

Annual Report and Financial Statements  
Year ended 31 March 2021

Private company limited by guarantee  
Company number: 10704997

Registered Charity  
Charity Registration number: 1177565



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# **mhs homes limited**

## **Report and Financial Statements for the year ended 31 March 2021**

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**mhs homes limited**  
**Trustees' annual report incorporating directors report**  
**Chair's Introduction to the Trustees Report for the year ended 31 March 2021**

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The last year has been an unprecedented one in all our lives and equally so at MHS Homes Group. I, with the Board and management team are indebted and amazed at the continued response of our teams, for their never questioning **"Can Do Attitude"** in supporting the whole business and those that we are here to serve. Equally I cannot forget our partners and stakeholders for the ongoing trust and faith that they have placed with us during these uncertain times, **Thank You All.**

The support we have received has enabled our services to continue to both our customers and to the wider community. The **MHS Team's positive approach was exemplified** across the organisation **with** our frontline teams keeping essential services going and our office-based staff switching seamlessly to remote working. We offered **support to over 1,000 vulnerable tenants**. Our partnership with Age UK Medway aided us in **delivering over 12,000 hot meals/snack packs across the community and we delivered emergency food parcels for Medway Council** and collected donations from supermarkets for Medway Food Bank. We had to adapt and think differently about how we provided our services. It was heartening that our approach was rewarded by the retention of our Customer Service Excellence accreditation with such innovations as a live video streaming service for repairs and inspections being noted. Our desire to make use of modern technology and supply a service to meet today's digital expectations was confirmed by being ranked 15<sup>th</sup> in the top digital housing providers.

We kept focused on our ultimate ambition of helping to end the housing crisis in North Kent, **investing over £40 million in new properties**, with 151 new affordable homes completed, of which 129 were for rent. However, investment in new properties is never at the expense of our current stock, with **£16 million spent on repairing and improving existing homes**. But as we build new and improve our existing properties we must, and do, consider the impact on the environment. Going forward all our schemes will be built to Energy Performance Certificate (EPC) level B and we aim to have two thirds our current stock at EPC level C by 2024.

This year marks the end of our **Strategic Plan for 2018 to 2021**. Some notable successes during this period includes building **523 new homes** and improving our first-time fix rate so now **we regularly complete 9 out of 10 of every repair at the first time**. However, our turnaround time on empty properties must improve and rent arrears are too high, even allowing for the economic impact of COVID-19. **Our new Strategic Plan for 2021 – 2024 challenges** us to improve in these areas, looks to **invest £120 million in over 600 new properties and places Building Safety, the Environment, and Customers at the heart of our decision making**.

I would like to highlight again our thanks to our customers, partners, and colleagues for all that has been achieved over this difficult last year, and I'm especially grateful to our frontline team members for their fortitude during the last twelve months. We continue to be a financially strong, ambitious, and innovative organisation. Our core ethos is that **"Safe, Affordable Housing Changes Lives"** and this simple but powerful message drives us forward.



Richard Cooper  
Chair  
22 July 2021

**The Report of the Board of Trustees is set out on pages 23 to 36**

The impact of COVID -19 across the country has been difficult for many and therefore as a social housing provider and charity we have attempted to provide support to our customers, and the wider community. For example, colleagues provided regular contact with older and vulnerable people to ensure they had access to food and medicines. We also quickly adapted our working practices to ensure that we could provide a COVID -19 secure service to our customers whilst ensuring that the homes themselves stayed safe.

We worked closely with our customers as the economic impact of the pandemic became apparent. The fallout is apparent as the number of customers claiming Universal Credit increased by almost a half to over 2,000. At the end of the year almost 10% of our customers on Universal Credit were receiving tenancy support, with over half seeing an improvement in their rent arrears.

At times during the year, depending on government advice, only essential repairs were undertaken, and we prioritised our repairs service to emergency, urgent and necessary appointments, based on customer vulnerability or potential for disrepair of the property. This did mean that a backlog of routine repairs had built up by the year end, but these were all cleared by mid may. There were 38 gas safety certificates outstanding at the year end, a much higher number than normal, however all of these were either within the legal processes or the properties were shortly to become empty. At the time of writing this report the number outstanding had been reduced to nil.

The only area of major works on properties that was delayed by restrictions during the year was installation of new kitchen and bathrooms. We are planning to restart this service in the early part of 2021/22, as soon as we can supply this service in a safe and secure manner. As this service is supplied by in house staff, these teams were re-deployed to other repair work. The work that was planned to take place in 2020/21 has been factored into our budget for 2021/22.

At the onset of the pandemic our business plans were de-risked by reducing our development aspirations. However, over the course of the year they were gradually increased. There was an impact on our build programme to begin with, with 6 extensions of time requested, ranging from 1 week to 3 months, though many of the delays were able to be accommodated within the contract longstop dates. There was little impact on the scheme finances. Sales income on shared ownership schemes sales has been delayed on some of these sites but again the impact has been minimal. Sales demand stayed strong, and at the year-end there only 2 completed properties unsold, though both were sold in April.

At the time of writing we can be optimistic there is hope that the impact of COVID-19 is reducing as the vaccine programme is rolled out. The year has been difficult for all, but we emerge as a more agile organisation and as financially strong now as we were at the beginning.

**mhs homes limited ("mhs homes")** is a registered charity with the objectives to provide social housing in Kent and all services linked to this provision. It is the parent body of mhs homes group ("**the Group**"). We reinvest all our surpluses into building more new homes, existing properties and supporting local communities. **mhs homes** continues to be the only housing association of size not to be a registered provider and, although we comply with the ethos and aims of the social housing sector, our status allows us control of our own destiny and objectives. We value our relationships with the regulated sector and **mhs homes** generally follows the guidance of the Regulator of Social Housing in areas such as service to customers, quality of homes and effective corporate governance.

Heart of Medway Housing Association is a subsidiary of mhs homes and is registered with the Regulator of Social Housing.

We own and manage 9,380 homes, mainly in Medway, but with an increasing number in Maidstone. Most of our properties are social rented homes, though we also provide shared ownership and market rented homes. **mhs homes** owns the majority of our properties, 8,572 homes: with a further 802 in Heart of Medway and 6 in Lord Kitchener Memorial Homes Trust.

