes. In 2021/22, we have spent £110.9m on new developments and £18m on improving our current stock, such as replacing kitchens and bathrooms.

Financial performance	2022	2021
Turnover (£m)	207.0	195.7
Operating Surplus (£m)	75.1	66.1
Operating Margin (%)	36.3	33.8
Surplus for the year (£m)	55.6	38.1
Interest cover (%)	386	246
Balance sheet		
Housing properties (net of depreciation) (£m)	1,704.1	1,615.9
Gearing (%)	45	44
Operational indicators		
Total housing stock	34,362	33,792
Customer satisfaction (%)	89.3	89.3
Current tenant arrears (%)	4.30	4.54
Average re-let time (days)	18.97	20.50
% Routine repairs on time	88.6	94.5

Statement of comprehensive income

- *Turnover of £207.0m, shows an increase of £11.3m over the previous year as a result of an increase in first tranche shared ownership sales, new units handed over and a CPI +1% rent increase across the majority of our Housing portfolio.*
- *Operating surplus has increased by £9.0m to £75.1m largely as a result of the £7.5m surplus on the sale of stock in our swap with Orbit Group, higher surpluses from First Tranche and other sales and a better performance on our care and other income.*

	Turnover		Operating surplus	
	2022 £m	2021 £m	2022 £'m	2021 £m
Social housing lettings	182	177.2	54.9	57.8
First tranche shared ownership	16.9	9.7	2.6	1.4
Care contracts and other income	4.4	5.0	1.3	0.4
Disposal of fixed assets	-	-	13.8	3.8
Other social housing	2.1	2.1	(0.2)	(0.1)
Market rent	1.6	1.7	2.7	2.8
Total	**207.0**	**195.7**	**75.1**	**66.1**

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

Care contracts and other income saw a decrease in turnover by £0.6m as we continued to see the impact of a gradual withdrawal from low margin care contracts.

First tranche sales increased as homes were sold more quickly during 2021/22 due to a strong property market coupled with an improved marketing effort.

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

Market rent operating surpluses remained stable despite some disposals. Additionally, the portfolio benefitted from a £1.7m revaluation gain on its investment properties.

Net interest costs of £19.6m were £0.9m lower than last year on a like for like basis (this excludes the £7.5m one off interest costs on the early repayment of high-cost contractual debt paid last year). The costs also included those of securing an additional £75m of bond finance late in the year at our lowest ever spread to gilts.

Statement of financial position

The gross cost of housing properties has increased by £105.9m to £2.0bn over the year.

This is a result of expenditure of £110.1m on new homes, a further £18m invested in improvements to existing properties and a net increase of £9.6m following our swap of stock with Orbit Group. Properties with a cost value of £17.2m were disposed of during the year, and £19.0m of developed properties were moved to stock, ready to be sold.

Social Housing Grant (SHG) has increased by £14.5m to £729.4m due to a net increase of grants receivable on new developments. Debtors increased by £1.7m to £12.2m largely due to rent arrears.

Cash at bank and in hand increased to £137.3m (2021: £108.0m). This reflects strong operating cashflows and a successful bond issue which underpins our investment programme. 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 increased £8.0m to £63.2m due to accruals and deferred income, trade creditors and an increase in rents received in advance.

Creditors over a year increased by £47.6m to £1,407.2m due to the net increase in housing loans resultant of the bond issue and higher deferred social housing grant.

Our immediate operating environment

From April 2022, the operating environment remains challenging as the UK faces higher inflation, pressure on increased prices of utilities and other materials and uncertainty from world events.

Alongside this, key challenges exist in the following areas:

- Pushing ahead with our low carbon strategy and its funding needs
- Continued focus on new development projects
- Investment in building safety
- An increasingly uncertain labour market.

Our financial strength and liquidity position means that we are well placed to meet these challenges.

Our corporate plan

Our corporate plan

We completed our third year of Making What Matters Brilliant in 2021/22, continuing our significant investment in customer services, homes and colleagues.

MAKING WHAT MATTERS Brilliant

For each section of our corporate plan, we have set out below our key deliverables and the outcomes we expect to achieve, alongside key measures and targets. For the first time we have also included our objectives for low carbon initiatives which commenced in the 2021-22 financial year.

Investing in homes

Providing safe, secure and well-maintained homes that customers want to live in sits at the heart of what we do and who we are.

We are investing £120m over the six-year period of the corporate plan having spent £26.4m on existing homes in 2021/22 alone. This investment is helping to modernise our existing stock, replacing key components such as kitchens, bathrooms, windows and roofs that are ready for renewal. This will ensure we can offer high quality homes to customers and support our progress towards our void loss target of 1%.

Measure	2020/21	2021/22	2024/25 Target
Property investment spend	£22.2m (£41.2m over 2 years)	£26.4m (£67.6m over 3 years)	£120m over 6 years
Void loss %	1.17%	1.29%	1.00%
Re-let days	20.50 days	18.97 days	16.50 days
All properties to EPC Band D or above of which 60% will be at EPC C by 2025	New measure	89% of properties are at a minimum of EPC rating D, of which 55% are at EPC C	100% of properties at a minimum of EPC Rating D of which 60% will be at EPC C

Within the year:

- we carried out planned works as scheduled throughout 2021/22, despite COVID 19 restrictions, disrupted supply chains and a volatile recruitment market
- we spent £1.8m refurbishing more of our retirement living schemes, giving a new lease of life to communal areas
- we continue to work on ensuring we provide balanced and sustainable communities in our general needs schemes. This includes improving the overall scheme condition as well as targeting specific action, e.g. working with the Police and LAs to tackle anti-social behaviour. We have undertaken intervention works on 86 of 150 general needs schemes since the start of the corporate plan, spending £0.8m in 2021/22 on improvement works
- our void loss in general needs remains sector leading at 0.65%. Our overall increase in void loss to 1.29% is due to planned refurbishment and remediation works in our Supported Living schemes.

Intervention scheme - Jervis Court

Jervis Court had a reputation for instability, short term lets to customers with challenging behaviours, making it unattractive to local people and the local authority eventually withholding letting nominations. Our properties were void for longer periods with potential customers refusing tenancies at viewings.

We carried out perception surveys to understand the issues our customers were facing, identifying a county lines gang that operated out of multiple properties. We worked with Staffordshire Police to disrupt the gang's activities and worked with other housing providers to safeguard those vulnerable customers who were victim to 'cuckooing'.

To make the property more appealing to customers, we undertook extensive refurbishment works, including new front doors and lighting. We also improved the external grounds and installed new CCTV cameras and door entry system. We introduced a local lettings plan to focus on local customers and working households. Before the interventions, only 25% of our customers were happy living there but this has significantly increased to 82%.

> *"Everything has been done to the building, it looks beautiful."*

Retirement living scheme - Shannon's Mill

As part of the Corporate Plan, we are investing in our retirement living schemes to improve the communal areas. Shannon's Mill in Tamworth is a 64-apartment scheme with lounges, communal garden and a hair salon.

We consulted with our customers to ask how we could improve the scheme environment to best suit their needs. We invested nearly £300k in improvements, including:

- repainted communal areas with more social spaces for customers to use
- refurbished hair salon to improve the customer experience
- murals and artwork with a Tamworth theme to retain the scheme's character and links with the local community
- new and modern furniture, flooring and signage
- new LED lighting to improve the carbon footprint and safety for the customers.

Low carbon intervention - Havendale Close

We have embarked on strengthening our strategic relationship with British Gas (Centrica) and as part of this we have completed a pilot intervention at Havendale Close properties.

We have successfully raised EPC ratings ranging from EPC band E (41-43 SAP points) to EPC band B (84-86 SAP points) due to the following interventions:

- insultation and ventilation
- air source heat pumps
- hot water cylinders
- low temperature hot water radiators
- solar PV micro-generation
- HIVE demand response.

These technologies were also optimised by smart HIVE software and sensors. It is estimated that Havendale Close has achieved a reduction in annual carbon emissions from 4.3-4.6 tonnes to 1.3 tonnes per home.

> *"I am very happy with the works that have been done... it feels lovely to have a nice new heating system as my house was previously very cold and draughty. I would recommend this heating system to others, and I hope in the long run I save money."*

Service first

Providing first class customer service is the number one priority of our corporate plan, we don't want to just meet our customers' expectations we want to exceed them.

Our timeliness in both responding to customers' needs and proactively dealing with issues before they are raised by customers are a central measure of customer service and we are working across teams to create proactive solutions to deal with issues before customers report them to us.

Measure	2020/21	2021/22	2024/25 Target
Customer satisfaction	89%	89%	85-90%
Repairs satisfaction	91%	91%	90-95%
Routine repairs completed on time	95%	88.6%	90-95%
First time fix	New measure	81%	85-90%

Within the year:

- we continued to deliver high quality repairs, maintaining over 90% repairs satisfaction that we have achieved over the last three years
- we expanded our in-house maintenance team and brought two external contractors in house, increasing the number of homes where repairs are undertaken by our in-house team leading to an increase in the quality of repairs for more customers
- we opened our East Midlands Hub in Hinckley to work alongside our Booth Street depot in Handsworth, Birmingham, so that we could deliver repairs more efficiently to properties in both the East and South Midlands
- over 13,000 customers are using our rent app, that collects over £300k per week. We are scheduled to go live with an app that allows customers to book repairs next year
- rollout of 'Connect360', our colleague app, continued at pace to allow frontline workers to easily view property and tenancy information. This allows us to help customers with a range of issues whilst in our customers' homes. We also went live with repairs online providing colleagues with an ability to proactively report and track repairs whilst on site.

Customer impact group

'My Impact' is a group of customers that is set up to monitor customer insights and ensure it leads to improvements in our services.

In 2021/22, the group analysed c.16,000 pieces of feedback, including surveys, satisfaction data, and complaints to assess our compliance with the Consumer Standards set by the Regulator of Social Housing.

The customers were satisfied that we were compliant against all the standards and awarded 45/71 areas as Compliant Plus. The group also monitored the progress of our action plans generated from customer engagement activities. For example, overseeing the rollout of new fire safety guidance for all schemes and estates as well as introducing performance management of our grounds maintenance contractors by submitting photos.

A further group of customers, 'My Scrutiny', undertook four different reviews which generated 20 recommendations to improve our services that we are now working through.

Some of the key recommendations include:

- the impact of the Allocations policy on how we make our communities more balanced and sustainable
- the utilisation of our customer app
- the effectiveness of our Equality Impact Assessments
- the tracking of our customers with anti-social behaviour.

Growth and partnerships

There is an acute shortage of homes in the Midlands, and we are committed to play our part in this national challenge by building as many affordable homes as we can.

Through our Housing Delivery Strategy, we have set our ambition to build 4,000 new homes between 2019 and 2025.

Measure	2020/21	2021/22	2024/25 Target
Cumulative new homes built since 2019/20	920	1,620	4,000

Average sales price of our properties in 2021/22	£212k
Average first tranche equity share	46%
Average time to sell a property in 2021/22	11 weeks from memorandum of sale to completion

Within the year:

- we built 700 new homes in 2021-22 which means we have delivered 1,620 new homes since the start of the corporate plan. This has been delivered in a challenging operating environment which has seen disruption due to the prevailing issues arising from COVID-19 global supply issues, and cost increases in materials and labour
- we have been successful in becoming a strategic partner of Homes England as part of the new affordable homes programme (2021-2026). This will provide c.£84m in grant funding for homes completed up to March 2028
- this year's shared ownership first tranche surplus was £2.6m compared to £1.4m last year. There were a record 173 shared ownership sales and 56 retirement sales which represents an increase of 70% in shared ownership sales and 50% increase in retirement sales respectively.

Project 80

The UK set a legally binding target to bring all its greenhouse gas emissions to net zero by 2050. Construction is a big contributor to this, so the Government will introduce new Building Standards, known as the Future Homes Standard in 2025.

We have built the UK's first homes to the Future Homes Standard, four years ahead of the legal requirement. We have been working in partnership with SME developer Tricas on a £2.8m development of 12 homes meeting the Future Homes Standard. We are also working in conjunction with research partners from Birmingham City University to assess the impact of the new standards on customers. These developments are the first of their kind in the country and the average home will have 80% less carbon emissions against current building standards.

We handed the keys over to our new customers in Spring 2022. As some aspects of living in these homes will be different, we will provide user guides and gather their feedback to understand the impact of living in new, more thermally efficient and environmentally friendly homes.

Our Future Homes Standard development will feature:

- a mixture of two, three and four bedroom houses
- newly planted shrubs, trees and lawns
- photovoltaic panels
- waste water heat recovery
- air source heat pumps
- high standards of insulation and modern double-glazed windows and doors.

Stock swap

As part of our strategic focus to create a concentrated asset base, we executed a stock swap of 1,100 properties with Orbit Group in June 2021.

We acquired properties in East Staffordshire which we swapped for properties in the Milton Keynes and Central Bedfordshire area. The transfer allowed a higher concentration of rented properties over shared ownership, and more houses over apartments. The transaction yielded an accounting profit of £7.5m.

Drakelow

Since 2019, we have worked with Countryside to meet housing needs across the Midlands, including homes in the Black Country and Birmingham.

Our latest project is on their 1,500-home development at Drakelow Park. In the first phase of 1,000 homes, 400 will be built in partnership with us, split between affordable rent and shared ownership properties. Work started on site in September 2021 and is forecast to be completed in March 2027. We were able to secure this scheme through a grant from the Homes England Strategic Partnership 2021-26 programme.

People focused

We want to be a great place to work, where colleagues can develop and grow their careers. We have focused on the wellbeing of colleagues throughout the pandemic to ensure they felt supported to deliver services to customers during this period of uncertainty.

Our smart working project, delivered by the summer of 2021, helped ensure colleagues were better able to collaborate and do their jobs more effectively from wherever they are. This involved investing in our IT infrastructure, new network, mobile devices and cloud meeting and desk bookings, as well as adapting our workplaces.

Measure	2020/21	2021/22	2024/25 Target
Voluntary turnover	9.7%	16.8%	15.0%
Time lost due to sickness	2.4%	2.8%	3.0%
Colleague engagement	80%	80%	80%

Within the year:

- we were named independently by Best Companies as a great place to work in Housing (ranked 8th), Regional (ranked 24th) and Large (ranked 50th) categories
- we were also named 24th on the Inclusive Top 50 UK Employers for the second year running, demonstrating our continued commitment to diversity, inclusion and belonging

We also published our first ethnic pay report and launched our female and black colleague development programmes

- our sickness figures remain below 3% and although our staff turnover has increased this reflects the volatility in the broader national labour market
- we implemented a new HR and Payroll system that has created a better user experience for colleagues and enhanced reporting
- we fully utilised our apprenticeship levy with 26 apprentices currently on the programme, ranging from Level 2 Customer Service to Level 7 CIPD qualification.

Black and female development programme

Through the work on the gender and ethnicity pay gap, we recognised that we needed greater representation of women and black colleagues in senior roles.

One of the initiatives to tackle was the launch of two colleague development schemes for high performers from across the business and at different levels of seniority who were ready for career progression. Both schemes are supplemented with leadership mentoring to ensure that participants are in a strong position when future opportunities become available.

The female scheme focuses on issues that disproportionately affect female career progression as identified by our Women's Network 'Balance', such as balancing family commitments, perceived lack of opportunity and confidence. The scheme is facilitated by Cargyll, an experienced provider of management and leadership training, with our cohort of 10 graduating in November 2022.

The black colleague scheme is a bespoke programme based on individual needs as requested by our Race and Ethnicity Network 'Unity'. The programme includes psychometric testing and a tailored development programme specific to individual development gaps and career aspirations.

Best Companies

For the first time, we partnered with a third party provider (Best Companies) to deliver our annual engagement survey.

We were pleased to be the highest scoring new entrant with a one-star rating. We are committed to build on a strong first year and having listened to colleague feedback we will be focusing on the following areas:

- communicating a clear calendar of charitable giving and fundraising events
- promoting our commitment to diversity and wellbeing work
- demonstrate how our back-office colleagues have an impact on our customers by bringing our mission to life
- individual engagement plans for each directorate based on the feedback and focusing on team connections post pandemic.

8th Housing	24th Regional	50th Large

Apprenticeships

A key part of our talent strategy is to invest in developing our own people. An important way we do this is through our apprenticeship programme which enables us to develop skills that will help us create a workforce capable of delivering on the corporate plan objectives

We have fully utilised our apprenticeship levy since its inception in 2017 to grow our own talent in an increasingly challenging labour market.

Our 2020/21 cohort of six degree apprentices are performing to a high standard so we are now growing the programme for the 2022/23 intake, recruiting in October 2022. We focus on roles which are hard to fill or require scarce skillsets, such as cyber security, fire engineering and surveying. We recognise the benefits of, and are committed to, investing in talented young people as a means of developing critical skills we will need for the future success of our business. Each of our degree apprentices is mentored by a member of the Executive.

We have also started a trade apprenticeship programme to ensure a robust pipeline of talent in a competitive market. We will recruit 24 apprentices over the next three years into our in-house maintenance team, with the first cohort of six already having started on the programme.

Gender pay gap 2021

Our mean gender pay gap was 18.47% (2020: 18.58%), the UK mean gender pay gap was 14.9%. Our median gender pay gap was 15.13% (2020: 17.95%), the UK median gender pay gap was 15.4%.

We know that our gender pay gap primarily exists for two reasons. The first is the large number of domestic and catering colleagues our customers rely upon. Colleagues in these roles are predominantly female which leads to a greater gender imbalance in our lower quartile. The second reason is that although we have good representation of women in our upper quartile, there are more men in senior leadership roles.

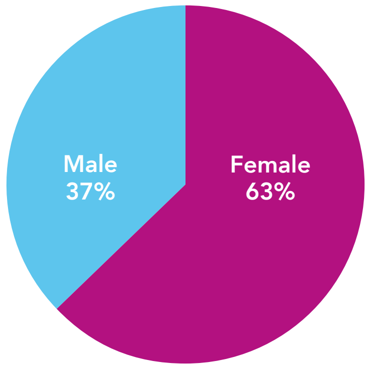
Reducing our gender pay gap is not a quick or easy change but we have seen a further reduction due to our efforts to improve the number of women in leadership roles.

Our Executive team monitor our gender pay gap quarterly and scrutinise the impact of recruitment, internal movement and salary reviews.

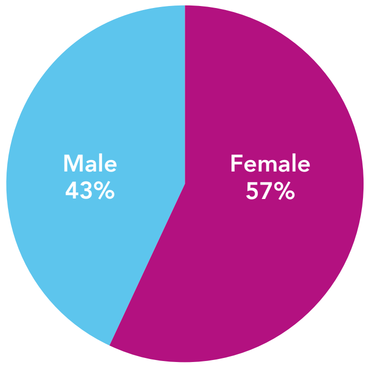
Our three clear aims to address the gender pay gap are:

- increase the number of women in our upper quartile, particularly at the higher levels;
- have a more representative gender balance in the lower quartile; and
- ensure our reward and benefits enable everyone to balance their personal and professional lives.

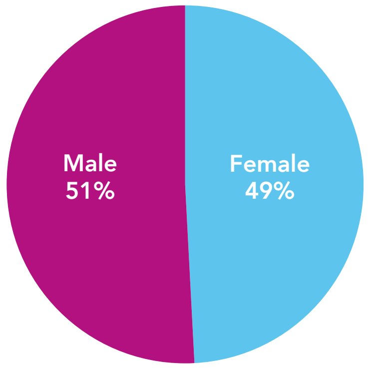
Customers



Colleagues



Midlands



	Female	Male
Frontline Worker	58%	42%
Frontline Manager	54%	46%
Strategic and Operational Leaders	35%	65%

Ethnicity pay gap 2021

Our mean ethnicity pay gap was 10.80% and our median ethnicity pay gap was 8.03%.

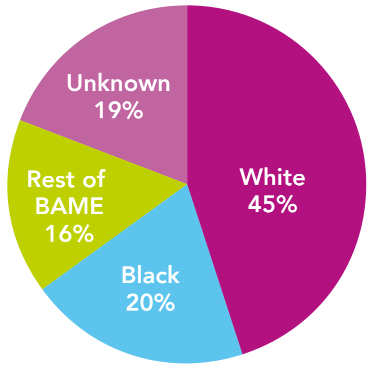
We are proud to be amongst the first employers in the country to publish our ethnicity pay gap. Whilst there's no requirement for us to do this, we pride ourselves on being honest and transparent with our colleagues. Voluntarily publishing our ethnicity pay gap demonstrates our commitment to creating an environment where everyone can succeed, regardless of their background.

We know we have an under-representation of black colleagues at leadership levels, and this is an area we're working to address. We've already increased this from 2% in 2020 to 9% in 2021. Other successes include:

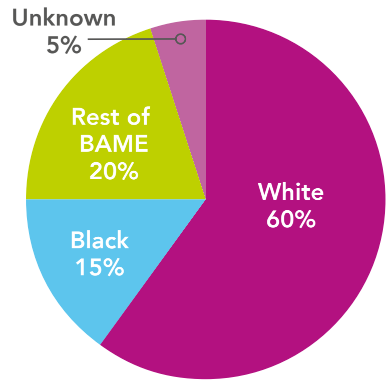
- identifying a Board lead for diversity and working with The Governance Forum to shape the 'The Race Code'
- launching 'Race, Racism and Stereotypes eLearning module that includes real experiences from our colleagues. Created in collaboration with Unity, our Race and Ethnicity Network, the module discusses microaggressions and is designed to make us all reflect on the impact of what we say and do on others
- launching our black colleague development programme to improve representation in senior management.

We know there is more to do to reduce our ethnicity pay gap and ensure we have better representation of all ethnicities at leadership level. We are continuing to engage with Unity and our colleagues to shape and inform our plans.

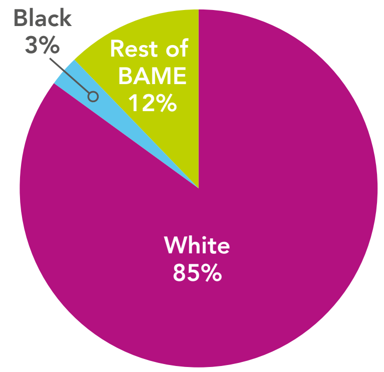
Customers



Colleagues



Midlands



	White	Black	Rest of BAME	Unknown
Frontline Worker	57%	16%	21%	6%
Frontline Manager	78%	6%	16%	0%
Strategic and Operational Leaders	83%	4%	13%	0%

Employee involvement and consultation

The Partnership Council helps inform and consult colleagues on a range of issues. The Council, made up of our Partners and Executive Board, meet regularly through the year to discuss our corporate strategy, issues important to colleagues, and other business matters.

Partners also attend Executive Board meetings, Senior Management Team meetings, steering groups and the Pension sub-Committee to ensure a strong colleague voice is heard at all levels of the business.

Our Partners use a range of engagement and communication methods to keep colleagues informed and gather their feedback on key issues. This includes regular briefings, Ask Exec sessions, surveys, drop-in sessions and attendance at team meetings. This approach enables employees to openly question senior management about how we run our business, and actively encourages ideas and feedback from our colleagues.

Over the last year, they've supported colleagues to use our new online MPD system when it launched; gathered valuable feedback during our pay award consultation; encouraged colleagues to attend our Ask Exec events; attended engagement days across our Retirement Living sites; hosted drop-in sessions to encourage colleagues to share feedback and ideas; supported colleagues with queries about returning to the office after the pandemic; and helped share important information about our wellbeing and inclusion activities.

Safe and strong

This theme is about us remaining financially strong and maintaining our focus on safety; spending money wisely and investing in things that matter to our customers.

Measure	2020/21	2021/22	2024/25 Target
Operating margin %	33.8	36.3	30
Interest cover %	246.0	386.0	>150.0
Gearing %	44	45	<70
Arrears %	4.54	4.30	4

Being financially strong

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

Within the year:

- our financial performance remains strong, and we have continued to achieve a best in sector rating from Moody's of A1 Stable
- we keep a robust level of liquidity, c.£286m of cash and undrawn facilities which are immediately available
- we sold a further £75m of our retained bonds at a competitive rate in an environment of tightening margins.

Bond

Last year we reported that we had raised bond funding of £250m with £150m retained at a competitive rate of c.1.8% to support our corporate strategy of providing more affordable housing in the Midlands.

It was the lowest rate we have ever achieved, and Moody's assigned the bond an A1 rating. During the course of this year, we sold a further £75m of the retained bond to finance our development programme of 4,000 high quality and affordable homes by 2025, modernise our retirement living offer and invest in the comfort and safety of our existing homes.

We worked with Barclays as the bookrunner, Newbridge as financial advisers, and Trowers and Hamlin as legal advisers.

Keeping our focus on safety

The regulatory environment is constantly evolving with new regulatory judgments and guidance, such as 'Building a Safer Future' and the Fire Safety Act.

Where possible, we adopt best practice in our properties and workplaces. We put customer consultation at the heart of safety, ensuring that we have clear processes to raise concerns and are transparent with their resolution.

Within the year:

- we undertook an accelerated programme of EICRs (electrical safety) that is now 99% complete (moving from 10 years to a five-year cycle)
- we have completed Type 4 intrusion inspections on our five 18m plus buildings with no significant issues identified
- we have retrofitted eight sprinkler systems in higher risk schemes within Retirement Living
- continued to improve customer communications with the launch of a new website in January 2022 with focused building safety pages, setting out customer responsibilities
- implemented a building safety competency framework
- we have made significant investment in our IT security and infrastructure, whilst testing our ability to respond to cyber attacks.

Enhancing electrical safety

In 2019, our Board took the decision to place all our properties on a five-year EICR inspection cycle from 10 years. Whilst there is no legal requirement, we wanted to lead electrical best practice to ensure the highest level of safety in our homes.

In order to achieve this, we embarked on an accelerated programme to bring all the properties into the shorter cycle by March 2022. We procured extra resource through specialist contractors and worked closely with housing management to obtain access to customer's homes. At the end of 2021/22, we have brought 99% of our properties in line with the five-year cycle, with the remainder in our no access process.

"My condition is affected by just cooking in the kitchen sometimes, so if there was a fire I know I would be at risk from the smoke. In the case of any fire your life is at risk. So, to be honest I welcomed the sprinklers because it's another way of saving my life and others. Sprinklers will just mean I'm safer in my own home and that's a good feeling."

Sprinklers

In April 2021, we started a sprinkler retrofit programme in our Retirement Living schemes to enhance the safety of these buildings.

We have now installed new systems into eight buildings whilst trying to maintain the aesthetic of the properties. We are planning to retrofit a further six schemes in 2022/23.

Customer website

Our digital transformation is integral to the execution of Making What Matters Brilliant, whilst making our services more accessible and delivering on the requirements of the Social Housing White Paper.

As part of our digital transformation, we have streamlined our customer webpage to make it more user friendly and relevant to our customers. We have refreshed the format, giving it a more contemporary look as well as enhancing functionality. After reviewing the site usage and feedback from customers, we have:

- reduced the number of pages to a more manageable size, removing duplicated or unnecessary content
- reviewed the content, removing jargon and improving the customer journey through the site
- implemented a new form structure with tailored web links to enable customers to self serve and support our customer service strategy.

Customers are also able to view key building safety information, enabling them to report concerns or review their responsibilities at any time.

Value For Money

Value For Money (VFM) is etched throughout our corporate plan, reflecting the VFM standard and metrics.

The Regulator's published sector wide annual global accounts to March 2021 is significantly focused on the impact of the pandemic and much was uncertain at that time. Metrics such as interest cover are continuing to be eroded due to the investment required in building safety. Coupled with carbon reduction, the Regulator predicts that margins will continue to tighten with an increased reliance on debt to fund new development and investment in existing stock.

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

Strong value for money 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. Our three VFM pillars are:

- strong governance, scrutiny and performance management;
- clear measures, evidence and comparisons, including understanding of costs and outcomes; and
- ensuring we maximise the return on assets.

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

Regulatory Value For Money metrics

	Actual			Forecast	
Metrics	19/20	20/21	21/22	22/23	23/24
Reinvestment %	6.6%	6.4%	7.7%	8.8%	8.6%
New supply delivered (Social housing units) %	1.6%	1.2%	2.3%	1.9%	2.5%
New supply delivered (Non-social housing units) %	0.40%	0.00%	0.00%	0.00%	0.00%
Gearing %	28.1%	28.9%	29.6%	30.2%	32.8%
EBITDA MRI Interest Cover	2.68	2.14	2.74	2.33	2.32
Headline social housing cost per unit	£3,325	£3,480	£3,693	£3,961	£4,237
Operating Margin % (Social housing lettings only)	33.9%	32.6%	30.2%	31.3%	29.8%
Operating Margin % (Overall)	30.5%	30.9%	28.8%	28.6%	27.8%
ROCE	5.1%	3.7%	3.9%	3.7%	3.3%

Regulator metrics 20/21	Reinvestment %	New supply delivered (Social housing units) %	New supply delivered (Non-social housing units) %	Gearing %	EBITDA MRI Interest Cover	Headline social housing cost per unit	Operating Margin % (Social housing lettings only)	Operating Margin % (Overall)	ROCE
Lower Quartile	4.00%	0.50%	0.00%	32.90%	1.34	£3,210	22.20%	18.10%	2.70%
Median	5.80%	1.30%	0.00%	43.90%	1.83	£3,730	26.30%	23.90%	3.30%
Upper Quartile	8.20%	2.00%	0.10%	53.30%	2.48	£4,760	32.60%	28.20%	4.20%

Reinvestment has strengthened with record investment in new homes from £87.1m to £110.1m as well as capital investment in our existing homes increasing from £14.2m to £17.6m. Continued investment is expected in future years on new and existing homes.

New supply delivered has increased over 2% for the first time due to delivering 700 new homes in the year. Our development programme will continue to increase as we progress towards our Corporate Plan target.

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

Gearing marginally increased as expected reflecting the new debt in the form of the bond issue taken at our lowest ever spread to gilts. This enables us to service our future growth aspirations at a much lower level of financing cost.

EBITDA MRI is the highest we have ever achieved as a result of the reduction in interest cost and the repayment of higher cost debt last year.

Headline CPU has continued to increase due to an overall c.£8m increase in maintenance costs and our increasing focus on improving our stock and the decarbonisation agenda. We expect costs to rise in future years due to planned activity and inflationary pressures.

Operating margin (SHL and overall) has dropped to 28.8%, reflecting the increase in maintenance costs that the sector is facing whilst continuing to invest in our properties and people through our corporate plan.

ROCE increased as expected due to higher surpluses on fixed asset sales which were primarily driven from our stock swap with Orbit Group and strong First Tranche sales. 19/20 benefitted in the Voluntary Right to Buy programme cessation.

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 c.150 providers on an annual basis through publicly available information, in particular, from financial accounts.

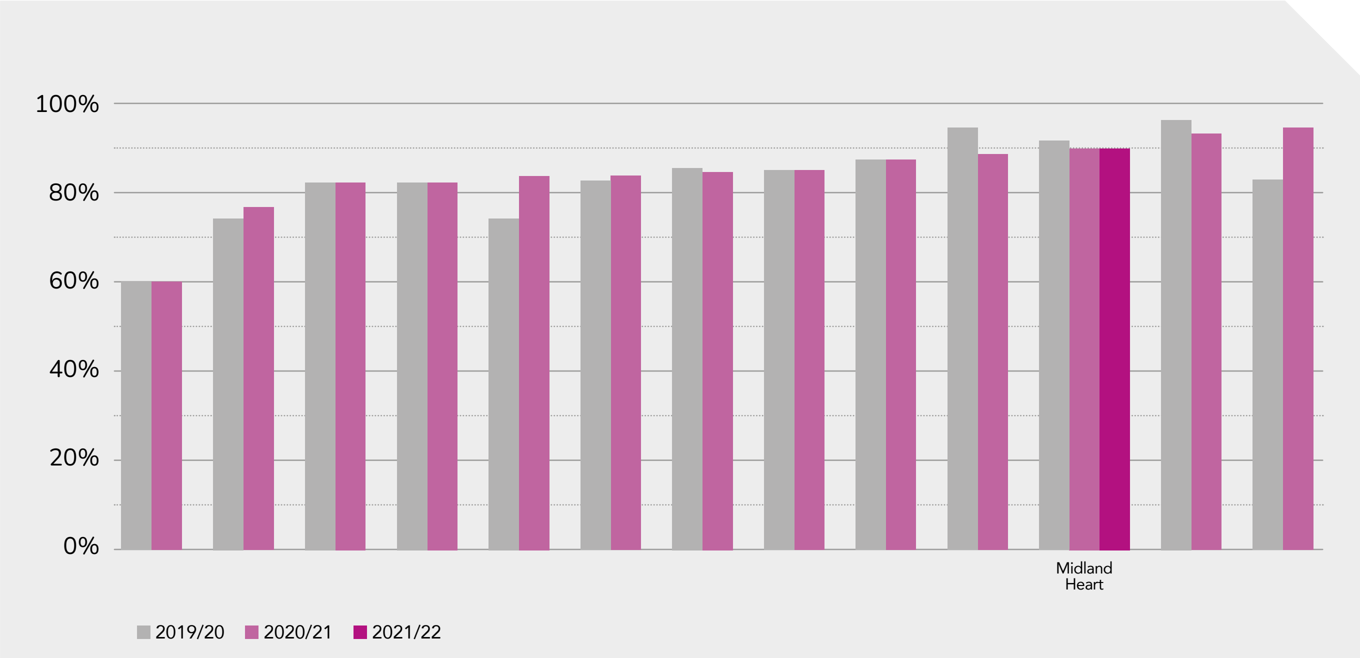
As in previous years, we continue to compare ourselves to a core number of housing providers. We select organisations in all geographies, which represent some of the largest and most efficient Registered Providers, as well as including those that largely have strong governance and viability ratings.