## A summary of the year

Be a great  
landlord



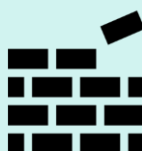
Customer satisfaction  
of 65%

16,266 repairs  
completed in the year  
of which 88%  
completed first time

£16 million invested in  
repairing and  
improving our homes

60% of customers  
digitally connected

Meet the  
housing crisis  
locally



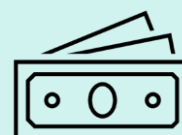
259 starts on sites

565 homes in the  
development pipeline

£41 million invested in  
new properties

151 new homes  
completed

Financially  
strong and lean



A turnover of £60  
million

An interest cover of  
2.5

A net increase on  
borrowings of £1  
million

A surplus of £21  
million

**Our ultimate ambition** is to help end the housing crisis in North Kent by providing safe and sustainable homes.

**Our Purpose:** We have defined our purpose according to why we exist and what we do.

***What we do*** isn't complex, but it does have a massive impact on the wellbeing and life chances of our customers. As a leading housing charity, we have a responsibility to use our resources effectively to tackle the housing crisis, help those in housing need and provide safe and sustainable homes. Our ultimate ambition is underpinned by our belief that decent housing should be a basic human right.

***Why:*** Because everyone should have a decent home.

**Our *CREATES* values underpin our purpose**

***Community:*** We are community focused and are driven by a clear social purpose.

***Respect:*** We respect the diversity of our customers and one another, we know this diversity brings creative advantage and innovation and we won't tolerate any form of discrimination.

***Excellence:*** With a can-do attitude, we strive for service excellence and to be the best in everything we do.

***Agility:*** We're agile and light on our feet. Our success depends on the ability to respond quickly and effectively to new challenges and opportunities.

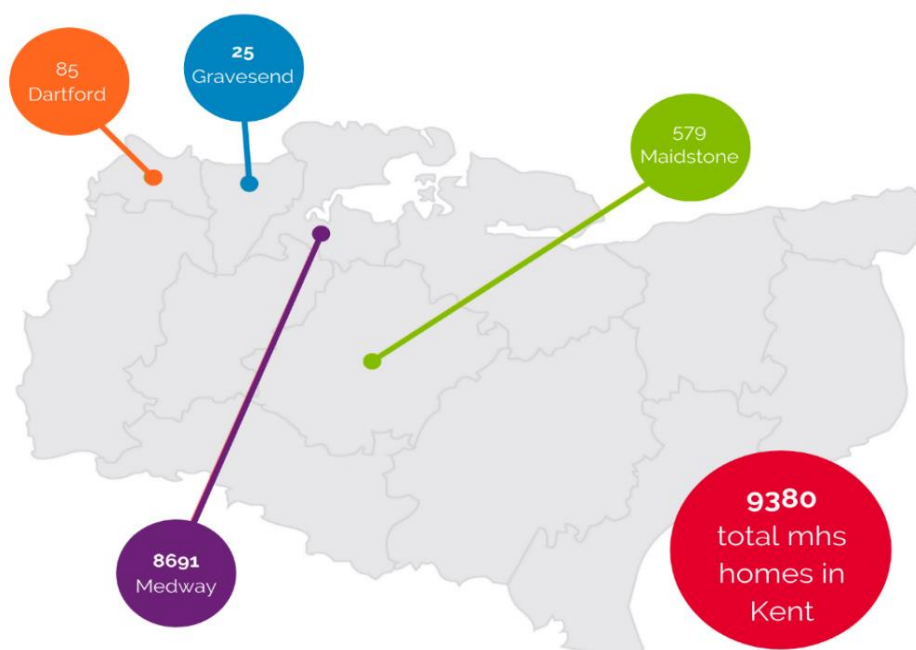
***Teamwork:*** We succeed together as one team. We all take responsibility for contributing to team #mhs.

***Enjoyment:*** We enjoy what we do, we enjoy helping our customers whilst we have a serious job to do but don't need to take ourselves too seriously.

***Sustainability:*** We make sure that what we do has a positive impact on environmental, social and economic sustainability.

Our areas of operation

We are close to London, in the Thames Estuary - an area of exciting growth and regeneration. The High Speed 1 Rail network has made London readily accessible, and this will further improve with the planned Lower Thames Crossing. Our strategy is to operate in a focused geographic area: this allows us to be a visible partner making a real difference at a local level. We are committed to delivering high quality services in a cost effective way – our costs per unit is one of the lowest in the sector. The majority of our properties are in Medway with growing numbers in Maidstone and Dartford.



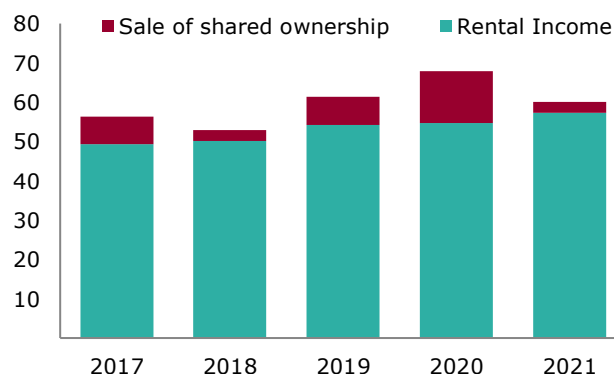
## Summary of results

As a charity we have a responsibility to use our resources effectively so we can help those in housing need and provide a safe, secure, affordable home. The financial results for the year highlight the financial strength of **the Group** with a surplus before tax and fair value adjustments of £16.4 million (2020: £14.4 million). This in turn allowed over £40 million to be invested in new homes, resulting in 151 new homes being brought into management and over 600 anticipated to complete over the next three years.

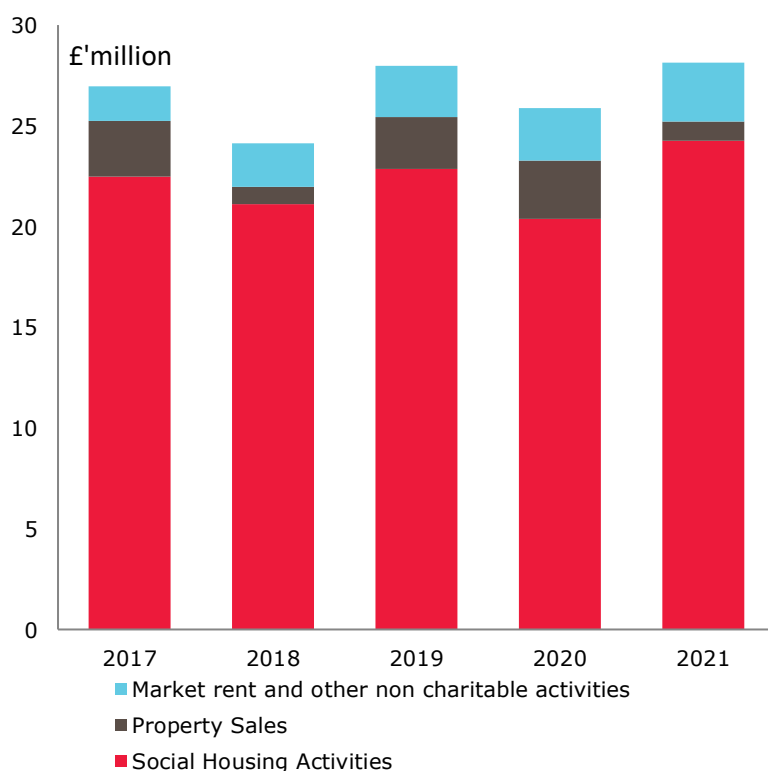
## Turnover

Overall turnover fell in the year because of reduced sales activity on first tranche shared ownership though rental income from the core business continued to increase. During the year we sold 26 new shared ownership properties compared to 130 in the year before. This was a planned reduction as sales demand remained strong with only 2 units remaining unsold at the year end, though both were reserved by prospective buyers and sold in April.

£'million



## Operating surplus by activity



The operating surplus increased, despite a reduction in shared ownership and right to buy sales, as there was a fall in major repairs due to the replacement programme on kitchen and bathrooms being scaled back due to the pandemic. Routine repairs continued as before with an investment in our properties of £11.4 million (2020: £11.1 million) as we continued to maintain our properties through the year.

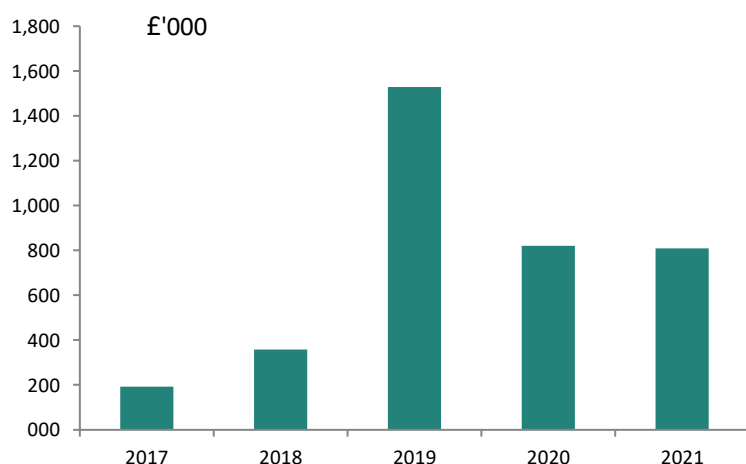
There was approximately £0.4 million of major repair spend budgeted to take place that was carried over into the following financial year. However, this expenditure can be contained within the agreed 2021/22 budgets.



**Movement from Year to Year:** the movement in surplus from last year to the current is shown below

	£' million
Increased Income from charitable activities	2.3
Reduction in major repairs	2.5
Increases in depreciation & impairment	(0.5)
Other increases in operating costs	(0.8)
<b>Increased Surplus from social housing lettings</b>	<b>3.5</b>
Reduction in Surplus from first tranche shared ownership sales	(1.6)
Reduction in surplus from sale of other fixed assets	(0.3)
Increased surplus from non-charitable activities	0.3
<b>Increase in Operating Surplus</b>	<b>1.9</b>

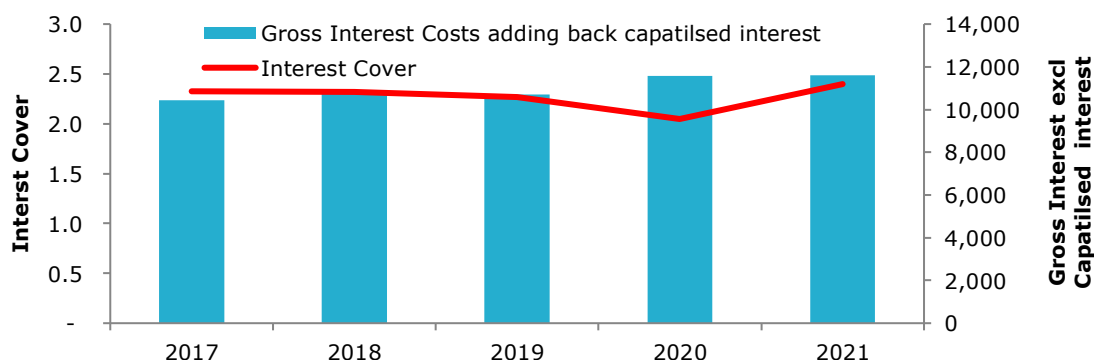
### Increase in income from staircasing

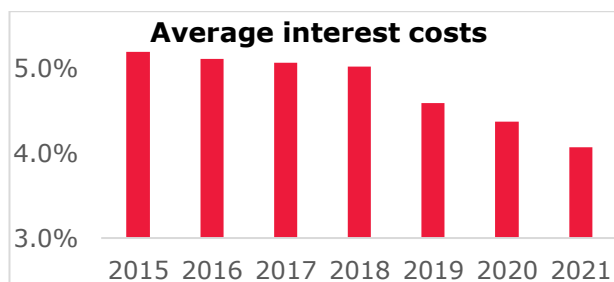


The level of staircasing stayed consistent during the year and though we do not take this into account in our long term financial planning this is becoming a valuable source of income for **the Group** as our portfolio of shared ownership properties increases.

### Interest payable

Interest payable costs are staying level as we continue to benefit from low interest rates that reduce our interest costs as a % of our debt. This has enabled the ratio of surpluses (excluding sale of existing properties and first tranche shared ownership) to interest costs ("interest cover") to stay consistently above two even as our debt increases.





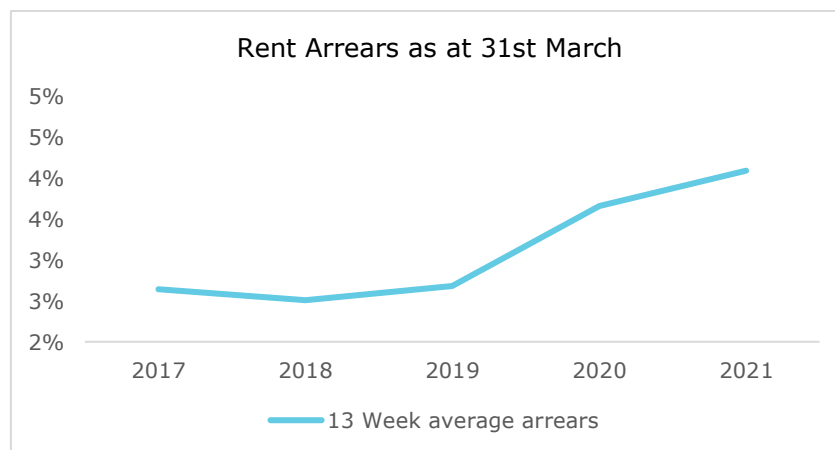
The average cost of borrowing continues to fall.