Our benchmarking group consists of:

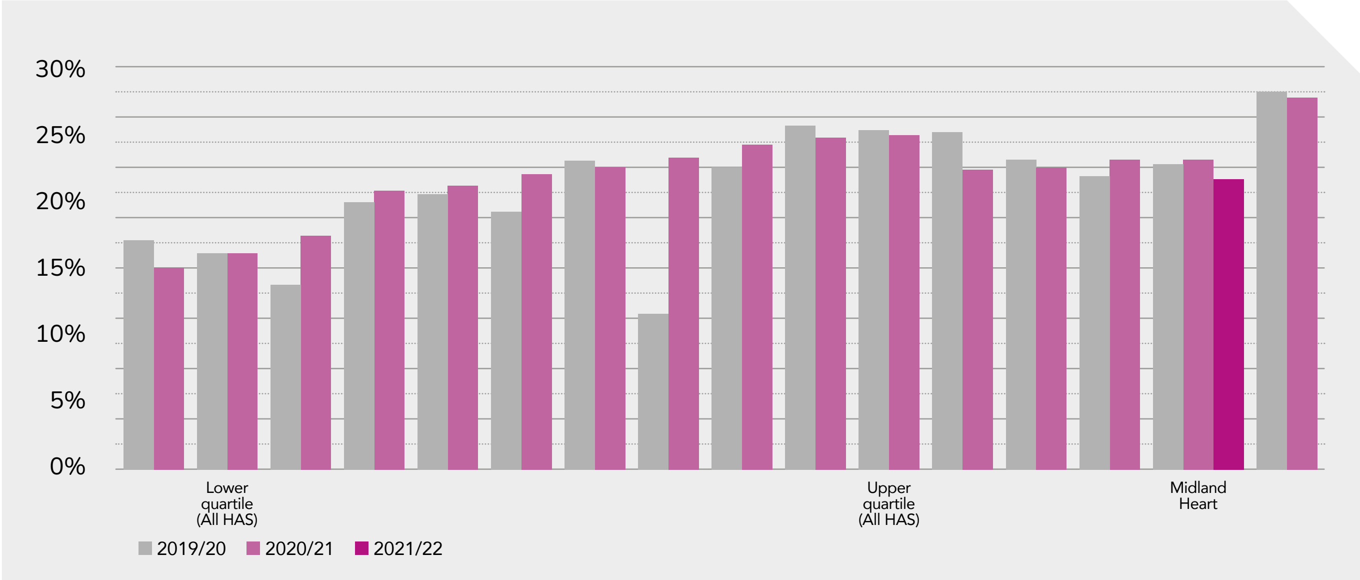
- A2Dominion
- Bromford
- Citizen
- East Midlands Housing
- Flagship
- Hyde
- Optivo
- Orbit Group
- Platform
- Riverside
- Sovereign
- whg

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

Customer satisfaction

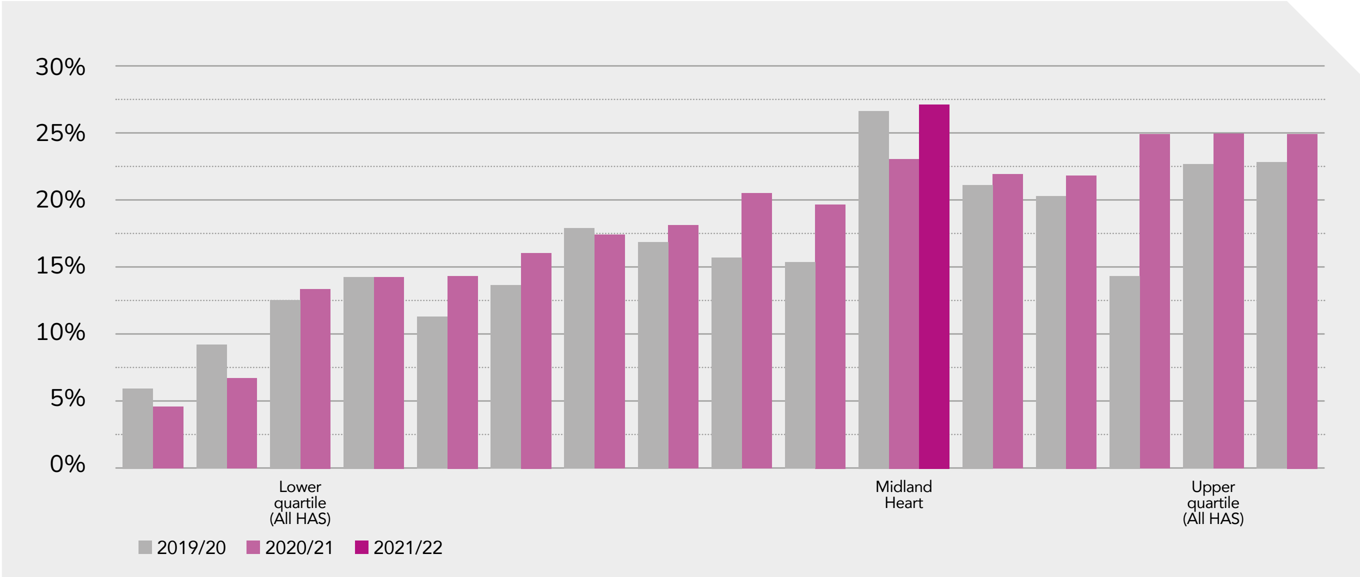


Operating margin - overall % VFM metric

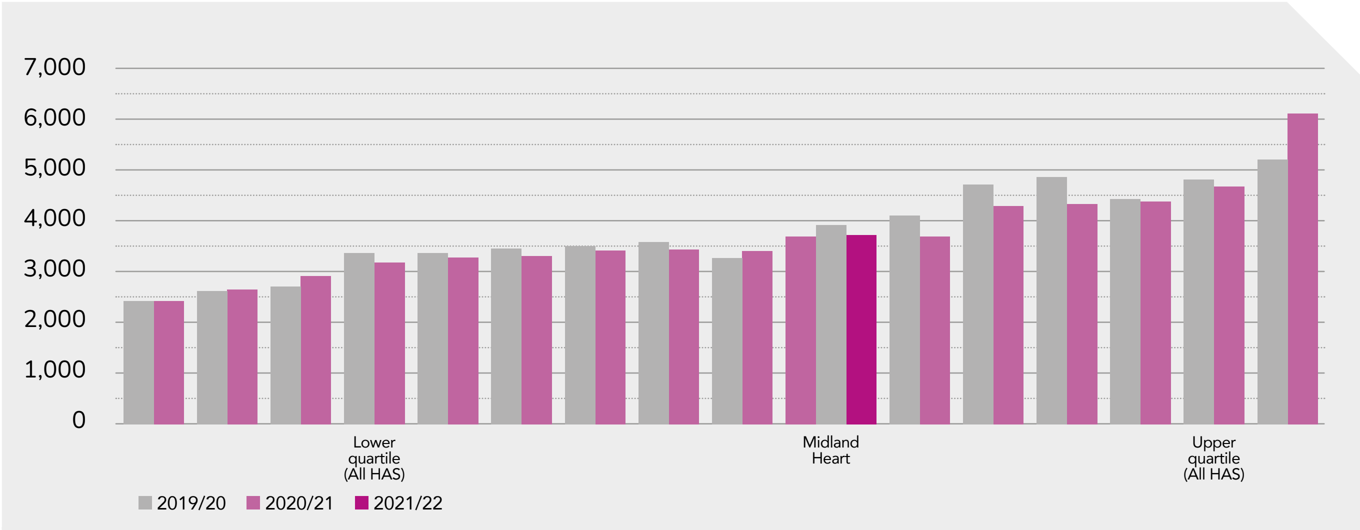


EBITDA MRI interest rate cover - overall % VFM metric

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



Headline cost per unit (£)



Sustainability and climate change

Sustainability and climate change

Tackling the threat of climate change is an organisational imperative for Midland Heart.

Our corporate plan commits to achieving net zero carbon by 2050, focusing on three key areas:

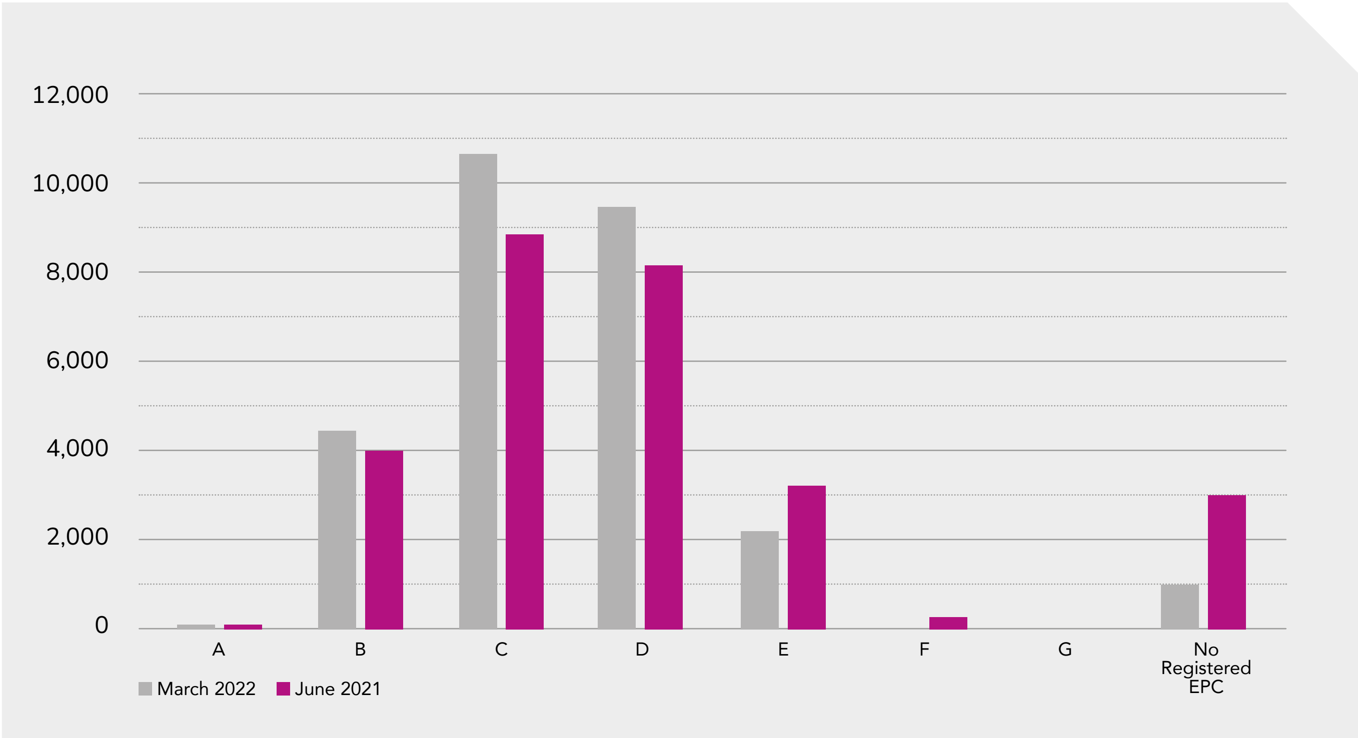
- the homes we rent;
- the homes we build; and
- in the way we work.

We have specifically commissioned work to define and set a pathway to net zero carbon by 2050. The pathway aligns our Corporate Plan with strategic milestones along the road to net zero, including EPC D by 2025 and EPC C by 2030 on the homes we rent.

Within the year:

- we have undertaken pioneering research into net zero homes through the Project 80 new homes and the Havendale Close pilot study. Combining well established approaches with technologies such as Air Source Heat Pumps, mixer cylinders, Solar PV and the one of the UK's first HIVE combined demand response systems
- we were highly recommended for our unique and holistic approach to retrofit delivery for Housing Association of the Year at the West Midlands Region Energy Efficiency Awards 2022
- we have been successful in securing c.£2 million in grant from the Social Housing Decarbonisation Fund (SHDF), working through the West Midlands Combined Authority and Leicester City Council consortium bids
- since April 2021, we have made great strides in upgrading our EPCs in existing stock, eradicating all Gs, and reducing our EPC rated F properties by almost 90% and E properties by over 30%. Through a combination of increased intensity of assessments and retrofit interventions we now have almost 90% of our properties at EPC D or above compared to approximately 77% in June 21
- we have signed up as an early adopter of the Sustainability Reporting Standard for Social Housing and have published our first ESG report.

Registered EPCs



Streamlined Energy and Carbon Reporting (SECR)

In addition, to ensure we report on our energy consumption and carbon emissions in the most transparent and consistent way we have adopted the government's SECR.

Greenhouse gas emissions - Tonnes CO2e				
Measure		**2019-20**	**2020-21**	**2021-22**
Scope 1 emissions from natural gas and commercial fleet fuel use		7,487	6,745	6,479
Scope 2 emissions from electricity use	Location based	4,958	4,419	3,513
	Market based	1,952	390	31
Scope 3 emissions from business travel		183	92	74
Total greenhouse gas emissions	Location based	12,445	11,256	10,066
	Market based	9,439	7,227	6,585
Carbon intensity ratio (total tCO2e / #homes)	Location based	0.37	0.33	0.29
	Market based	0.28	0.21	0.19
Energy use total (kWh)		n/a	55	51

**2019-20 data is using 2020 'SECR kWh pass and delivery vehs' conversion factors to support consistent baselining of all metrics.*

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

Scope 3 emissions have been reported for the assessed scope 3 categories and activities using the GHG Protocol: Technical Guidance for Calculating Scope 3 Emissions. For the purposes of SECR we have included Category 6: Business travel and omitted other associated categories.

We have used the GHG Protocol Corporate Accounting and Reporting Standard as the methodology to quantify our emissions. Using the 2021 Defra conversion factors to calculate associated tonnes CO2e equivalents. Reporting has been aligned with the UK Government's Environmental Reporting Guidelines.

The chosen intensity ratio is the total tonnes CO2e (market based) per home.

Delivering social value

We are committed to deliver social value to our customers through providing high quality housing and support services. We also work with local partners across our regions to further improve customer outcomes.

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 value including:

- our Social Enterprise Value, the ratio of our general needs rent to market rent, is 60.28%. This represents inherent social value in providing sub-market rents that customers are more likely to afford
- 2,497 customer referrals made to our Money Advice Team. Of those customers seen, 99% sustained their tenancy
- £2.5m in income maximisation for customers, increasing income and reducing debt liability. We obtained Universal Credit awards of £506k and £93k in Discretionary Housing Payment for customers struggling to meet their rent shortfall due to financial hardship and effects of welfare reform
- an additional £609k claimed in Housing Benefit and £41k attendance allowance were obtained for customers aged 65 to help with care and mobility needs
- £1,800 worth of Tesco/Asda vouchers issued to customers in financial hardship, 197 customers received emergency fuel top ups and 145 food bank vouchers were issued
- £56k was secured from charities, trust funds and tenants hardship fund to help reduce debt and purchase essential goods and services, such as TV licenses, cookers, bedding and fridges.

Between September 2021 and March 2022, we have seen a steady increase in the number of customers struggling financially due to the increases in the cost of living. With the energy price cap rise from April 2022, we expect a higher demand for our Money Advice services so we are engaging proactively with our current partners and look for more assistance locally.

Loan facilities

Midland Heart's policy is to develop long-term relationships with lending institutions and investors that understand the business and are able to meet its funding and changing business requirements.

The Group's main financial covenants are in respect of gearing, interest and asset cover. These have been agreed with all the relationship banks and are monitored on a regular basis including stress testing at our Finance and New Business Committee.

Midland Heart has a liquidity policy that states there should be sufficient cash and fully secured loan facilities to cover 18 months net committed development spend excluding any sales receipts from outright sale/shared ownership properties. During the year, Midland Heart issued £75m of its retained bonds to further fund our development program and to diversify its investor base.

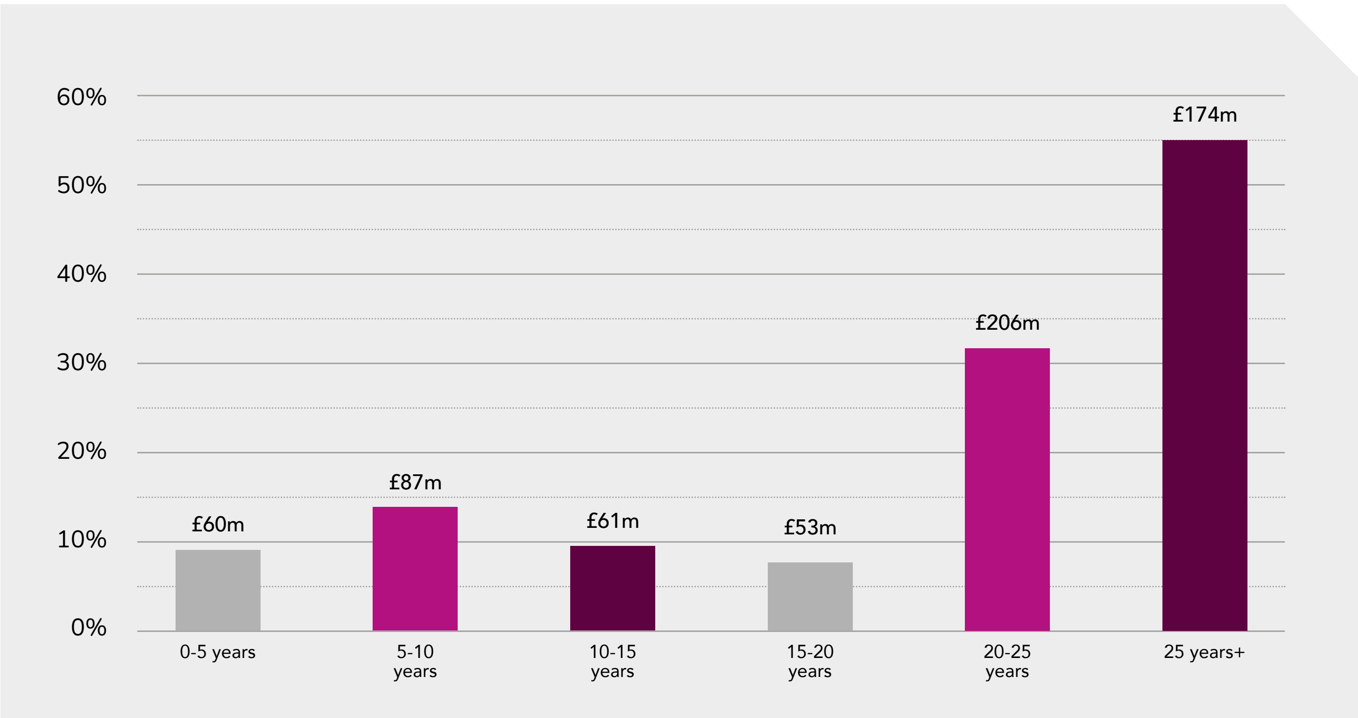
As at 31 March 2022, Midland Heart had c.£286m of available liquidity; comprising £151m available in undrawn fully secured facilities, and c.£135m in cash. In addition, it had a further £75m in fully secured retained bonds. This is an excellent foundation to fund our future development plans, and to ensure a robust liquidity position.

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

	2022	2021
Within one year	9,759	9,343
Between one and two years	12,053	21,228
Between two and five years	40,005	29,672
After five years	579,721	515,483
	641,538	575,726

Debt repayments

This shows that only 10% of our debt matures in under five years' time.



Midland Heart has a diversified funding base, the split between bank and capital market funding As at 31 March 2022 was that 61% of our debt came from the capital markets and 39% from banks and building societies.

During the year we became an early adopter of the Sustainable Reporting standard and are working on a sustainable Financing framework to set us on the journey of moving to net zero carbon by 2050.

Financial instruments

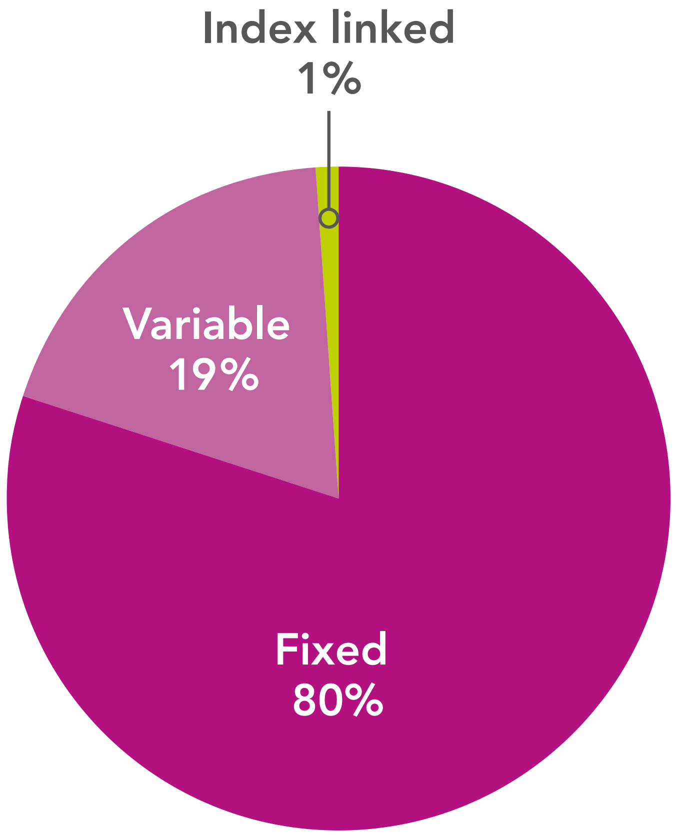
The Group has a formal Treasury Management Policy that is approved by the Board.

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

Midland Heart uses embedded instruments (such as fixed rate bank loans and bond issues) and standalone interest rate swaps to reduce the impact to Midland Heart of increases in interest rates. They are only used to hedge existing variable rate debt liabilities and are prohibited from being used for speculative purposes. As a result of using swaps, Midland Heart sets aside property collateral and utilises credit thresholds to cover any net future anticipated payments due by Midland Heart. As at 31 March 2022 this amounted to just over £47m and all counterparties' exposure was fully covered by property collateral and credit thresholds.

Midland Heart monitors its exposure daily and undertakes stress tests. Currently we calculate that if interest rates were to fall by a further 100bps we would not have to provide cash collateral to support any of our swap transactions.

Midland Heart does not have any non-sterling or exchange rate exposures. As at 31 March 2022 our debt portfolio was 80% Fixed, 19% Variable and 1% Inflation Linked.



Covenant

We operated well within our golden rules that ensure our adequate financial strength and capacity.

Measure	Bank tightest Covenant	2022	2021
Gearing (Golden Rule 70%)	75%	45%	44%
Interest Cover (Golden Rule 150%)	116%	386%	246%

Risk management

Our operating environment

At the start of 2021/22, we were still within the midst of the global pandemic, and we were sharply focused on delivering frontline services to our customers and maintaining safety compliance.

As we returned to the office and restrictions were lifted, our business processes and culture were changed to incorporate smart working. In the aftermath of the pandemic, we were faced with emerging risks of cost inflation, increasingly competitive recruitment market, and the threat of a reduction in government spending. We have continued to monitor these risks on our register and have extensively modelled the financial impact through our stress testing of our business plan.

We are also monitoring the impact on our customers so that we can provide support where possible.

As our most significant strategic risk, a number of assurance engagements were focused on cyber security to ensure we protected our colleagues' and customers' data. This was particularly important after the Russian invasion of Ukraine and the subsequent risk of increased cyber warfare.

Looking ahead to 2022/23

The cost of living crisis and inflation is set to worsen over the next year which may adversely impact our business plan. We are acutely aware of that many of our customers may be pushed into fuel poverty or arrears, particularly during the winter.

As a business, we will also be facing costs in meeting increasing building safety requirements and our plan for net zero carbon in 2050. These investments require specialist skills and knowledge that are scarce in the current labour market.

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

Keeping risk management running through our business

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

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

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

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

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

Risk	Description	Key mitigations
SR1	Causing serious harm or neglect to a customer, staff, supplier or third party	• Safeguarding and operational policies and procedures in place with all relevant staff inducted and trained. Routine weekly and monthly checks undertaken by fully trained operational staff. • Safeguarding Board in place monitoring policy implementation and performance. • Our health and safety strategy.
SR2	Non-compliance with Building Safety laws, regulations and best practice in existing and new build properties	• Dedicated teams and budgets in place to manage building safety compliance. • Documented systems in place to identify, control, monitor and report on all areas of building safety risk and performance. • Competent, qualified contractors procured to provide specialist services. • Documented new build handover process agreed with building safety and development teams.
SR3	Failure to build homes that meet demand at the required rate and quality	• Development strategy is adequately phased and held to across the five-year plan. • Development project management processes and procedures with status reported to Board. • Operations sign off development projects to ensure properties have correct specifications to meet customer need. • Development Quality Manager overseeing new builds to reduce number of defects.
SR4	Adverse impact on financial plan of government policy, including the impact of a reduction in grant and potential rent cut	• Scrutiny of business plans budgets by Exec/Board. • Gearing peaks at 53%, interest cover at 265% whilst maintaining 18 months liquidity. • Stress tests include a rent freeze for 10 years, no government grant and a 20% increase in maintenance costs. These can be successfully mitigated by management interventions. • Record surplus to ride out future waves with A1 credit rating.
SR5	Midland Heart suffers a data breach due to a cyber-attack	• IT policies, procedures and training, including IT Security e-learning. • Annual penetration test and digital application testing. • Anti-virus software (signature based only), firewalls, email and web filtering.
SR6	Failure to comprehend and financially/operationally plan for decarbonisation	• Our current governance arrangements meet the requirements set out by the ESG early adopter return. • ESG Group to monitor progress of low carbon plan and ESG credentials. • £10m embedded in the financial plan to 2025.
SR7	Inability to attract/retain talent in a pressured labour market	• Talent framework in place to retain and develop colleagues, including Leadership Academy and apprenticeship programme. • Improvements in our benefits offering, including enhanced maternity pay and pension contribution. • Online MPD process implemented which emphasises discussions around career aspirations and development. • Executive Board quarterly review of succession plans and business critical roles.
SR8	Inability to deliver repairs services due to the availability of operative resource	• High profile recruitment campaign. • Launch of IHMT apprenticeship programme. • Introduction of retention bonuses for Trade Operatives.

Board and Executive overview

Board of Directors - appointments and resignations

Name	Position	Appointed	Resigned
John Edwards	Chair of the Board and Chair of Nominations Committee	14/05/14	
Glenn Harris	Executive Member	29/09/17	
Julian Healey	Chair of Audit and Risk Committee	23/09/13	29/09/2021
David Taylor	Executive Member	29/09/17	
Martin Tiplady	Chair of Remuneration and Executive Selection Committee and Chair of Audit and Risk Committee	29/09/14	
Carole Mills	Chair of Operations Committee	29/09/17	
Chris West	Chair of Cygnet and Chair of Finance and Growth Committee	29/09/17	
Darren Humphreys	Non-Executive Member	01/05/19	
Llewellyn Graham	Non-Executive Member	01/05/19	
Joe Reeves	Executive Member	03/12/21	
Baljinder Kang	Executive Member	01/01/22	
Dominic Wong	Non-Executive Member	01/05/21	

Louise McFadzean has been appointed to join the Board on Chris West's retirement in September 2022.

Member attendance - 1 April 2021 to 31 March 2022

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

Board and Non-executive Directors

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 four years until December 2014.

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

Carole Mills - Non-executive Member

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

Having started her career in the private financial services sector, she has 40 years' experience in the public sector in both the NHS and local government; with over two decades at Board level. Carole has particular interest in housing, mental health and addressing health and social inequalities. Qualifying as an accountant in 1992 and as a former Chief Finance Officer, she has a strong track record in corporate governance, financial strategy and organisational transformation.

She's held the role of CEO in three significant unitary authorities and is currently also a Non-executive Director at a large NHS Trust. Carole has experience as a charity trustee, school governor and board member and advisor in several other organisations.

Dominic Wong - Non-executive Member

Dominic joined Deloitte LLP in 1991 and spent the next 28 years there, working in the London, Bristol, Cardiff and Birmingham offices.

He made equity partner in 2004, with responsibility for the restructuring team in the South. In 2005, he moved overnight to take charge of the struggling restructuring practice in the Midlands and over the next ten years succeeded in transforming it into an innovative and highly profitable market leader.

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

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

Julian Healey - Non-executive Member (resigned from the Board September 2021)

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 also the Chair of our Audit and Risk Committee until September 2021.

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 Regulation and Conduct Committee.

This year has seen the retirement of Julian Healey and we thank Julian for his valued input throughout his term on the Board.

Martin Tiplady OBE - Senior Independent Director

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

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

Martin was named by the Daily Telegraph as Personnel Director of the Year and, in 2019, as one of the most significant individuals in human resources today. He received an OBE for his services to policing and human resources in The Queen's Birthday Honours 2010 and is a sought-after speaker and commentator on employment, organisational development, diversity and HR matters. Martin has been Chair of our Audit and Risk Committee since September 2021.

Darren Humphreys - Non-executive Member

Darren started his career as a surveyor with Bryant Homes and has spent more than three decades working in the construction and housing industries. He is currently Regional Managing Director of Tilia Homes, a national developer delivering between 1600 - 1800 new homes a year. They are a wholly owned subsidiary of Terra Firma one of Europe's leading Private Equity Funds.

Previous roles include Chief Executive of Rectory Homes Ltd, a number of senior executive positions in leading retirement community developers McCarthy & Stone, eight years as managing director of CALA Homes (Midlands) Ltd and three years prior as Managing Director of various regions with David Wilson Homes Ltd.

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

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.

Llewellyn Graham - Non-executive Member

Llewellyn Graham is an experienced Chief Executive Officer, who has a proven track record of success in leadership at the highest level within the voluntary, social housing and not-for-profit sector. He is a visionary leader and social entrepreneur who has the ability to analyse and solve complex organisational problems and implement change successfully.

Llewellyn was instrumental in providing leadership and strategic direction in developing Nehemiah from its embryonic stage to being a successful multi-million pound social business.

He has, and continues to, hold a number of board appointments as a Non-executive Director including Non-executive Director of a large Midland Housing Association and the NHS Black Country Integrated Care Board. Llewellyn is also our Board lead on equality, diversity and inclusion and is a member of our equality, diversity and inclusion steering group.

He is a member of the National Housing Federation Regional committee, BME National Executive, West Midlands Housing Association Partnership and Birmingham Social Housing Partnership. Working with people has been a long-term passion that began as a social worker and for 21 years has held the role of a senior pastor and area bishop for the Church of God of Prophecy. He is a member of the National and International church board as well as the chairman of the International Audit Committee.

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

Baljinder Kang - Executive Director of Corporate Resources and Board Member

Bal, who joined us in 2014, has over 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 corporate resources agenda including health and safety, facilities management, corporate affairs and technology and transformation.

A Fellow of the Chartered Institute of Personnel and Development (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. In 2022, Bal was also named as one of the top 50 Employee Experience practitioners by the CIPD. Bal led the team to winning the 2017 CIPD award for best reward initiative; she was promoted to our Executive team in May 2018.

Executive Director of Finance and Growth and Board Member

Joe joined us in July 2013 following 15 years at PwC working in both public sector audit and advisory, and corporate finance infrastructure and government teams, having qualified as a Chartered Public Finance Accountant (CIPFA) in 2000.

As our Executive Director of Finance and Growth, Joe is responsible for our housing development strategy, commercial projects, strategic planning, audit and risk, finance, treasury, procurement and external affairs functions. As a Director at PwC, he acted as lead commercial advisor on major economic and social infrastructure public private partnership projects for Government across the UK with a combined value of £1.5bn.

David Taylor - Executive Director of Operations and Board Member

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

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

David's 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, housing management and asset management.

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 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.

Corporate governance

Corporate governance

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) 2020 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.

In addition, we successfully achieved the Governance Institute Quality Mark for governance excellence in November 2019.

Declarations of interest

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

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 at 31 March 2022, there were 11 Board members, of whom seven are Non-executives and four are Executive Members. Dominic Wong was appointed to the Board as Non-executive Member to replace Julian Healey when he retired in September 2021. Louise McFadzean will join the Board in September 2022 on Chris West's retirement.

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

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

On 31 March 2022, the Board had five committees and operates one property owning subsidiary, Cygnet Property Management plc. The pensions sub-group was merged into the Remuneration and Executive Selection Committee during 2021.

Corporate governance
Next

Audit and Risk Committee

The committee, chaired by Martin Tiplady from September 2021, is responsible for six key areas which are:

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

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

The committee meets quarterly to ensure continued oversight and assurance over risks and processes. At the March 2022 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 2022. 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, pension liabilities, 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 was advised at the March 2022 meeting by the external auditor, that in 2021-22, the ratio of non-audit fees (£38k) to audit fees (£96k) was 0.4:1. The external auditor assured the committee that they did not consider the total non-audit fees created a self-interest threat since the absolute level of fees is not significant to the external audit firm (KPMG).

Finance and Growth Committee

The Finance and Growth Committee (F&G), chaired by 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.

F&G's functions also include a review of the Environmental Social and Corporate Governance annual report. At the close of the financial year, F&G convened and considered the following areas:

- the final budget for 2022/2023
- the latest version of the Management Accounts Report
- the rent and service charge report
- covenant compliance
- the long-term financial plan, including assessing adequacy and comprehensiveness of stress testing and mitigation plans
- the delivery of our development programme and targets and ensuring funding is in place for this build.

Remuneration and Executive Selection Committee

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

During the course of the year the Committee has:

- considered the performance levels of the Chief Executive and Directors and determined the appropriate levels of remuneration and salary
- analysed and approved changes to the Executive Management structure and team and received reviewed delivery of the people strategy to support the organisation's response to Making What Matters Brilliant
- reviewed and informed progress on our work on equality and diversity, including approval of our Gender Pay Report as well as our inaugural Ethnicity Pay Report, both of which were published in January 2022
- approved changes to the quality and productivity scheme for In-House Maintenance Operatives and later in the year assessed the impact
- reviewed progress in delivering our move to smart working
- reviewed the progress on the implementation of the new HR and payroll system
- informed a revised approach to talent management
- received third party assurance in relation to equal pay including audit findings
- considered labour market conditions and approved the annual pay award
- took decisions regarding pension arrangements both for the current and future years.

During the year, the pensions sub-group merged into this committee. Following this, the committee have considered and made recommendations on the major pension issues and risks facing us and our future pension strategy. It receives independent advice from a firm of pensions advisors.

Nominations Committee

The Nominations Committee is chaired by John Edwards CBE.

The committee's main responsibilities are Board and committees' succession planning and recommending new appointees to the Board; recommending what the remuneration should be for Non-executive Directors and for the members of Board and committees; and carrying out the annual appraisal of the Chair and approves the approach towards, and considers the outputs from, the annual appraisal process for Board and committees of Midland Heart.

As well as this, the committee is responsible for assessing and reporting on overall governance effectiveness.

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

- approval of plans for, and the outputs from, Board, committee and Chair appraisal
- board and committee succession planning including recruitment of new Board and Committee members
- pay review for Board and committees following the triennial external review
- a review of the delivery and implementation of our Diversity and Inclusion plans from our Equality and Diversity Steering Group.

Operations Committee

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

The committee reviews operational performance and critiques, develops and approves our customer facing policies.
The committee comprises a mix of customers, independent and Non-executive Members along with our Executive Director for Operations, which brings a variety of valuable perspectives to our work at Midland Heart. This year we have continued our focus on optimising the strength and visibility of the customer voice throughout the organisation and at Board and been involved with and helped develop the following areas:

- customer scrutiny
- first class repairs
- balanced and sustainable communities
- investment into the quality of our homes and neighbourhoods
- energy efficiency
- building safety
- the committee also exercises oversight and scrutiny of the current operational position and trends via a comprehensive suite of operational, governance and performance reports.

This year has seen the retirement of Rebecca Zurek and we thank Rebecca for her invaluable input throughout her term on the committee.

Cygnet Property Management plc

Cygnet oversees the acquisition and management of a small portfolio of properties for market rent.

Cygnet oversees the acquisition and management of a small portfolio of properties for market rent. As a non-charitable operating subsidiary of the Midland Heart group, Cygnet has its own discrete funding arrangements (currently with Handelsbanken), separate from those used by Midland Heart, and operates through a separate legal entity. 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

Customer feedback is invaluable to enabling us to understand the experiences our customers have using our services and helps us make improvements to meet our aim of being a leading provider of social housing.