## Investment Properties

Over the years **the Group** has built up an investment portfolio of 368 properties rented to tenants at market rent. These are a valuable investment and produce a return to our original cost of 3.3% (2020: 3.0%). During the year house prices increased in both Medway and Maidstone and this is reflected in the increase in "fair value" of the investment. **The Group** has invested £46 million in these properties, which are now estimated to be worth £79 million. These properties are held as a long term investment so that the annual surpluses from the rental stream can be invested into charitable activities rather than for capital gain.

## Rent arrears

As more customers move onto universal credit our rent arrears (measured as a 13 week average to take into account housing benefit and monthly direct debit payments) continues to increase. The number of customers on universal credit now stands at 2,115, an increase of over 700 during the year. We continue to work with our customers to manage the transition onto benefits, with now almost one third of universal claimants on alternative payment arrangements



**The Group** headline results are summarised below.

<b>Year Ending 31 March</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
	<b>£'m</b>	<b>£'m</b>	<b>£'m</b>	<b>£'m</b>	<b>£'m</b>
<i>Excluding 1<sup>st</sup> tranche shared ownership sales</i>					
Turnover	49	50	54	55	57
Expenditure	25	27	28	32	31
<b>Surplus on rents</b>	<b>24</b>	<b>23</b>	<b>26</b>	<b>23</b>	<b>26</b>
<i>1<sup>st</sup> tranche shared ownership sales</i>					
Turnover	7	3	7	13	3
Cost of sales	6	2	6	11	2
<b>Surplus on 1<sup>st</sup> tranche</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>1</b>
Disposal of assets	1	-	1	1	1
<b>Operating surplus</b>	<b>26</b>	<b>24</b>	<b>28</b>	<b>26</b>	<b>28</b>
Net interest cost	10	13	11	12	11
<b>Surplus for the year before tax and fair value</b>	<b>16</b>	<b>11</b>	<b>17</b>	<b>14</b>	<b>17</b>

Fixed assets less revaluation reserve	211	233	256	285	316
Investments	59	70	74	72	79
Net current assets	3	1	14	39	24
	<b>273</b>	<b>304</b>	<b>344</b>	<b>396</b>	<b>418</b>
Social housing grant *	27	27	29	31	33
Creditors: > than one year	201	215	239	278	279
Pension liability	11	11	8	11	10
Deferred tax provision	37	-	-	-	-
	<b>276</b>	<b>253</b>	<b>276</b>	<b>320</b>	<b>322</b>
<b>Total reserves – excluding SHG*</b>	<b>(3)</b>	<b>51</b>	<b>68</b>	<b>76</b>	<b>98</b>

\* Under the Charity Statement of recommended practice (SORP) social housing grant is taken to income upon receipt and held in the revenue reserve

<b>Key Ratios</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Void: net rental income	0.4%	0.7%	0.6%	0.8%	0.9%
Bad Debt: net rental income	0.7%	0.9%	0.6%	0.8%	1.1%
<b>Financial Performance</b>					
EBITDA-MRI*: Turnover	46%	49%	45%	40%	50%
EBITDA-MRI*: Turnover excluding shared ownership	50%	51%	48%	46%	51%
Ratio of Debt: EBITDA-MRI*	8.2	8.1	8.6	8.5	8.6
Ratio of EBITDA-MRI*: Interest Payable	2.5	2.4**	2.5	2.3	2.5

\*EBITDA-MRI = Earnings before interest, depreciation and amortisation excluding major repairs

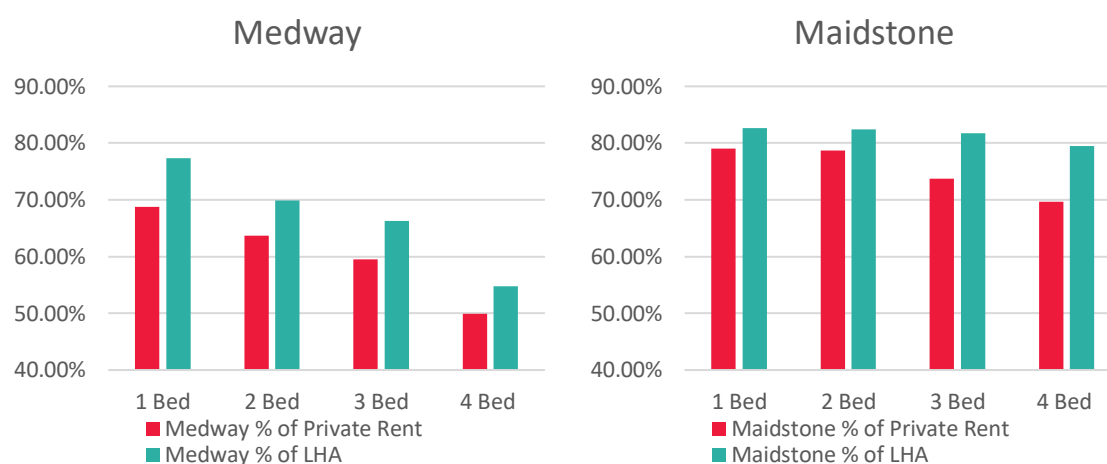
\*\* exclude breakage costs

## Impact on the environment

Around 30% of all CO2 emissions in the UK are from heating homes. The Net Zero 2050 target that the UK has adopted cannot therefore be met without significantly improving the energy efficiency of housing. Over half of our stock has a SAP rating of C or above compared to 40% across all homes. We continue to invest to increase energy efficiency, with, for example, £1.6 million spent during the year upgrading boilers. Of the new properties that came into management during the year 90% were SAP rating B. Page 14 outlines our ambitious targets to reduce our environmental impact.

## Affordability of our properties

As a charitable social housing provider, we must ensure that our properties are affordable whilst we have sufficient resources to invest in both existing and new properties. We therefore monitor our rents closely against both private rents and local housing allowance (LHA) as summarised in our two main area of operation below. Our rents tend to be higher in Maidstone as the majority of properties are built under the affordable homes programme rather than social rent.