This year we listened to our customer's voice through a combination of 12,784 transactional surveys and 752 scheme-based interviews to learn what is important to our customers, where we are doing things right and where there is room for any improvement.

In line with the tenant involvement and empowerment standard requirements set by the Regulator for Social Housing to ensure we are transparent to both our customers and the wider sector, we work with customers to shape services and hold our Board to account. We held over 100 different strategic meetings and engagements as part of our scrutiny framework.

These activities have had a direct impact on some of the key elements of *Making What Matters Brilliant* which include:

Using our new building safety communication and engagement strategy we engaged with over 100 customers in our Retirement Living Plus schemes to shape our approach to installing sprinklers in customer flats.

Utilising over 1,000 interventions and feedback helped our My Scrutiny group to highlight ways our current allocations process and use of Midland Heart Homes can have a greater impact on creating balanced and sustainable communities.

Feedback from over 600 customers was used to review how changes to our communication could allow us to better outline our approach to ASB and allow our customers to better track the progress of their case.

We have also worked hard to keep all our customers informed of changes we have had to make in response to the COVID-19 pandemic, and the measures we have taken to protect them and our staff.

Our website and social media channels have been regularly updated with information about these changes and the support available to customers and we have also produced a weekly newsletter with useful information for all retirement living customers.

In addition, to provide further support to our customers and to maintain transparency throughout the pandemic, our key external stakeholders including councillors, MPs and the West Midlands Mayor, Andy Street, have been sent a detailed brief about our response and invited to ask any questions they may have.

Statement of internal control

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

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

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

Control system	Contribution
Governance arrangements	Provides regular and significant oversight of and scrutiny over the business and its performance.
Terms of reference for the audit and risk committee	Provides for a detailed system of scrutiny and checks the effectiveness of management processes and the overall system of internal control, using both internal and external sources of assurance.
Governance and control framework	Detailed scheme of delegation for all parts of the business, including financial delegation.
Whistleblowing/anti-fraud measures	Whistleblowing and anti-fraud policies are approved by the Board and their effectiveness monitored by Audit and Risk Committee.
Policy, strategy and procedure sign off and ongoing review process	Leads to strategies, policies and procedures which are designed to comply with the law and are and remain fit for purpose. This includes the governance and control framework which sets out the levels of financial delegation from the Board to management.
Performance information - non-financial (e.g. key performance indicators)	Regularly reporting on operational performance at Board, committees, Executive team and divisional levels allowing for review of performance and prompt action to be taken where performance is below target levels. This includes monitoring of delivery against targets included in our *Making What Matters Brilliant* corporate plan.
Performance information - financial (e.g. management accounts and budget reports)	Regularly reporting financial performance information at Board, committees, Executive team and divisional levels together with a forecast of financial performance to year end. This allows any deviation from agreed budgets or failure to meet financial KPIs (or any future risk of this occurring) to be quickly identified, and any necessary remedial measures to be agreed. This includes monitoring of delivery against targets included in our corporate plan.
Treasury management	A group-wide treasury management function monitors compliance with our obligations to lenders (including in relation to performance against our financial and non-financial covenants) and external treasury risk factors, whilst also proactively taking steps to improve the efficiency, and reduce the risk of our loan book. It also ensures we have sufficient cash to meet our short-term commitments and access to loan facilities sufficient to finance our long term plans and commitments. It reports regularly to the Finance and Growth Committee, which in turn reports to the Board.
Appraisal of investment decisions	All housing new build investment decisions and other major commitments are subject to appraisal and approval by the relevant governance forum depending on the value of the transaction. All transactions with a capital value in excess of £10m are approved by a forum with a majority of Non-executives.
Internal audit	These are carried out in an audit programme focusing on the areas of highest risk within the business as well as some key controls which are subjected to a continuous audit process. This is an outsourced service which in 2021-2022 was delivered by our advisers, BDO. The internal audit programme is determined by the audit and risk committee annually by reference to a rolling three-year programme which aims to ensure all key risk areas are audited at least every three years. Audit reports then identify any control weaknesses or areas for improvement and require management to implement corrective actions in relation to those areas of weakness/improvement.
Quality assurance reports	These look at specific areas of operational risk in our customer services, and the outcome of these reviews are reported to and considered at Executive team and Audit and Risk Committee.
Regulatory standards compliance	An annual report provides evidence of compliance against the RSH regulatory standards which is reviewed by the Board and enables the Chair, on behalf of the Board, to certify compliance against the regulatory standards.
Health and safety risk monitoring	A Health and Safety Committee meets regularly to monitor the extent to which we meet our health and safety responsibilities. Reporting of health and safety key performance indicators and review of risks and controls occurs at each meeting of Executive team, Audit and Risk Committee and the Board to determine if health and safety risks are being adequately managed.

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

- the internal auditors through the areas within the 2021-22 audit plan, with reviews rated moderate to substantial assurance.
- the external auditors who gave an unqualified opinion on the 2021-2022 Financial Statements
- financial controls that have shown themselves to be effective through the delivery of on budget financial performance in 2021-2022
- a group-wide risk management function which seeks to proactively manage risk so as to avoid any serious damage or impact to the Group, its customers or its assets. This includes a formal requirement to report on risk and how this will be mitigated in relation to new business and major development initiatives
- the ongoing monitoring and scrutiny of our assurance framework by both the Executive team and the Audit and Risk Committee.

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

- internal audit
- external audit
- supporting people inspections by local authorities of our supported housing
- Homes England (formerly the Homes and Communities Agency) annual audit of development programme performance
- external funder reviews and annual financial/ governance reviews by credit rating agency, Moody's
- internal quality assurance frameworks
- health and safety risk assessments and audit inspection outcomes
- regular compliance checks and reporting to Board of inspection outcomes in relation to fire risk, hot water, asbestos, gas safety, legionella and electrical testing
- business continuity planning, 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 July 2021)
- experienced and suitably qualified staff take responsibility for important business functions.
- annual appraisals are carried out for all staff to assess their performance
- budgets are prepared which allow the Board and the Executive team to monitor the achievement of financial objectives throughout the year. Monthly management accounts are prepared and distributed promptly providing relevant, reliable and up-to-date financial information and commentary which allows significant variances from budget or from key performance indicators to be quickly understood and corrective actions put in place.

Regulator of Social Housing regulatory standards compliance

Registered providers are required by the Regulator of Social Housing (RSH) to assess their compliance with the RSH's governance and financial viability standard.

The Board has considered our compliance with these standards and in line with the requirements of the RSH hereby certifies that we comply with such standards.

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

Mergers and partnerships

The Board previously decided to adopt the National Housing Federation's merger code. This is a voluntary code which sets out 10 core principles of conduct which act as a framework for boards to follow in relation to the various stages involved in evaluating and making decisions on opportunities for mergers, group structures and partnerships.

The Board believes that this will benefit our customers and stakeholders in that it will:

- enable Board ownership of such matters;
- support good and objective decision making; and
- 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

Registered providers are required by the Regulator of Social Housing (RSH) to assess their compliance with the RSH's governance and financial viability standard.

Principal activities

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

A review of our operational and financial performance for the year ended 31 March 2022 can be found in the strategic review from page 4.

Organisation structure

- **Midland Heart Ltd** – Main Operating Business of Group, Charitable Status
  - **Cygnet Property Management PLC** – Market Rent Subsidiary
  - **Midland Heart Capital Ltd** – Capital Markets Vehicle, Non-Charitable
  - **Midland Heart Development Ltd** – Non-Charitable VAT Group Co
  - **Prime Focus Regeneration Group** – Non-Operating Subsidiary
    - **Prime Focus Ltd (Funding Vehicle)** – Non-Operating Subsidiary of Prime Focus Regeneration Ltd

Income and surplus for the year

The Group's activities generated turnover for the period of £207.0m (2021 - £195.7m) on which a surplus of £75.1m (2021 - £66.1m) was achieved. On 31 March 2022, revenue reserves totalled £497m (2021 - £432m).

Legal proceedings

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

Financial instruments

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

Modern Slavery Act

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

Health and safety

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

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

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

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

Throughout the year, we responded quickly and effectively to the COVID-19 pandemic and teams within the organisation worked tirelessly to ensure clear procedures and guidelines were immediately put in place to keep our customers and colleagues safe. The situation was continuously monitored closely to enable us to react quickly and effectively to ensure government guidelines were followed at all times.

Investment for the future

We are committed to investing in our properties and the communities in which we serve. During the year we invested £26.4m (2021: £22.2m) on planned improvements and major repairs to our properties. Our asset management strategy also provides for the disposal of a number of properties, which sit outside 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.

Auditors

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

The resolutions for their re-appointment and to authorise the directors to determine their remuneration will be proposed at the AGM on 28 September 2022. The auditors' fees for audit and non-audit work are disclosed in note nine of the Financial Statements.

Going concern

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

We 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

Statement of Board's responsibilities

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

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

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

In preparing these Financial Statements, the Board is required to:

- select suitable accounting policies and apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable UK accounting standards and the statement of recommended practice have been followed, subject to any material departures disclosed and explained in the Financial Statements
- assess the Group and the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern
- use the going concern basis of accounting unless it either intends to liquidate the Group or the Association or to cease operations, or has no realistic alternative but to do so.

The Board is responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Association and enable them to ensure that its Financial Statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2018. It is responsible for such internal control as it determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error, and has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the Association and to prevent and detect fraud and other irregularities.

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

Statement as to disclosure of information to auditors

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

By order of the Board:

Sarah Scott
Company Secretary
27 July 2022

John Edwards CBE
Chair
27 July 2022

Independent auditor's report to Midland Heart Limited

Opinion

We have audited the financial statements of Midland Heart Limited ("group and the association") for the year ended 31 March 2022 which comprise the Group Statement of Comprehensive Income, Association Statement of Comprehensive Income, Group Statement of Financial Position, Association Statement of Finance Position, Group Cash Flow Statement, Group and Association Statement of Movement in Reserves and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view, in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, of the state of affairs of the group and the association as at 31 March 2022 and of the income and expenditure of the group and the association for the year then ended;
- comply with the requirements of the Co-operative and Community Benefit Societies Act 2014; and
- have been prepared in accordance with the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2019.

Basis for opinion

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

Going concern

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

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

Our conclusions based on this work:

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

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

Fraud and breaches of laws and regulations – ability to detect

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

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

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards and taking into account possible pressures to meet external stakeholder expectations and loan covenants, we perform procedures to address the risk of management override of controls, in particular the risk that income from property sales and non-social housing income is recorded in the wrong period and the risk that Group management may be in a position to make inappropriate accounting entries.

We did not identify any additional fraud risks.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of the Group-wide fraud risk management controls.

We also performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included journals posted to unusual and seldom used accounts.
- Evaluating the business purpose of significant unusual transactions.
- Assessing significant accounting estimate for bias

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

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

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

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

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

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

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

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

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

Other information

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Independent auditor's report to Midland Heart Limited

Board's responsibilities

As explained more fully in their statement set out on page 58, the association's Board is responsible for: the preparation of financial statements which give a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to liquidate the group or the association or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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

Harry Mears
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

16 August 2022

Financial Statements

Group statement of comprehensive income

	Note	2022 £'000	2021 £'000
Turnover	3	207,038	195,719
Operating expenditure	3	(147,507)	(135,181)
Surplus on disposal of property, plant and equipment	6	13,842	3,841
Surplus on revaluation of investment properties	11	1,735	1,755
Operating surplus	**3**	**75,108**	**66,134**
Interest receivable	7	345	743
Interest and financing costs	8, 26	(19,895)	(28,738)
Surplus before tax	**9**	**55,558**	**38,139**
Taxation	10	(25)	3
Surplus for the year		**55,533**	**38,142**
Other comprehensive income			
Movement in fair value of cash flow hedged financial instruments	25	18,280	14,458
Actuarial gain/(loss) on defined benefit scheme	26	9,353	(22,207)
Total comprehensive income for the year		**83,166**	**30,393**

The accompanying notes form part of these Financial Statements.

These Financial Statements were approved by the Board of Directors on 27 July 2022 and signed on its behalf by:

Member	Member	Member
John Edwards, CBE	**Martin Tiplady**	**Glenn Harris, MBE**

Association statement of comprehensive income

	Note	2022 £'000	2021 £'000
Turnover	3	206,057	194,523
Operating costs	3	(146,836)	(134,533)
Surplus on disposal of property, plant and equipment	6	13,797	3,841
Operating surplus	**3**	**73,018**	**63,831**
Interest receivable	7	345	743
Interest and financing costs	8, 26	(19,537)	(28,418)
Gift Aid receivable		1,657	-
Surplus before tax	**9**	**55,483**	**36,156**
Taxation	10	-	-
Surplus for the year		**55,483**	**36,156**
Other comprehensive income			
Movement in fair value of cash flow hedged financial instruments	25	18,280	14,458
Actuarial gain/(loss) on defined benefit scheme	26	9,353	(22,207)
Transfer of PFRG reserves		4,120	-
Total comprehensive income for the year		**87,236**	**28,407**

The accompanying notes form part of these Financial Statements.

These Financial Statements were approved by the Board of Directors on 27 July 2022 and signed on its behalf by:

Member	Member	Member
John Edwards, CBE	**Martin Tiplady**	**Glenn Harris, MBE**

Group statement of financial position

	Note	2022 £'000	2021 £'000
Fixed assets			
Tangible assets			
Housing properties	12	1,704,115	1,615,900
Investment properties	11	27,519	27,250
Other fixed assets	13	43,296	38,718
Homebuy loans receivable	14	100	100
Fixed asset investments	15	1,683	2,130
Total fixed assets		**1,776,713**	**1,684,098**
Current assets			
Debtors	17	12,199	10,462
Properties for sale and work in progress	18	16,359	13,681
Investments	19	-	771
Cash and cash equivalents	20	137,285	107,971
		165,843	**132,885**
Creditors: amounts falling due within one year	21	(63,199)	(55,212)
Net current assets		**102,644**	**77,673**
Total assets less current liabilities		**1,879,357**	**1,761,771**
Creditors: amounts falling due after more than one year	22	(1,407,176)	(1,359,628)
Pension - defined benefit liability	26a	(22,236)	(35,364)
Total net assets		**449,945**	**366,779**
Reserves			
Revenue reserves		496,689	431,803
Cash flow hedge reserve		(46,744)	(65,024)
Total reserves		**449,945**	**366,779**

The accompanying notes form part of these Financial Statements.

These Financial Statements were approved by the Board of Directors on 27 July 2022 and signed on its behalf by:

Member	Member	Member
John Edwards, CBE	**Martin Tiplady**	**Glenn Harris, MBE**

Association statement of financial position

	Note	2022 £'000	2021 £'000
Fixed assets			
Tangible assets			
Housing properties	12	1,710,729	1,621,729
Other fixed assets	13	43,210	30,804
Homebuy loans receivable	14	100	100
Investments	15	1,683	2,130
Investments in subsidiaries	16	6,067	6,067
Total fixed assets		**1,761,789**	**1,660,830**
Current assets			
Debtors	17	12,967	14,266
Stock and work in progress	18	16,359	13,681
Investments	19	-	771
Cash and cash equivalents	20	135,867	107,315
		165,193	**136,033**
Creditors: amounts falling due within one year	21	(57,601)	(59,930)
Net current assets		**107,592**	**76,103**
Total assets less current liabilities		**1,869,381**	**1,736,933**
Creditors: amounts falling due after more than one year	22	(1,401,154)	(1,342,814)
Pension - defined benefit liability	26a	(22,236)	(35,364)
Total net assets		**445,991**	**358,755**
Reserves			
Revenue reserves		492,735	423,779
Cash flow hedge reserve		(46,744)	(65,024)
Total reserves		**445,991**	**358,755**

The accompanying notes form part of these Financial Statements.

These Financial Statements were approved by the Board of Directors on 27 July 2022 and signed on its behalf by:

Member	Member	Member
John Edwards, CBE	**Martin Tiplady**	**Glenn Harris, MBE**

Group cash flow statement

	Note	2022 £'000	2021 £'000
Cash flows from operating activities			
Operating surplus		75,108	66,134
Adjustments for:			
Depreciation and impairment charges		29,887	27,868
Amortisation of grant		(8,175)	(8,147)
Surplus on disposal of property, plant and equipment		(13,842)	(3,841)
Surplus on revaluation of investment properties		(1,735)	(1,755)
Interest received		345	743
Interest and financing costs (including capitalised interest)		(22,550)	(31,067)
(Increase)/Decrease in debtors		(1,737)	3,512
Increase in stock		(3,718)	(3,276)
(Decrease)/Increase in creditors		(9,145)	4,091
Decrease in pension defined benefit liability		(4,497)	(4,409)
Tax received		32	25
Net cash flow from operating activities		**39,973**	**49,878**
Cash flows from investing activities			
Acquisition and construction of housing properties		(149,122)	(102,185)
Social Housing Grant received		22,603	14,480
Sales of housing properties		58,380	21,715
Net decrease in investments and loans to other associations		447	14
Purchase of other tangible fixed assets		(8,525)	(11,228)
Sales of other tangible fixed assets		-	-
Increase/(decrease) in short term deposits		771	(771)
Net cash flow from investing activities		**(75,446)**	**(77,975)**
Cash flows from financing activities			
Loan advances received		75,000	100,809
Loan principal repayments		(10,213)	(55,952)
Net cash flow from financing activities		**64,787**	**44,857**
Net increase in cash and cash equivalents	**35**	**29,314**	**16,760**
Cash and cash equivalents at the start of the year		107,971	91,211
Cash and cash equivalents at the end of the year		**137,285**	**107,971**

Statement of movements in reserves

Group	Income and expenditure reserves £'000	Cash flow hedge reserve £'000	Total reserves £'000
At 1 April 2020	415,868	(79,482)	336,386
Surplus for the year	38,142	-	38,142
Movement in cash flow hedge	-	14,458	14,458
Movement in defined benefit pension obligations	(22,207)	-	(22,207)
At 31 March 2021	**431,803**	**(65,024)**	**366,779**
Surplus for the year	55,533	-	55,533
Movement in cash flow hedge	-	18,280	18,280
Movement in defined benefit pension obligations	9,353	-	9,353
At 31 March 2022	**496,689**	**(46,744)**	**449,945**

Association	Income and expenditure reserves £'000	Cash flow hedge reserve £'000	Total reserves £'000
At 1 April 2020	409,830	(79,482)	330,348
Surplus for the year	36,156	-	36,156
Movement in cash flow hedge	-	14,458	14,458
Movement in defined benefit pension obligations	(22,207)	-	(22,207)
At 31 March 2021	**423,779**	**(65,024)**	**358,755**
Surplus for the year	55,483	-	55,483
Transfer of PFRG reserves	4,120	-	4,120
Movement in cash flow hedge	-	18,280	18,280
Movement in defined benefit pension obligations	9,353	-	9,353
At 31 March 2022	**492,735**	**(46,744)**	**445,991**

Notes to the Financial Statements

(forming part of the Financial Statements)

1. Legal status

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

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

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

2. Accounting policies

2a. Basis of accounting

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

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

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

Judgements and key sources of estimation uncertainty

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

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

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

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

Revaluation of investment properties: the Group carries its investment property at fair value, with changes in fair value being recognised in the Statement of Comprehensive Income. The Group engaged independent valuation specialists to determine fair value at 31 March 2022. 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 pwrovides benefits to non-associated employers. The scheme is classified as a defined benefit scheme. For financial years ending on or before 28 February 2019, it was not possible for the Group to obtain sufficient information to account for the liability on a full FRS 102 valuation basis, so it was accounted for as a defined contribution scheme where the net present value of the deficit contributions were recognised in the accounts as creditors falling within and more than one year.