Over the year there was a significant increase in the number of customers claiming Universal Credit (UC) to 2,115 (2020: 1,408). This represents 25% (2020:17%) of our customers. Use of Alternative Payment Arrangement (APA) continues to increase, with the percentage of customers on APA's increasing from 17% to 27% of UC claimants. At the end of March almost 10% of our customers on UC were receiving tenancy support, with over half seeing an improvement in their rent arrears.

## Working with Customers

Customer Liaison Officers work with and support customers with the most complex needs and over the year we completed 502 cases of which we:

- Supported 256 customers with benefits, budgeting and rent arrears advice, leading to a reduction in rent arrears by £133,544
- We successfully dealt with 122 anti-social behaviour and 25 domestic abuse cases.
- 85 of the cases also had general support, child protection, hoarding and property condition issues

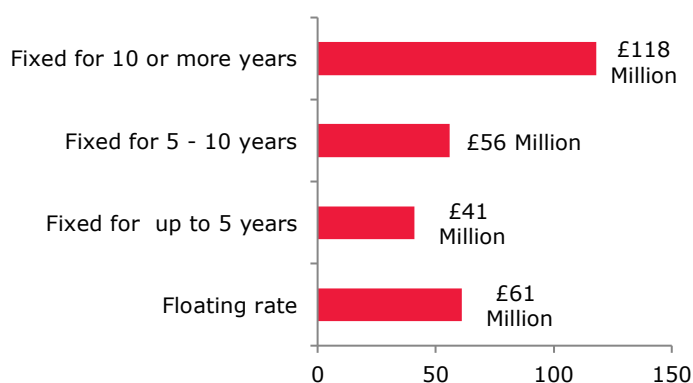
As at 31 March 2021 **the Group** had

- Total borrowings of £286 million
- Undrawn charged facilities of £70 million
- Spare security of £115 million

During the year the following activity took place:

- Borrowings during the year £10 million of long-term fixed rate
- 5 Year revolving credit arranged £40 million
- Term debt repaid in the year £4 million
- Revolving Credit facility repaid £5 million

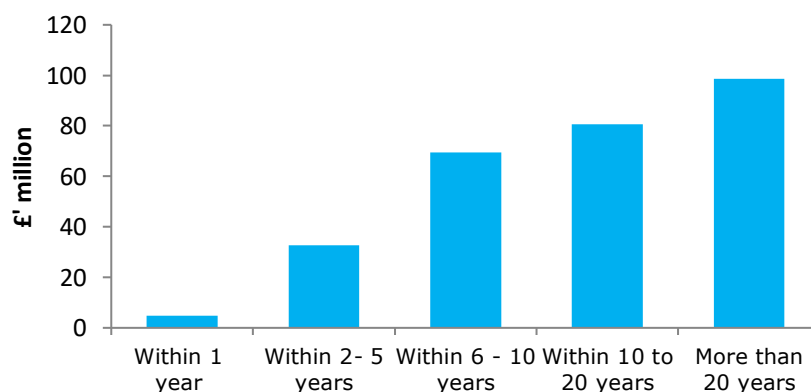
#### Interest rates fixed



The treasury management for **the Group** is governed by a Treasury Policy and Strategy regularly reviewed and approved by the Board. **The Group** Treasury Committee monitors treasury activities and makes recommendations to the Board. A key risk is our exposure to interest rate, which is mitigated by having only £61 million (22%) of debt floating for less than one year. This compares to £60 million (20%) last year.

Another key area monitored is the repayment profile of **the Group** with 13% (2020:18%) due for repayment in the next five years.

#### Repayment profile

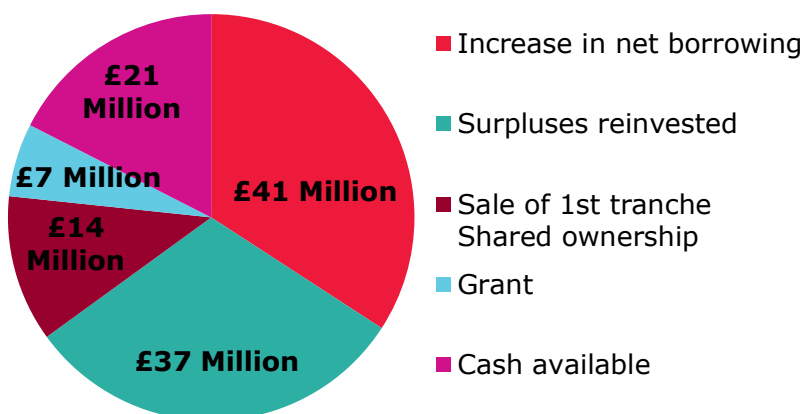


**The Group is fully funded for the next four years.**

**The Group** recently approved a new three years strategic plan, which includes expenditure on new properties of £120 million, delivering over 600 homes. This represents an increase on the reduced development aspirations that were put in place at the beginning of the pandemic, as the economic impact was less than that anticipated. However, we have not increased the level of expenditure to pre COVID – 19 levels due to the uncertainty on the full implications of building safety and preparing for a zero carbon future. The full financial impact of these is yet to become apparent therefore we have scaled back our development based on prudent estimates of these costs.

Almost half of the development programme will be funded through cash already raised and surpluses reinvested, the balance coming from borrowing along with a modest amount of social housing grant and sale of shared ownership properties. Our plan does not take account of any future staircasing on shared ownership properties and grant is only included where it is agreed with Homes England.

**How we fund  
our  
development  
aspirations**



The plan assumes new borrowing of £55 million along with £14 million of term debt repaid, though at present **the Group** has available £70 million of funding across two revolving credit facilities, both fully charged and available to draw. The first of these facilities finishes in 2024 though we plan to put in place long term funding over the next 12 months. We also start the year with substantial cash reserves of £37 million in line with our cautious approach to treasury management.

Our results are stress-tested against a number of different scenarios. These show that our covenants are all met, even if interest rates rise over the long term to 8% or rent is reduced by a quarter. The financial ratios below show the ongoing financial strength of **the Group**.

Group Ratio	2022	2023	2024	2025	2026
EBITDA* MRI: Turnover	42%	40%	41%	42%	40%
Ratio of Debt: EBITA-MRI*	12.0	13.1	12.6	11.16	11.3
EBITDA-MRI*: Interest Payable %	208%	187%	190%	205%	204%
* EBITDA-MRI = Earnings before interest, depreciation and amortisation excluding major repairs.					

As noted above, in common with many social landlords we are continuing to investigate our buildings to ensure that they are safe places to live. The Board is clear that cost will not stop this work progressing. There is therefore a risk that some of these margins may fall if additional building safety work is required.

Our new strategic plan ensures that our impact on the environment and wider community is at the heart of all we do. We will deliver our Green Homes Plan conscious of the target of achieving net zero carbon by 2050: -

- All new homes commissioned from April 2021 will be built to EPC band 'B' and where possible, be zero carbon ready.
- By 2024 65% of our homes are at least EPC band 'C'
- Trial retrofit technologies to increase the sustainability of existing homes
- Develop, in conjunction with customers, a Great Environment Plan focused on community safety, health and wellbeing.
- Have in place a Fuel Poverty Action Plan to assist customers who are fuel poor.

The Social Housing White Paper published in November 2020 sets out the policy direction for the next few years. We know that many important elements of the White Paper will take considerable time to develop however our customers' wellbeing remains our greatest priority and therefore we will: -

- Prioritise our Building Safety Programme and strive to be an exemplar by achieving Building Safety Charter 'Champion' status.
- Invest £56 million and proactively manage our assets so all our homes continue to meet the Decent Homes Standard.
- Ensure that at least 30% of our lettings will be to homeless households.
- Launch and embed a new Tenancy Support Programme to provide better outcomes for customers through more effective multi-agency interventions on domestic abuse, mental health, safeguarding, crime on our estates, anti-social behaviour and hate crime.
- Achieve the Social Housing Equality Framework (SHEF) 'Excellent' level to make sure that equality, diversity and inclusion is at the heart of our service provision.
- Increase the number and diversity of customers that actively engage with us, including ensuring 33% of customers are invited to participate in a customer involvement activity every year.
- Makes sure 90% of customers are satisfied that their views are taken into account.

The key strategic risks are summarised in the heat map below with the key controls summarised in the table following.

Almost Certain	5			R1		
Likely	4		R6	R3	R7	
Possible	3			R2\R5\R8		
Unlikely	2			R4\R9	R10	
Rare	1					
		1	2	3	4	5
		Insignificant	Minor	Moderate	Major	Catastrophic

1	<b>Failure to collect income leading to increased rent arrears</b>
2	<b>Failure to invest sufficiently in current properties to ensure the safety and quality of our housing stock</b>
3	<b>Failure to manage COVID-19</b>
4	<b>Failure to deliver the development programme including shared ownership sales</b>
5	<b>Failure to maintain a talented, diverse and engaged workforce</b>
6	<b>Failure of data security</b>
7	<b>Failure to ensure tenants are safe at home and colleagues are safe at work:</b>
8	<b>Failure to meet operational performance</b>
9	<b>Failure of governance leading to a breach of regulation:</b>
10	<b>Failure to maintain long-term financial viability and failure to meet existing covenants</b>



## Strategic Risk

- 1 **Failure to collect income leading to increased rent arrears:** Failure to manage rent arrears leading to a shortfall in income collection could lead to pressure on liquidity.
  - Risk score outside of agreed tolerance
  - Likelihood: Almost certain
  - Impact: Moderate
  - *A robust Treasury Policy means that liquid funds are available for unexpected falls in receipts.*
  - *Deep dive information presented on impact of Universal Credit.*
  - *Tenancy sustainment programme with advice and support.*

This is outside of tolerance as though we have seen an increased number of customers move onto universal credit with a consequent small and manageable impact on rent arrears, we are aware that numbers may increase as furloughing comes to an end. A management plan is in action to reduce arrears. Even with significantly increased rent arrears there is sufficient liquidity in place to manage this risk and the financial risk to the organisation is negligible though our operational position is not where it should be.

- 2 **Failure to invest sufficiently in current properties to ensure the quality of our housing stock including energy efficiency:** That our properties fall beneath the standard expected, leading to low customer satisfaction, safety issues, poor energy efficiency and a build-up of unplanned repair works
  - Risk score within agreed tolerance
  - Likelihood: Possible
  - Impact: Moderate
  - *100% compliance with Decent Homes Standard.*
  - *Ongoing review of costs required to meet 2030 energy efficiency targets*
  - *External validation of stock condition data.*
  - *Active Asset Management Strategy.*
  - *Disrepair process and procedure.*
  - *Regular reviews to ensure long term spend requirements to meet decent homes and buildings safety targets are captured in financial planning.*
- 3 **Failure to manage COVID-19;** overarching risk impacting on other strategic risks
  - Risk score within agreed tolerance
  - Likelihood: Likely
  - Impact: Moderate
  - *Resilience Group led by Chief Executive meet regularly to discuss management of pandemic and recovery plans.*
  - *Home working in place and working well*
  - *Appropriate processes and PPE in place to support front facing staff.*
- 4 **Failure to deliver the development programme including shared ownership sales:**
  - Risk score within agreed tolerance
  - Likelihood: Unlikely
  - Impact: Moderate
  - *Contractor viability checks & robust contract management.*
  - *Homes England Compliance Audit.*
  - *Outturn reporting to Finance Risk and Audit Committee (FRAC) and Board.*
  - *Development updates quarterly.*
  - *Individual project risk registers in place.*
  - *Sales and market analysis; dedicated resource for sales.*