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

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

2b. Basis of consolidation

The consolidated Financial Statements incorporate the results of Midland Heart Limited and all of its subsidiary undertakings. As at 31 March 2022 using the acquisition or merger method of accounting, as required. Where the acquisition method is used, the results of subsidiary undertakings are included from the date of acquisition, being the date the Group obtains control.

2c. Measurement convention

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

2d. Going concern

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

The Group prepares a 30-year business plan which is updated and approved on an annual basis. The most recent business plan was approved in June 2022 by the Board. As well as considering the impact of a number of scenarios on the business plan, the Board also adopted a stress testing framework against the base plan. The stress testing impacts were measured against loan covenants and peak borrowing levels compared to agreed facilities, with potential mitigating actions identified to reduce expenditure. Following the outbreak of COVID-19 the Group has undertaken a series of further scenario testing including severe but plausible downsides in the worst-case assessment.

The Board, after reviewing the group and company budgets for 2022/23 and the group's medium term financial position as detailed in the 30-year business plan including changes arising from the COVID-19 pandemic, is of the opinion that, taking account of severe but plausible downsides, the Group and company have adequate resources to continue in business for the foreseeable future. In order to reach this conclusion, the Board have considered through multi-variant stress testing:

- the property market - budget and business plan scenarios have taken account of delays in handovers, lower numbers of property sales, reductions in sales values and potential conversion of market sale to social homes
- maintenance costs - budget and business plan scenarios have been modelled to take account of cost increases and delays in maintenance expenditure, with major works being phased into future years
- inflation - given the high volatility in the current global/UK environment, CPI/RPI assumptions as well as differential inflation on various elements such as energy costs, development costs etc., have been stressed tested to take into account the increasing cost base
- rent and service charge receivable - arrears and bad debts have been increased to allow for customer difficulties in making payments and budget and business plan scenarios to take account of potential future reductions in rents
- liquidity - current available cash and unutilised loan facilities of c.£286m which gives significant headroom for committed spend and other forecast cash flows that arise
- adverse scenarios - the Group's ability to withstand other adverse scenarios such as higher interest rates and number of void properties.

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

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

2e. Tangible fixed assets

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

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

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

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

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

2f. Housing properties

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

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

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

Shared ownership properties are split between fixed and current assets, with the element relating to the expected first tranche sale being treated as a current asset. Any surplus made on the sale of the first tranche is treated as turnover in the Statement of Comprehensive Income in accordance with the treatment in the SORP update 2018. Second and subsequent tranche surpluses or deficits are shown on a net basis before operating surplus has been determined.

Depreciation

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

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

• Structure	100 years
• Boilers	15 years
• Windows and doors	30 years
• Roofs	75 years
• Kitchens	20 years
• Bathrooms	30 years
• Heating	30 years
• Sprinklers	25 years
• Solar panels	25 years
• Air source heat pumps	15 years

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

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

Non component works to existing properties

The amount of expenditure incurred which relates to an improvement, which is defined as an increase in the net rental stream 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 Statement of Comprehensive Income in the period in which it is incurred.

Interest capitalised

Interest on borrowings is capitalised to housing properties during the course of construction up to the date of completion of each scheme. The interest capitalised is either on borrowings specifically taken to finance a scheme or on net borrowings to the extent that they are deemed to be financing a scheme. This treatment applies irrespective of the original purpose for which the loan was raised. For the period ending 31 March 2022, interest has been capitalised at an average rate of 3.6% (2021: 3.6%) that reflects the weighted average effective interest rate on the Group's borrowings required to finance housing property developments.

2g. Other tangible fixed assets

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

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

Freehold office buildings	50 years
Furniture and equipment	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 Statement of Comprehensive Income 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 is included as part of turnover.

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

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

Non-monetary Government grant

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

Recycling of capital grant

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

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 Statement of Financial Position of the Group. The treatment of other income and expenditure in respect of supported housing projects depends upon the nature of the partnership arrangements between the Group and its managing agents and on whether the Group carries the financial risk.

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

2l. Cash and cash equivalents

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

2m. Business combinations

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

2n. Investment property

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

2o. Impairment

Financial assets (including trade and other debtors)

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

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

Non-financial assets

An impairment loss is recognised if the carrying amount of an asset 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.

2p. Employee benefits

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

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

A full actuarial valuation for the scheme which was carried out with an effective date of 30 September 2017 showed a substantial deficit. To eliminate this funding shortfall, the trustees and the participating employers have agreed that additional contributions will be paid, in combination from all employers. Further details are given in Note 26 to the Financial Statements.

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

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

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

Changes in the defined benefit obligation that arise from:

- differences between the return on scheme assets and interest income included in the Statement of Comprehensive Income;
- actuarial gains and losses from experience adjustments; and
- changes in demographic or financial assumptions are classified as remeasurements, charged or credited to Other Comprehensive Income in the period in which they arise.

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

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

Termination benefits

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

2q. Provisions

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

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

2r. Turnover

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

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

2s. Service charges

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

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

2t. Expenses

Cost of sales

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

Operating leases

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

Finance lease

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

Repairs and maintenance

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

Interest receivable and interest payable

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

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

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

Taxation

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

Deferred taxation

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

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

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

Value Added Tax

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

2u. Related party transactions

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

2v. Financial instruments

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 FRS 102, are accounted for under an amortised cost model. These include loans whereby there are two-way breakage clauses. These are regarded as basic as their purpose is to minimise breakage costs where the rates are in our favour and not to act as an option for investment purposes. To do so would contradict our treasury management policy.

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

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

Non-basic financial instruments include all non-basic instruments and derivatives such as swaps and are accounted for under section 12 of FRS 102 and measured at fair value through the Statement of Comprehensive Income unless hedge accounting is applied.

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

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

Hedging

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

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

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

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

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

Impairment

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

The following financial instruments are assessed individually for impairment:

(a) all equity instruments regardless of significance; and

(b) other financial assets that are individually significant.

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

3a. Group turnover, operating costs, operating expenditure and operating surplus

	2022					2021
	Turnover £'000	Operating costs £'000	Surplus on disposals £'000	Surplus on investment properties £'000	Operating surplus/ (deficit) £'000	Operating surplus/ (deficit) £'000
Social housing lettings	**181,988**	**127,103**	**-**	**-**	**54,885**	**57,765**
Other social housing activities						
Development services and costs not capitalised	-	48	-	-	(48)	(100)
1st tranche shared ownership sales	16,909	14,270	-	-	2,639	1,407
Other income	2,088	2,264	-	-	(176)	39
Total	**18,997**	**16,582**	**-**	**-**	**2,415**	**1,346**
Activities other than social housing lettings						
Charges for support services	1,734	1,832	-	-	(98)	(947)
Market rent lettings	1,643	670	-	-	973	1,075
Student lettings	272	139	-	-	133	68
Commercial	1,098	467	-	-	631	546
Leased to other bodies	1,306	714	-	-	592	685
Disposal of property, plant and equipment	-	-	13,842	-	13,842	3,841
Revaluation of investment properties	-	-	-	1,735	1,735	1,755
Total	**6,053**	**3,822**	**13,842**	**1,735**	**17,808**	**7,023**
Total from social and non-housing activities	**207,038**	**147,507**	**13,842**	**1,735**	**75,108**	**66,134**

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

	2022					2021
	General needs housing £'000	Supported housing £'000	Residential care homes £'000	Shared ownership accommodation £'000	Total £'000	Total (restated) £'000
Rent receivable net of identifiable service charges, net of voids	119,578	19,388	-	5,796	144,762	140,274
Service charge income	7,949	16,207	-	1,216	25,372	25,016
Amortised Government grants (accrual model)	6,244	1,507	17	231	7,999	7,978
Net rental income	**133,771**	**37,102**	**17**	**7,243**	**178,133**	**173,268**
Other income	531	2,510	176	638	3,855	3,892
Turnover from social housing lettings	**134,302**	**39,612**	**193**	**7,881**	**181,988**	**177,160**
Management	22,071	6,053	69	1,614	29,807	28,518
Service charge costs	8,093	17,573	24	841	26,531	25,958
Routine maintenance	21,198	4,494	51	148	25,891	22,686
Planned maintenance	6,396	2,214	3	10	8,623	8,391
Major repairs expenditure	4,486	4,176	68	30	8,760	8,035
Impairment of housing properties	-	-	-	-	-	(260)
Depreciation of housing properties	21,043	3,773	79	800	25,695	24,237
Bad debts	602	566	-	43	1,211	1,286
Lease costs	436	142	1	6	585	544
Operating costs on social housing lettings	**84,325**	**38,991**	**295**	**3,492**	**127,103**	**119,395**
Operating surplus on social housing lettings	**49,977**	**621**	**(102)**	**4,389**	**54,885**	**57,765**
Void losses	(831)	(1,272)	-	(35)	(2,138)	(1,768)

The prior year comparatives for 2021 have been reclassified in accordance with the update to the Accounting Direction 2022 for private registered providers of social housing to split out the reporting of £544k of lease costs from routine maintenance (£313k), management costs (£160k) and service charge costs (£71k).

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

	2022				2021
	Turnover £'000	Operating costs £'000	Surplus on disposals £'000	Operating surplus/ (deficit) £'000	Operating surplus/ (deficit) £'000
Social housing lettings	**182,156**	**127,102**	**-**	**55,054**	**57,935**
Other social housing activities					
Development services and costs not capitalised	662	48	-	614	425
1st tranche shared ownership sales	16,909	14,270	-	2,639	1,407
Other income	1,920	2,264	-	(344)	(129)
Total	**19,491**	**16,582**	**-**	**2,909**	**1,703**
Activities other than social housing lettings					
Charges for Support Services	1,734	1,832	-	(98)	(947)
Student lettings	272	139	-	133	68
Commercial	1,098	467	-	631	546
Leased to other bodies	1,306	714	-	592	685
Disposal of property, plant and equipment	-	-	13,797	13,797	3,841
Total	**4,410**	**3,152**	**13,797**	**15,055**	**4,193**
Total from social and non-housing activities	**206,057**	**146,836**	**13,797**	**73,018**	**63,831**

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

	2022					2021
	General needs housing £'000	Supported housing £'000	Residential care homes £'000	Shared ownership accommodation £'000	Total £'000	Total (restated) £'000
Rent receivable net of identifiable service charges, net of voids	119,578	19,388	-	5,796	144,762	140,274
Service charge income	7,949	16,207	-	1,216	25,372	25,016
Amortised Government grants (accrual model)	6,244	1,507	17	231	7,999	7,978
Net rental income	**133,771**	**37,102**	**17**	**7,243**	**178,133**	**173,268**
Other income	699	2,510	176	638	4,023	4,061
Turnover from social housing lettings	**134,470**	**39,612**	**193**	**7,881**	**182,156**	**177,329**
Management	22,070	6,053	69	1,614	29,806	28,518
Service charge costs	8,093	17,573	24	841	26,531	25,957
Routine maintenance	21,198	4,494	51	148	25,891	22,686
Planned maintenance	6,396	2,214	3	10	8,623	8,391
Major repairs expenditure	4,486	4,176	68	30	8,760	8,035
Impairment of housing properties	-	-	-	-	-	(260)
Depreciation of housing properties	21,043	3,773	79	800	25,695	24,237
Bad debts	602	566	-	43	1,211	1,286
Lease costs	436	142	1	6	585	544
Operating costs on social housing lettings	**84,324**	**38,991**	**295**	**3,492**	**127,102**	**119,394**
Operating surplus on social housing lettings	**50,146**	**621**	**(102)**	**4,389**	**55,054**	**57,935**
Void losses	(831)	(1,272)	-	(35)	(2,138)	(1,768)

The prior year comparatives for 2021 have been reclassified in accordance with the update to the Accounting Direction 2022 for private registered providers of social housing to split out the reporting of £544k of lease costs from routine maintenance (£313k), management costs (£160k) and service charge costs (£71k).

4. Directors' emoluments

	2022 £'000	2021 £'000
Aggregate emoluments payable to Directors (including pension contributions and benefits in kind)	**897**	**838**
Emoluments (excluding pension contributions) payable to the Chief Executive who was also the highest paid Director	**327**	**294**

Pension contributions for the Chief Executive were paid as a supplement to his salary.
There were three Directors in the Group's pension scheme described in note 26 (2021:3).
For the purposes of this note, Directors are defined as members of the Board of Management and the Executive Board.
Included in the above are the emoluments in respect of the Directors' services in connection with the affairs of subsidiary undertakings.

The members of the Executive Board were remunerated as follows:

Director	Position	Date of appointment	Date of resignation	Salaries £'000	Taxable benefits £'000	Pensions and equivalent £'000	Total 2022	Total 2021
Glenn Harris	Chief Executive Officer	29/03/2018		290	13	24	327	294
David Taylor	Executive Director of Operations	15/04/2015		174	9	14	197	193
Joe Reeves	Executive Director of Finance and Growth	08/07/2013		174	9	14	197	189
Baljinder Kang	Executive Director of Corporate Resources	01/06/2018		154	9	13	176	162

The aggregate amount of Directors' Pensions recognised within these Financial Statements for the year ended 31 March 2022 is £42k (2021: £37k).

4. Directors' emoluments (continued)

Members of the Board of Management, subsidiary Boards and Committees have been remunerated as follows:

		2022 £'000	2021 £'000
John Edwards		28	27
Julian Healey	Resigned 29/09/2021	6	13
Martin Tiplady		13	13
Carole Mills		13	13
Chris West		13	13
Kathleen McAteer	Resigned 24/09/2020	-	5
Darren Humphreys		10	10
Llewellyn Graham		10	10
Dominic Wong	Appointed 01/05/2021	9	-
James Lockyer		2	2
Michael Blenkinsop	Resigned 31/01/2021	-	2
Abigale Leigh Bromfield		2	2
Trevor Caffull		2	2
Dasos Christou		2	2
Paul Field	Resigned 31/05/2021	-	2
Thomas Forty		2	2
Trevor Routledge	Resigned 31/01/2021	-	2
Trevor Stanley		2	2
Zaheda Vaid		2	2
Rebecca Zurek	Resigned 30/09/2021	1	2
Nicola McGowan		2	2
Caroline Waters		2	2
Daena Shimmon	Appointed 30/09/2021	1	-
		122	**130**

5. Employee information

	Group		Association	
	2022 number	2021 number	2022 number	2021 number
Asset management	211	185	211	185
Central services	170	164	170	164
Development	16	16	16	16
Operations	576	585	576	585
Average number of employees expressed as full-time equivalents	**973**	**950**	**973**	**950**

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

5. Employee information (continued)

Staff costs (for the persons named on the previous page)

	Group		Association	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Wages and salaries	33,036	31,212	33,036	31,212
Social security costs	3,391	3,215	3,391	3,215
Other pension costs	1,479	1,371	1,479	1,371
	37,906	**35,798**	**37,906**	**35,798**

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

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

Salary Range	2022 number	2021 number
£320,000 to £330,000	1	-
£300,000 to £320,000	-	-
£290,000 to £300,000	-	1
£200,000 to £290,000	-	-
£190,000 to £200,000	2	1
£180,000 to £190,000	-	1
£170,000 to £180,000	1	-
£160,000 to £170,000	-	-
£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	5	4
£100,000 to £110,000	6	8
£90,000 to £100,000	5	6
£80,000 to £90,000	6	-
£70,000 to £80,000	12	12
£60,000 to £70,000	34	29
	74	**64**

6a. Surplus on sale of fixed assets - Group

	2022			2021		
	Proceeds £'000	Cost of sales £'000	Surplus £'000	Proceeds £'000	Cost of sales £'000	Surplus £'000
Staircasing on shared ownership	9,216	5,419	3,797	4,587	2,895	1,692
Other property sales	13,831	11,333	2,498	7,015	4,866	2,149
Stock swap (Note 34)	22,091	14,544	7,547	-	-	-
	45,138	**31,296**	**13,842**	**11,602**	**7,761**	**3,841**

6b. Surplus on sale of fixed assets - Association

	2022			2021		
	Proceeds £'000	Cost of sales £'000	Surplus £'000	Proceeds £'000	Cost of sales £'000	Surplus £'000
Staircasing on shared ownership	9,216	5,419	3,797	4,587	2,895	1,692
Other property sales	12,112	9,659	2,453	7,015	4,866	2,149
Stock swap (Note 34)	22,091	14,544	7,547	-	-	-
	43,419	**29,622**	**13,797**	**11,602**	**7,761**	**3,841**

7. Interest receivable and similar income

	Group		Association	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Interest receivable on financial assets measured at amortised cost:				
Interest on investments	94	524	94	524
Equity investment realisation	251	219	251	219
Total interest receivable and similar income	**345**	**743**	**345**	**743**

8. Interest and financing costs

	Group		Association	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Interest payable on financial liabilities measured at amortised cost:				
Housing loans	13,519	13,799	13,272	13,530
Discounted bonds	1,611	1,553	1,611	1,553
Interest on finance leases	613	614	613	614
Notional interest on recycled capital grant fund	9	-	9	-
	15,752	**15,966**	**15,505**	**15,697**
Interest payable on loan swap arrangements	5,990	6,333	5,990	6,333
Interest capitalised	(3,533)	(2,668)	(3,533)	(2,668)
Loan fees	964	1,241	853	1,190
Interest paid on early repayment of loan	-	7,506	-	7,506
Unwinding of discount on Social Housing Pension Scheme liability	-	3	-	3
Change to measurement of net finance cost on Social Housing Pension Scheme liability	722	357	722	357
Total interest and financing costs	**19,895**	**28,738**	**19,537**	**28,418**

Interest was capitalised at an average rate of 3.6% (2021: 3.6%).

9. Surplus before taxation is stated after charging

	Group		Association	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Depreciation of housing property fixed assets	26,002	24,647	26,002	24,647
Depreciation of non-housing property fixed assets	3,885	3,481	3,678	3,272
Auditors' remuneration - Audit fees				
- Group fees	96	96	96	96
- Other Group services	38	34	38	34
Payments under operating leases				
- Plant	481	505	481	505
- Office	104	101	104	101

10. Taxation on surplus on ordinary activities

Analysis of charge in the period - Group	2022 £'000	2021 £'000
United Kingdom corporation tax on surplus of the period	-	-
Adjustments in respect of prior years	-	(63)
	-	**(63)**
Deferred tax	25	60
	25	**(3)**

Analysis of charge in the period - Association	2022 £'000	2021 £'000
United Kingdom corporation tax on surplus of the period	-	-
Adjustments in respect of prior years	**-**	**-**
	-	-
Deferred tax	**-**	**-**
	-	**-**

10. Taxation on surplus on ordinary activities (continued)

Factors affecting the tax charge for the year

The corporation tax charge is lower (2021: lower) than that resulting from applying the standard rate of corporation tax of 19% (2021: 19%) to the surplus before taxation. The differences are explained below:

	Group		Association	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Surplus on ordinary activities before tax	**55,558**	**38,139**	**55,483**	**36,156**
Tax payable at 19% (2021: 19%) thereon	**10,556**	**7,246**	**10,542**	**6,870**
Expenses not deductible for tax purposes	335	-	-	-
Income not taxable for tax purposes	(329)	(214)	-	-
Amounts charged/(credited) directly to equity or otherwise transferred	-	-	-	-
Current tax charged/(credited) directly to equity	-	-	-	-
Fixed asset differences	(10)	-	-	-
Prior period adjustments - current tax	-	(63)	-	-
Prior period adjustments - deferred tax	-	63	-	-
Capital gains/(losses)	13	-	-	-
Adjust closing deferred tax to average rate	-	-	-	-
Adjust opening deferred tax to average rate	25	-	-	-
Exemption due to charitable status	(10,413)	(6,870)	(10,542)	(6,870)
Deferred tax not recognised	-	-	-	-
Gift Aid	(152)	(165)	-	-
Total tax charge	**25**	**(3)**	**-**	**-**

11. Investment properties held for letting - Group

	Work in progress £'000	Market rent properties £'000	2022 £'000	2021 £'000
Valuation				
At 1 April	156	27,094	27,250	25,325
Additions during the year	166	32	198	170
Disposals during the year	-	(1,664)	(1,664)	-
Gain in valuation	-	1,735	1,735	1,755
At 31 March	**322**	**27,197**	**27,519**	**27,250**

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

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

- the valuation of properties and portfolios subject to Assured and Secure tenancies is carried out with direct reference to comparable evidence, gleaned from the sales of similar tenanted portfolios and individual units, sold subject to Protected Tenancies and on Assured Shorthold Tenancies. There is an established body of evidence from portfolios traded on the open market to which we can refer. The purchasers of residential investments are usually private investors or firms who acquire vacant units and let on Assured Shorthold Tenancies (AST)
- investors tend to base their bid on their ability to "trade out" individual units at Market Value assuming vacant possession over time. In locations where there is a limited market or where a property is difficult to trade, owing to style or market conditions, investors will base their bid on rental return compared to capital cost
- the discount to MV-VP ranges from 10% for prime property to 50% where market conditions are difficult. Typical rates are around a 20% to 30% discount to MV-VP for properties subject to AST tenancies
- the yield applied to net income varies from 5% or less for prime property, to 7% or more for poorer locations. This equates to a yield on gross income (after deductions for management, maintenance and voids) of between 7% and 10%
- the discount and yield applied to Assured and Secure Tenancies is adjusted to reflect the additional security of tenure such tenants benefit from.

12a. Housing properties - Group

	Housing properties held for lettings £'000	Housing properties in the course of construction £'000	Shared ownership housing properties £'000	Shared ownership housing properties in the course of construction £'000	Total £'000
Cost					
At 1 April 2021	1,714,946	79,825	105,794	24,132	1,924,697
Additions	265	75,767	-	34,064	110,096
Improvements	17,643	-	-	-	17,643
Interest capitalised	-	2,216	-	1,317	3,533
Transferred on completion	74,707	(74,707)	19,993	(19,993)	-
Transfer to/from other registered providers	12,751	-	(3,180)	-	9,571
Transfer to current assets	-	-	-	(19,018)	(19,018)
Transfer from current assets	1,242	-	-	-	1,242
Disposals	(11,425)	-	(5,745)	-	(17,170)
At 31 March 2022	**1,810,129**	**83,101**	**116,862**	**20,502**	**2,030,594**
Depreciation and impairment					
At 1 April 2021	298,718	-	10,079	-	308,797
Charge for the year	25,160	-	842	-	26,002
Transfer to/from other registered providers	(95)	-	(837)	-	(932)
Eliminated on disposal	(6,814)	-	(574)	-	(7,388)
At 31 March 2022	**316,969**	**-**	**9,510**	**-**	**326,479**
Net book value					
At 31 March 2022	**1,493,160**	**83,101**	**107,352**	**20,502**	**1,704,115**
At 31 March 2021	1,416,228	79,825	95,715	24,132	1,615,900

12b. Housing properties - Association

	Housing properties held for lettings £'000	Housing properties in the course of construction £'000	Shared ownership housing properties £'000	Shared ownership housing properties in the course of construction £'000	Total £'000
Cost					
At 1 April 2021	1,718,695	81,905	105,794	24,132	1,930,526
Additions	265	76,552	-	34,064	110,881
Improvements	17,643	-	-	-	17,643
Interest capitalised	-	2,216	-	1,317	3,533
Transferred on completion	74,707	(74,707)	19,993	(19,993)	-
Transfer to/from other registered providers	12,751	-	(3,180)	-	9,571
Transfer to current assets	-	-	-	(19,018)	(19,018)
Transfer from current assets	1,242	-	-	-	1,242
Disposals	(11,425)	-	(5,745)	-	(17,170)
At 31 March 2022	**1,813,878**	**85,966**	**116,862**	**20,502**	**2,037,208**
Depreciation and impairment					
At 1 April 2021	298,718	-	10,079	-	308,797
Charge for the year	25,160	-	842	-	26,002
Transfer to/from other registered providers	(95)	-	(837)	-	(932)
Eliminated on disposal	(6,814)	-	(574)	-	(7,388)
At 31 March 2022	**316,969**	**-**	**9,510**	**-**	**326,479**
Net book value					
At 31 March 2022	**1,496,909**	**85,966**	**107,352**	**20,502**	**1,710,729**
At 31 March 2021	1,419,977	81,905	95,715	24,132	1,621,729

12c. Housing properties

Expenditure on works to existing properties

	Group 2022 £'000	Group 2021 £'000	Association 2022 £'000	Association 2021 £'000
Components capitalised	17,643	14,166	17,643	14,166
Amounts charged to the income and expenditure account	8,760	8,035	8,760	8,035
	26,403	**22,201**	**26,403**	**22,201**

Completed housing properties book value, net of depreciation and impairment

	Group 2022 £'000	Group 2021 £'000	Association 2022 £'000	Association 2021 £'000
Freehold land and buildings	1,498,556	1,407,990	1,502,305	1,411,739
Leasehold land and buildings	101,956	103,953	101,956	103,953
Total net book value	**1,600,512**	**1,511,943**	**1,604,261**	**1,515,692**

13a. Other fixed assets - Group

	Office premises £'000	Furniture and equipment £'000	Total £'000
Cost			
At 1 April 2021	12,733	50,495	63,228
Additions	1,715	6,810	8,525
Disposals	(129)	(1,329)	(1,458)
At 31 March 2022	**14,319**	**55,976**	**70,295**
Depreciation			
At 1 April 2021	2,934	21,576	24,510
Charge for the year	241	3,644	3,885
Eliminated on disposal	(51)	(1,345)	(1,396)
At 31 March 2022	**3,124**	**23,875**	**26,999**
Net book value			
At 31 March 2022	**11,195**	**32,101**	**43,296**
At 31 March 2021	9,799	28,919	38,718

13b. Other fixed assets - Association

	Office premises £'000	Furniture and equipment £'000	Total £'000
Cost:			
At 1 April 2021	2,323	50,114	52,437
Additions	1,715	6,801	8,516
Transferred from PFRG	10,411	-	10,411
Disposals	(129)	(1,305)	(1,434)
At 31 March 2022	**14,320**	**55,610**	**69,930**
Depreciation			
At 1 April 2021	313	21,320	21,633
Charge for the year	73	3,605	3,678
Transferred from PFRG	2,789	-	2,789
Eliminated on disposal	(51)	(1,329)	(1,380)
At 31 March 2022	**3,124**	**23,596**	**26,720**
Net book value			
At 31 March 2022	**11,196**	**32,014**	**43,210**
At 31 March 2021	2,010	28,794	30,804

14. Homebuy loans - Group and Association

	2022 £'000	2021 £'000
As at 1 April	100	100
Loans redeemed in the year	-	-
As at 31 March	**100**	**100**

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

15. Fixed asset investments - Group and Association

	2022 £'000	2021 £'000
Investments - mutuals	1,663	2,110
Investments - other	20	20
As at 31 March	**1,683**	**2,130**

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

16. Investment in subsidiaries - Association

	£'000
Investment at 1 April 2021	6,067
Investment at 31 March 2022	**6,067**

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

17. Debtors

	Group		Association	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Gross rent and service charge arrears	15,608	14,594	15,574	14,554
Less: provision for bad and doubtful debts	(8,216)	(9,023)	(8,195)	(9,003)
Net rent arrears	**7,392**	**5,571**	**7,379**	**5,551**
Amounts due from Group undertakings	-	-	-	3,838
Prepayments and other debtors	4,807	4,858	5,588	4,844
Corporation tax	-	33	-	33
	12,199	**10,462**	**12,967**	**14,266**

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

	2022 £'000	2021 £'000
Stock and work in progress	3,435	5,408
Schemes developed for shared ownership disposal	12,924	8,273
	16,359	**13,681**

19. Current asset investments - Group and Association

	2022 £'000	2021 £'000
Investments	-	771
	-	**771**

The investments represent funds held by EIB investments as collateral for the sinking funds associated with our Haven Loan which was repaid in the year.

20. Cash and cash equivalents

	Group		Association	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Bank accounts	137,218	107,915	135,800	107,259
Cash in hand	67	56	67	56
Total cash and cash equivalents	**137,285**	**107,971**	**135,867**	**107,315**

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

21. Creditors - amounts falling due within one year

	Group		Association	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Housing loans (Note 22a)	9,629	9,216	3,537	3,414
Rents received in advance	5,431	4,776	5,422	4,769
Obligations due under finance leases (Note 22a)	130	127	130	127
Trade creditors	2,025	1,384	2,025	1,384
Amounts due to Group undertakings	-	-	7,289	16,086
Recycled capital grant (Note 23)	3,301	2,236	3,301	2,236
Other taxation and social security costs	3,394	2,496	3,403	2,524
Deferred tax	99	74	-	-
Accruals and deferred income	31,009	26,732	24,313	21,219
Deferred Social Housing Grant	8,175	8,147	8,175	8,147
Social Housing Pension Scheme Liability (Note 26b)	6	24	6	24
	63,199	**55,212**	**57,601**	**59,930**

Amounts due to group undertakings for the Association include interest bearing loans due to group undertakings of £6,092k (2021: £5,802k) The interest is incurred on these loans at LIBOR +0.35%. All other amounts due to group undertakings are non-interest bearing.

Liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of ninety days was £2,838k (2021: £2,072k).

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

22. Creditors - amounts falling due after more than one year

	Group		Association	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Housing loans	613,690	548,818	164,386	167,721
Discounted bonds	14,591	14,018	14,591	14,018
Obligations due under finance leases	3,498	3,547	3,498	3,547
Premium on bond issues	11,479	11,993	3,829	3,995
Discount on bond issues	(9,718)	-	-	-
Loan and bond arrangement fees	(6,383)	(6,202)	(3,474)	(3,317)
Amounts due to Group undertaking	-	-	438,305	369,396
Homebuy grant: deferred income	100	100	100	100
Deferred social housing grant	721,264	706,778	721,264	706,778
Derivative financial instruments designated as hedges of variable interest rate risk (Note 25)	46,744	65,024	46,744	65,024
Social Housing Pension Scheme Liability (Note 26b)	11	72	11	72
	1,395,276	**1,344,148**	**1,389,254**	**1,327,334**
Recycled capital grant	11,900	15,480	11,900	15,480
	1,407,176	**1,359,628**	**1,401,154**	**1,342,814**

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

22. Creditors - amounts falling due after more than one year (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 the Group.

	Group		Association	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
By instalments				
In one year or less	9,399	8,986	3,307	3,184
Between one and two years	9,880	9,401	3,483	3,309
Between two and five years	28,616	28,906	7,442	8,740
In five years or more	196,444	206,061	110,711	112,922
	244,339	**253,354**	**124,943**	**128,155**

	Group		Association	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Lump sum repayments				
In one year or less	230	230	230	230
Between one and two years	2,043	11,700	2,043	-
Between two and five years	11,000	386	-	386
In five years or more	380,298	306,382	55,298	56,382
	393,571	**318,698**	**57,571**	**56,998**

Finance lease liabilities	Group		Association	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Total of future minimum lease payments				
In one year or less	130	127	130	127
Between one and two years	130	127	130	127
Between two and five years	389	380	389	380
In five years or more	2,979	3,040	2,979	3,040
	3,628	**3,674**	**3,628**	**3,674**

22a. Creditors - amounts falling due after more than one year (continued)

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

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

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

The interest rate profile to the Groups' debt at 31 March 2022 was:

	Variable rate £'000	Fixed rate £'000	Total £'000
Instalment loans	225,179	22,788	247,967
Non-instalment loans	26,000	367,571	393,571
	251,179	**390,359**	**641,538**

As at 31 March 2022, 61% (£389,008k) of the above debt came from the capital markets and 39% (£252,530k) from banks and building societies.

22b. Creditors

Discounted bonds	Group		Association	
	2022 £'000	**2021 £'000**	**2022 £'000**	**2021 £'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	5,591	5,018	5,591	5,018
Net value at 31 March	**14,591**	**14,018**	**14,591**	**14,018**

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 £4,493k (2021: £5,066k).

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

	Group		Association	
	2022 £'000	**2021 £'000**	**2022 £'000**	**2021 £'000**
Opening balance of SHG received/receivable	714,925	706,896	714,925	706,896
SHG received during the year	28,908	19,382	28,908	19,382
SHG recycled	(7,763)	(3,769)	(7,763)	(3,769)
Amortisation write back on sale of fixed assets	1,544	563	1,544	563
Cumulative total of Social Housing Grant received or receivable	**737,614**	**723,072**	**737,614**	**723,072**
Less grant amortised in the year	(8,175)	(8,147)	(8,175)	(8,147)
Amount held as deferred	**729,439**	**714,925**	**729,439**	**714,925**
Amounts to be released within one year (Note 21)	8,175	8,147	8,175	8,147
Amounts to be released in more than one year (Note 22)	721,264	706,778	721,264	706,778
	729,439	**714,925**	**729,439**	**714,925**

Social Housing Grant under UKGAAP				
Opening SHG	857,303	841,691	857,303	841,691
SHG received net of recycling	21,145	15,612	21,145	15,612
	21,145	**15,612**	**21,145**	**15,612**
Closing SHG	**878,448**	**857,303**	**878,448**	**857,303**

23. Recycled capital grant and disposal proceeds funds - Group and Association
(including amounts due in less than one year)

	£'000
Balance at 1 April 2021	**17,716**
Grants recycled	3,781
Interest accrued	9
Allocated to new build developments	(6,305)
Balance at 31 March 2022	**15,201**

Withdrawals from the Recycled Capital Grant and Disposal Proceeds Funds were used for the purchase and development of new housing schemes for letting.
There were no net proceeds (2021: £721k) or recyclable grant (2021: £234k) arising from the sales of Voluntary Right to Buy properties in the year.