- |   |  |  |
|---|--|--|
| 5 | <b>Failure to maintain a talented, diverse, engaged workforce:</b> Without which we cannot meet any of our goals.  | <ul style="list-style-type: none"> <li>• Risk score within agreed tolerance</li> <li>• Likelihood: Possible</li> <li>• Impact: Moderate</li> </ul> |
|   | <ul style="list-style-type: none"> <li>• <i>Monitoring of key business metrics. (colleagues' turnover, vacancy rates)</i></li> <li>• <i>Talent management and succession planning.</i></li> <li>• <i>Learning and development programme.</i></li> <li>• <i>Colleagues engagement plan and Health and Wellbeing programme.</i></li> </ul>   |  |
| 6 | <b>Failure of data security:</b> Failure to ensure <b>the Group</b> has appropriate cyber security arrangements in place could lead to data losses, damage to our reputation and sanctions from the Information Commissioner's Office.   | <ul style="list-style-type: none"> <li>• Risk score within agreed tolerance</li> <li>• Likelihood: Likely</li> <li>• Impact: Minor</li> </ul>      |
|   | <ul style="list-style-type: none"> <li>• <i>ICT, Digital &amp; Data Governance Strategies.</i></li> <li>• <i>Cyber Essential Plus accreditation.</i></li> <li>• <i>Colleagues training programme on cyber security.</i></li> <li>• <i>Disaster recovery plan in place and tested regularly</i></li> <li>• <i>Information Governance Working Group meets monthly to review compliance with GDPR</i></li> </ul>  |  |
| 7 | <b>Failure to ensure tenants are safe at home and colleagues are safe at work:</b> The safety of our colleagues and customers is paramount. Our approach in this area is described on page 29.   | <ul style="list-style-type: none"> <li>• Risk score within agreed tolerance</li> <li>• Likelihood: Possible</li> <li>• Impact: Major</li> </ul>    |
|   | <ul style="list-style-type: none"> <li>• <i>All high risk buildings reviewed with the Kent Fire and Rescue Service.</i></li> <li>• <i>Regular monitoring of landlord compliance information including fire risk assessment</i></li> <li>• <i>Health and Safety Policy, along with a Fire Safety Task Force in place.</i></li> <li>• <i>Safeguarding Board in place</i></li> <li>• <i>Lone working devices recently reviewed and renewed</i></li> </ul> |  |
| 8 | <b>Failure to maintain an operational performance:</b> during periods of uncertainty and change such as the COVID -19 crisis.  | <ul style="list-style-type: none"> <li>• Risk score within agreed tolerance</li> <li>• Likelihood: Possible</li> <li>• Impact: Moderate</li> </ul> |
|   | <ul style="list-style-type: none"> <li>• <i>Close monitoring of performance by the Executive and Board</i></li> <li>• <i>Service standards put in place with agreement of customers</i></li> <li>• <i>Dynamic workforce planning to move resources to areas of need</i></li> </ul>   |  |
| 9 | <b>Failure of governance leading to a breach of regulation:</b> mhs homes are registered with the Charity Commission and Heart of Medway is registered with the Regulator of Social Housing (RSH).   | <ul style="list-style-type: none"> <li>• Risk score within agreed tolerance</li> <li>• Likelihood: Unlikely</li> <li>• Impact: Moderate</li> </ul> |
|   | <ul style="list-style-type: none"> <li>• <i>Compliant to National Housing Federation (NHF) Code of Governance with assurance supplied annually to Board.</i></li> <li>• <i>A robust governance and risk management framework including checklists against NHF Code of Governance &amp; RSH Regulatory Standards.</i></li> </ul>  |  |

- 10 Failure to maintain long-term financial viability and failure to meet existing covenants:** The risks that the economy enters a climate of increased interest rates with low inflation combined with reduced income from sales of first tranche shared ownership properties and increasing cost base and ability to meet covenants.
- Risk score within agreed tolerance
  - Likelihood: Unlikely
  - Impact: Major
- *Rigorous stress-testing and financial monitoring through the year.*
  - *Over 80% of our debt is on fixed rates.*
  - *A robust Treasury Policy that ensures liquid funds are available above that anticipated in the base scenario with golden rules for financial planning.*
  - *Reducing level of shared ownership sales included in financial planning.*

Under **the Group's** Risk Management Strategy, agreed by the Group Board, all risks are managed with an acceptable level of residual risk to the business. The risk register is split into strategic and operational risks. Strategic risks are managed by the Leadership Team and reported to the Group Board and Group Finance, Risk and Audit Committee.

Assistant Directors are asked to sign statements, which are summarised and presented to the Group Finance, Risk and Audit Committee quarterly as part of the strategic risk update, with an annual compliance confirmation, detailing that all risks have been considered, that controls and assurances are in place and that all appropriate legislation has been considered and flowed into policies where necessary. All controls have specific accountability to Operational Managers and colleagues with timescales for implementation and on-going review through the assurance map. The Company Secretary meets monthly with the Internal Audit Manager to ensure audit actions are captured and monitored. Internal Audit Compliance continues to be reported quarterly to Senior Management, Group Finance, Risk and Audit Committee, and Group Board.

**The Strategic Report was approved by the Board of Trustees on 22 July 2021**



**Richard Cooper**  
**Chair**

Housing associations must demonstrate a robust approach to Value for Money. The section below outlines our approach to Value for Money and demonstrates how:

- How the Board set targets, monitors and drives value for money and performance against our own targets.
- Our performance compares to other similar organisations and against our targets
- We ensure satisfactory return on assets.

### **Approach to Value for Money**

The success of the approach taken by **the Group** in embedding Value for Money can be seen by our results. These successes are the result of a robust framework that ensures it is at the heart of all decision-making. Firstly, the Board ensure that our strategic plans include challenging targets for efficiency, cost control and customer service. The primary financial control in both the 2018 - 2021 and the newly approved 2021 – 2024 Strategic Plan was a minimum ratio of surplus (as measured by earnings before interest, depreciation and amortisation and adding back capitalised major repairs) to turnover. Without this level of performance, we would be unable to sustain the development programme in place. The Board, therefore, carefully monitors progress in this area. Budgets are set within this framework and any decisions made that have a financial consequence are considered through this prism.

Other arrangements for ensuring that value for money is being obtained include: -

- An annual programme of investment in the housing stock which is based on a 30 year stock investment plan for replacing building components, such as windows, roofs, kitchens and bathrooms, which maintains our stock at 100% Decent Homes Standard.
- There is a comprehensive Procurement Strategy that sets a discipline to seek value for money in the evaluation and award of new contracts. Where possible supply chains are consolidated to provide greater scope for efficiency and reducing costs
- The Customer Scrutiny Panel commissions service reviews, including value for money considerations, and based on these reports' recommendations are made to the Board.
- Intrinsically linked to the Asset Management Strategy is our approach to active asset management, in which every property has been reviewed for maintenance costs (both past and future), income, demand and management considerations. Properties that require excessive investment to bring them to the standard required are identified for disposal and the proceeds are reinvested into new or existing homes.
- The business transformation programme continues to optimise digital channels and provide improved customer service by reallocating colleagues resources into areas that add greatest value to the customer.
- Salaries are reviewed against external benchmarking every three years with salaries being set against the market median salary. The annual salary increase is recommended to the Board by the Remuneration Committee where independent evidence on pay rises is presented.

## Our performance compared to comparable organisations

We have compared **the Group's** results with the sector as presented.-Regulator of Social Housing Summary of Global Accounts for 2020 for Registered Providers in the South East of England. The results highlight the financial strength of the organisation with virtually all results being above median or top quartile. Despite the impact of Covid-19 we increased our investment in properties whilst both interest cover and cost per unit continue to be better than most.