24. Financial instruments

The carrying amounts of the financial assets and liabilities include:

	Group		Association	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Liabilities measured at amortised cost				
Loans	633,288	577,843	628,463	571,313
Finance leases	3,628	3,674	3,628	3,674

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

25a. Financial instruments - hedge accounting

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

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

The negative fair value of these swap contracts as at 31 March 2022 was £46.7m (2021 : £65.0m). The measurement basis for these swaps is at fair value through profit and loss, determined by calculating the net present value of the future cashflows of the swaps discounted using an appropriate mid-market swap curve As at 31 March 2022.

The total change in fair value during the year ended 31 March 2022 of £18.3m (2021: £14.4m) was recognised in the Statement of Comprehensive Income.

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

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

	Group		Association	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Barclays swap £20m 4.815% 2038	8,829	12,015	8,829	12,015
Barclays swap £30m 5.01% 2037	13,269	18,010	13,269	18,010
Barclays ex-European cancellable swap with double up £10m 4.24% 2031	4,400	6,908	4,400	6,908
Lloyds swap £25m 0.817% 2022	-	185	-	185
Lloyds swap £5m 0.812% 2022	9	52	9	52
Lloyds swap £50m 5.432% 2034 (ex-Bermudan)	20,237	27,854	20,237	27,854
Fair values of financial instruments designated as hedging instruments	**46,744**	**65,024**	**46,744**	**65,024**

25a. Financial Instruments - hedge accounting (continued)

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

2022

	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
Interest rate swaps						
Hedged items cash flows (liabilities)	125,000	34,828	1,987	3,508	7,759	21,574

2021

	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
Interest rate swaps						
Hedged items cash flows (liabilities)	150,000	19,966	477	592	3,402	15,495

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.

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25b. Financial instruments - hedges

	Barclays swap £20m 4.815% 2038	Barclays swap £30m 5.01% 2037	Barclays ex-European swap with double up £10m 4.24% 2031
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 three-month LIBOR/SONIA rate.	The objective of the hedge is to mitigate the variability of the cash flows stemming from the floating rate interest payments related to the Lloyds £75m Fl loan 2043 loan, a floating rate loan entered into by Midland Heart against unfavourable movements in the three-month LIBOR/SONIA rate.	The objective of the hedge is to mitigate the variability of the cash flows stemming from the floating rate interest payments related to the Nationwide £130m Fl loan 2036 loan, a floating rate loan entered into by Midland Heart against unfavourable movements in the three-month LIBOR/SONIA rate.
Description of the financial instruments designated as hedging instruments	The interest rate swap, Barclays swap £20m 4.815% 2038. The counterparty to the swap is Lloyds and the credit risk associated with this counterparty is considered to be low. The credit risk is reflected in the credit valuation adjustment amount to the risk-free fair value of the derivative instrument.	The interest rate swap, Barclays swap £30m 5.01% 2037. The counterparty to the swap is Lloyds and the credit risk associated with this counterparty is considered to be low. The credit risk is reflected in the credit valuation adjustment amount to the risk-free fair value of the derivative instrument.	The interest rate swap, Barclays ex-European cancellable swap with double up £10m 4.24% 2031. The counterparty to the swap is Nationwide and the credit risk associated with this counterparty is considered to be low. The credit risk is reflected in the credit valuation adjustment amount to the risk-free fair value of the derivative instrument.
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 three-month LIBOR/SONIA rate.	The variability of cash flows stemming from the interest payments of the Lloyds £75m Fl loan 2043 due to movements in the three-month LIBOR/SONIA rate.	The variability of cash flows stemming from the interest payments of the Nationwide £130m Fl loan 2036 loan due to movements in the three-month LIBOR/SONIA rate.
Fair values of financial instruments designated as hedging instruments £'000	8,829	13,269	4,400

25b. Financial instruments - hedges (continued)

	Lloyds swap £5m 0.812% 2022	Lloyds swap £50m 5.432% 2034 (ex-Bermudan)	
Description of the hedge	The objective of the hedge is to mitigate the variability of the cash flows stemming from the floating rate interest payments related to the THFC/EIB 2031 £15m loan, a floating rate loan entered into by Midland Heart against unfavourable movements in the six-month LIBOR/SONIA rate.	The objective of the hedge is to mitigate the variability of the cash flows stemming from the floating rate interest payments related to the Nationwide £130m FI Loan 2036 loan, a floating rate loan entered into by Midland Heart against unfavourable movements in the three-month LIBOR/SONIA rate.	The objective of the hedge is to mitigate the variability of the cash flows stemming from the floating rate interest payments related to the Lloyds £75m FI loan 2043 loan, a floating rate loan entered into by Midland Heart against unfavourable movements in the three-month LIBOR/SONIA rate.
Description of the financial instruments designated as hedging instruments	The interest rate swap, Lloyds swap £5m .812% 2022. The counterparty to the swap is Lloyds and the credit risk associated with this counterparty is considered to be low. The credit risk is reflected in the credit valuation adjustment amount to the risk-free fair value of the derivative instrument.	The interest rate swap, Lloyds swap £50m 5.432% 2034 (ex-Bermudan). The counterparty to the swap is nationwide and the credit risk associated with this counterparty is considered to be low. The credit risk is reflected in the credit valuation adjustment amount to the risk-free fair value of the derivative instrument.	The interest rate swap, Lloyds swap £50m 5.432% 2034 (ex-Bermudan). The counterparty to the swap is Lloyds and the credit risk associated with this counterparty is considered to be low. The credit risk is reflected in the credit valuation adjustment amount to the risk-free fair value of the derivative instrument.
Nature of the risks being hedged including a description of the hedged item	The variability of cash flows stemming from the interest payments of the HFC/EIB 2031 £15m loan due to movements in the six-month LIBOR/SONIA rate.	The variability of cash flows stemming from the interest payments of the Nationwide £130m FI loan 2036 due to movements in the three-month LIBOR/SONIA rate.	The variability of cash flows stemming from the interest payments of the Lloyds £75m FI loan 2043 due to movements in the three-month LIBOR/SONIA rate.
Fair values of financial instruments designated as hedging instruments £'000	9	20,237	

26a. Social Housing Pension Scheme (SHPS)

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

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

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

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

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

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

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

The latest accounting valuation was carried out with an effective date of 30 September 2021. The liability figures from this valuation were rolled forward for accounting year-ends from the following 31 March 2022 to 28 February 2023 inclusive.

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

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

Present values of defined benefit obligation, fair value of assets and defined benefit asset (liability)	2022 £'000	2021 £'000
Fair value of plan assets	150,920	146,718
Present value of defined benefit obligation	(173,156)	(182,082)
Net defined benefit asset (liability) to be recognised	**(22,236)**	**(35,364)**

Reconciliation of opening and closing balances of the defined benefit obligation	Period ended 31 Mar 2022 £'000
Defined benefit obligation at start of period	182,082
Expenses	110
Interest expense	3,899
Actuarial gains due to scheme experience	9,484
Actuarial losses due to changes in demographic assumptions	(2,749)
Actuarial losses due to changes in financial assumptions	(13,312)
Benefits paid and expenses	(6,358)
Defined benefit obligation at end of period	**173,156**

Reconciliation of opening and closing balances of the fair value plan assets	Period ended 31 Mar 2022 £'000
Fair value of plan assets at start of period	146,718
Interest income	3,177
Experience on plan assets (excluding amounts included in interest income) - gain	2,776
Contributions by the employer	4,607
Benefits paid and expenses	(6,358)
Fair value of plan assets at end of period	**150,920**

The actual return on the plan assets (including any changes in share of assets) over the period ended 31 March 2022 was £5,953,000.

Defined benefit costs recognised in Statement of Comprehensive Income (SOCI)	Period from 31 Mar 2021 to 31 Mar 2022 £'000
Expenses	110
Net interest expense	722
Defined benefit costs recognised in Statement of Comprehensive Income (SOCI)	**832**

Defined benefit costs recognised in other comprehensive income	Period ended 31 Mar 2022
Experience on plan assets (excluding amounts included in net interest cost) - gain	2,776
Experience gains arising on the plan liabilities - loss	(9,484)
Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation - gain	2,749
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation - gain	13,312
Total actuarial losses (before restriction due to some of the surplus not being recognisable) - gain	**9,353**
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)	**9,353**

Assets	31 March 2022 £'000	31 March 2021 £'000
Global equity	28,962	23,383
Absolute return	6,054	8,098
Distressed opportunities	5,401	4,237
Credit relative value	5,016	4,617
Alternative risk premia	4,977	5,526
Fund of hedge funds	-	17
Emerging markets debt	4,391	5,923
Risk sharing	4,969	5,341
Insurance-linked securities	3,519	3,524
Property	4,075	3,047
Infrastructure	10,751	9,782
Private debt	3,869	3,499
Opportunistic illiquid credit	5,071	3,730
High yield	1,301	4,394
Opportunistic credit	537	4,022
Cash	513	2
Corporate bond fund	10,067	8,669
Liquid credit	1	1,751
Long lease property	3,883	2,876
Secured income	5,623	6,101
Liability driven investment	42,112	37,287
Currency hedging	(591)	-
Net current assets	419	892
Total assets	**150,920**	**146,718**

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

Key assumptions	31 March 2022 % per annum	31 March 2021 % per annum
Discount rate	2.79	2.18
Inflation (RPI)	3.57	3.27
Inflation (CPI)	3.19	2.87
Salary growth	4.19	3.87
Allowance for commutation of pension for cash at retirement	75% of maximum allowance	75% of maximum allowance

The mortality assumptions adopted at 31 March 2022 imply the following life expectancies

	Life expectancy at age 65 (Years)
Male retiring in 2022	21.1
Female retiring in 2022	23.7
Male retiring in 2042	22.4
Female retiring in 2042	25.2

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

26b. The Pensions Trust - The Growth Plan

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

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

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

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

A full actuarial valuation for the scheme was carried out at 30 September 2020. This actuarial valuation showed assets of £800.3m, liabilities of £831.9m and a deficit of £31.6m. To eliminate this funding shortfall, the trustees and the participating employers have agreed that additional contributions will be paid, in combination from all employers to the scheme as follows:

Deficit contributions from 1 April 2022 to 31 January 2025	
£3,312,000 per annum	(payable monthly)

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

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

Deficit contributions from 1 April 2019 to 30 September 2025:	
£11,243,000 per annum	(payable monthly and increasing by 3% each on 1st April)

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

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

Present values of provision	2022 £'000	2021 £'000
Present value of provision	17	96

Reconciliation of opening and closing provisions	2022 £'000	2021 £'000
Provision at start of period	96	114
Unwinding of the discount factor (interest expense)	-	3
Deficit contribution paid	(24)	(24)
Re-measurements - impact of any change in assumptions	-	3
Re-measurements - amendments to the contribution schedule	(55)	-
Provision at end of period	**17**	**96**

Income and expenditure impact	2022 £'000	2021 £'000
Unwinding of the discount factor (interest expense)	-	3
Re-measurements - impact of any change in assumptions	-	3
Re-measurements - amendments to the contribution schedule	(55)	-
Costs recognised in income and expenditure account	**(55)**	**6**

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

	2022 £'000	2021 £'000
Operating costs (pension deficit costs)	(55)	3
Interest and financing costs	-	3
	(55)	**6**

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

Assumptions	2022 % per annum	2021 % per annum
Rate of discount	2.35	0.66

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

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

Deficit contributions schedule

Year ending	2022 £'000	2021 £'000
Year 1	6	24
Year 2	6	25
Year 3	5	26
Year 4	-	22

The company must recognise a liability measured as the present value of the contributions payable that arise from the deficit recovery agreement and the resulting expense in the income and expenditure account i.e., the unwinding of the discount rate as a finance cost in the period in which it arises.

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

27. Share capital

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

Allotted, called up and fully paid shares of £1 each	2022 £
At end of year	33

	Number
At 1 April 2021	**35**
Issued	1
Cancelled	(3)
At 31 March 2022	**33**

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

28. Operating leases - Group and Association

Total of future minimum lease payments under non-cancellable operating leases	2022 £'000	2021 £'000
Plant - leases which expire		
Within one year	542	511
Between one year and two years	370	364
Between two and five years	227	322
Office premises - leases which expire		
Within one year	88	37
Between one year and two years	77	37
Between two and five years	6	36
After five years	-	-
	1,310	**1,307**

During the year £585k was recognised as an expense in the profit and loss account in respect of operating leases (2021: £606k).

29. Capital commitments - Group and Association

	Group		Association	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Capital expenditure contracted not provided for	146,086	136,428	146,086	136,428
Capital expenditure authorised by the Board of Directors but not contracted for	58,353	68,264	58,353	68,264

The expenditure represents the total bids submitted to Homes England.

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

The above commitments will be funded primarily through cash and funds available for draw-down on existing loan arrangements and £21.4m (2021 £18.1m) funded by Social Housing Grant.

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

As part of the Voluntary Right to Buy programme we have funds of £27.9m (2021: £27.9m) for reinvestment. This is made up of sale proceeds of £33.0m (2021: £33.0m) less attributable debt of £3.9m (2021: £3.9m) that we need to reinvest in new properties. This figure includes £2.7m (2021: £6.2m) of recycled grant. During the year we reinvested £3.5m of these funds in replacement developments.

30. Contingent liabilities

Midland Heart has entered into a stock swap transaction (Note 34) which includes original government grant of £16,897,946 on the incoming properties. The grant has an obligation to be recycled in accordance with the original grant funding terms and conditions which is contingent in the event of the housing properties being disposed (2021: nil).

31. Housing stock

	As at 1 April 2021	Units developed	Other new units	Transferred to/from other registered providers	Units sold	Other movements	As at 31 March 2022
Social housing							
Social rent	20,645	83	-	176	(25)	10	20,889
Affordable rent	2,928	358	-	42	-	(1)	3,327
Supported housing and housing for older people	4,101	39	7	42	(70)	(62)	4,057
Residential care homes	88	-	-	-	(8)	(10)	70
Shared ownership accommodation	2,188	220	-	(77)	(74)	(25)	2,232
Lease scheme for the elderly	165	-	-	-	-	-	165
Total social housing units owned	**30,115**	**700**	**7**	**183**	**(177)**	**(88)**	**30,740**
Accommodation managed for others	1,639	-	-	(4)	(2)	8	1,641
Total social housing units owned and managed	**31,754**	**700**	**7**	**179**	**(179)**	**(80)**	**32,381**
Long leasehold	1,072	-	-	(85)	-	21	1,008
Garages	122	-	-	-	-	-	122
Total social housing	**32,948**	**700**	**7**	**94**	**(179)**	**(59)**	**33,511**
Non-social housing							
Market rent	212	-	-	-	(11)	(2)	199
Commercial lettings	99	-	1	-	-	-	100
Student accommodation	61	-	-	-	-	-	61
Leased to other parties	346	-	-	-	-	17	363
Total non-social housing units owned	**718**	**-**	**1**	**-**	**(11)**	**15**	**723**
Leasehold	126	-	-	-	-	2	128
Total non-social housing	**844**	**-**	**1**	**-**	**(11)**	**17**	**851**
GRAND TOTAL	**33,792**	**700**	**8**	**94**	**(190)**	**(42)**	**34,362**

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

32. Disclosure of Group activity

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

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

The members of the Midland Heart Group are as follows:

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

On 30 March 2022 the assets and liabilities of Prime Focus Regeneration Group Limited were transferred to Midland Heart Limited. As Prime Focus Regeneration Group Limited is no longer a going concern, an application will be made to strike the entity off from the register of companies held at Companies House. Midland Heart Limited is now the parent company of Prime Focus Finance Limited.

Intra-group transactions	
Midland Heart - Cygnet Property Management plc	Midland Heart charges Cygnet for the management of its Market Rent properties.
Midland Heart - Midland Heart Development (MHDL)	A 3% charge on cost on all invoices recharged to Midland Heart is levied by MHDL. 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 £168k 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.

33. Related parties

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

34. Stock swap transaction

On the 28 June 2021, Midland Heart entered into a stock transaction with Orbit Group. 620 mixed tenure housing properties were received with a fair value of £22,380,194 in exchange for 526 housing properties with a fair value of £22,091,426 for a net cash payment of £288,768.

The transaction includes original government grant of £16,897,946 on the incoming properties, which has an obligation to be recycled in accordance with the original grant funding terms and conditions. Midland Heart is responsible for the recycling of the grant in the event of the housing properties being disposed. This is disclosed as a contingent liability in Note 30.

35. Notes to the cash flow statement

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

	2022 £'000	2021 £'000
Increase in cash	29,314	16,760
Cash flow from increase/(decrease) in debt finance	(54,826)	(44,881)
Discounted bonds	(573)	(515)
	(26,085)	**(28,636)**
Net debt at 1 April	(473,546)	(444,910)
Net debt at 31 March	**(499,631)**	**(473,546)**

B - Analysis of changes in net debt

	at 1 April 2021 £'000	Cash flows £'000	at 31 March 2022 £'000
Cash at bank and in hand	107,971	29,314	137,285
	107,971	**29,314**	**137,285**
Discounted bonds	(14,018)	(573)	(14,591)
Other loans due less than one year	(9,216)	(413)	(9,629)
Other loans due in more than one year	(548,818)	(64,872)	(613,690)
Finance lease	(3,674)	46	(3,628)
Premium on bond issue	(11,993)	514	(11,479)
Discount on bond issue	-	9,718	9,718
Issue expenses	6,202	181	6,383
Net debt	**(473,546)**	**(26,085)**	**(499,631)**

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