Metric	The Group			Median
	Budget 2022	Actual 2021	Actual 2020	
Investment in properties - new and existing	8.7%	7.3%	6.6%	7.6%
New supply delivered – social housing	2.1%	1.8%	2.2%	2.4%
New supply delivered – non-social housing	0.0%	0.0%	0.5%	0.1%
Gearing	51.7%	47.9%	47.1%	50.8%
EBITDA: interest rate cover	205%	249%	228%	164%
Social housing cost per unit £	3,709	3,044	3,317	3,836
Operating margin – (social housing only)	39.5%	45.5%	39.4%	34.8%
Operating margin (overall)	40.5%	44.5%	35.4%	29.8%
Return on capital employed	3.7%	4.5%	4.3%	3.3%

<sup>1</sup> Operating margin excludes Social Housing Grant taken to income due to a different accounting treatment in mhs homes group (under the Charities SORP) and the social housing sector under the Housing SORP.

**Green denotes top quartile Orange denotes above median**

## Our performance against our targets

Metric	The group 2021		Notes
	Actual	Budget	
Investment in properties - new and existing	7.3%	12.3%	Note 1
New supply delivered – social housing	1.8%	1.8%	
New supply delivered – non-social housing	0.0%	0.0%	
Gearing	47.9%	51.8%	Note 1
EBITDA: interest rate cover	249%	203%	
Operating margin (overall)	45.5%	41.2%	Note 2
Return on capital employed	4.5%	3.8%	

**Note 1:** At the onset of the pandemic the decision was made to delay entering into any new developments until the situation became clearer. Therefore, no new schemes were started and therefore borrowing, and hence gearing, were lower.

**Note 2:** This was a result of less shared ownership activity, which is at a lower margin, and reductions in major repair spend due to the pandemic.

**Our performance against our targets and other key indicators**

	Target	As at 31 <sup>st</sup> March 2021	As at 31 <sup>st</sup> March 2020
<b>13 week average of gross rent arrears</b>	<b>3.0%</b>	<b>4.1%</b>	<b>3.7%</b>

The overall gross arrears have continued on an upward trend throughout the year. At present, 25% of our customers are on Universal Credit and of these 27% are on Alternative Payment Arrangements, so have their housing element paid directly to us. Despite accounting for 25% of customers, 45% of overall debt is owed by general needs customers on Universal Credit.

In response to the COVID-19 situation, we voluntarily committed to not evicting any tenants during the pandemic alongside the Coronavirus Act 2020 that states landlords must now give customers three months' notice of possession proceedings.

<b>Average turnaround days for voids</b>	<b>20</b>	<b>41.5</b>	<b>45.4</b>
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Whilst void turnaround time is better than in the previous year it is still substantially above target. However, the impact of COVID- 19 is significant in this area and we would expect this to fall during the upcoming year.

<b>Average days to complete a repair</b>	<b>10</b>	<b>14.5</b>	<b>11</b>
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The increase in the year again can be attributed to the impact of COVID-19 as delays took place to non-emergency repairs service is currently working to ensure that where possible the impact on the service to the customers is kept to a minimum. Our year-end performance puts us in median to top quartile compared to peers.

<b>Repairs completed right first time</b>	<b>85%</b>	<b>88%</b>	<b>86%</b>
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This measure has achieved a sustained level of improvement during the year.

<b>Customer satisfaction</b>	n/a	<b>65%</b>	n/a
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During the year we changed the methodology of how we collected customer satisfaction to bring us in line with the HouseMark STAR survey. As this was the first year of collecting information in this way, 2020/21 would act as a "baseline" to set a target, 80%, for 2021/22.

**Green denotes meeting or exceeding target**

## Return on assets

While most of the activity in **the Group** relates to social housing, **the Group** own 368 market rented properties. These properties are held as an assessment to generate a surplus that can be reinvested back into social housing. This process is managed by:

- The Board setting the expected return from any new market rented properties taken into management, with this return reflecting the expected risk.
- The Board agreeing an amount to be invested into market rent on an annual basis that is appropriate considering the charitable status of mhs homes and the size of the overall development programme.
- The return from the market rent portfolio is reviewed on an annual basis by the Board to satisfy them that the return is commensurate to the risk involved.

The overall return on the social housing stock is also monitored. A greater return would be obtained if rents were permitted to increase above Local Housing Allowances rates; however, the Board took the view that it was essential that rents were kept affordable to those in housing need, with social benefit outweighing return on assets.

Financial return on assets for **the Group** are summarised below:

	<b>Net Cost of Asset*</b>	<b>Income**</b>	<b>Surplus**</b>	<b>Return on investment</b>	
				<b>%</b>	
				<b>2020/21</b>	<b>2019/20</b>
	<b>£'m</b>	<b>£'m</b>	<b>£'m</b>		
<i>General needs</i>	224.5	48.0	25.4	11.3%	8.8%
<i>Shared ownership</i>	46.3	2.3	1.2	2.6%	2.3%
<i>Market rented***</i>	40.5	3.3	1.6	4.0%	3.4%

\* *Being based on historic cost (before deemed cost adjustment) net of depreciation*

\*\* *Net of social housing grant received in the year*

\*\*\* *After adjusting for depreciation to ensure comparability with other income streams*

*The high return on general needs stock reflects the purchase of the stock 30 years ago. The increase represents the fall in major repairs in the year.*

**mhs homes limited**  
**Trustees' annual report incorporating directors report**  
**Reference and administrative details**

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<b>Trustee</b>	<b>Position</b>	<b>Changes in year</b>
R Cooper	Chair and Non-Executive	
N Hopkins	Non-Executive	
M Miles Lea	Non-Executive	
Lord Roy Kennedy	Non-Executive	Appointed 23 <sup>rd</sup> July 2020
A Baker	Non-Executive	Resigned 9 <sup>th</sup> July 2020
K Franklin	Non-Executive	
R Christopher	Non-Executive	
A Hook	Chief Executive	

*Elected by Tenants annually*

J Seager	Tenant Nominee	
M Mulligan	Tenant Nominee	Resigned 23 <sup>rd</sup> July 2020
A Campbell	Tenant Nominee	Appointed 23 <sup>rd</sup> July 2020

**Group Finance Risk and Audit Committee**

N Hopkins	Chair
R Oirschot	Member
S Bate	Member

**Remuneration Committee**

K Franklin	Chair	
R Christopher	Member	
A Baker	Member	Resigned 9 July 2020
R Cooper	Member	

**Treasury Committee**

R Christopher	Chair
S Bate	Member
L Barton	Member
R Cooper	Member

**Executive Team**

A Hook	Chief Executive
B Shelmerdine	Finance Director
S Goad	Operations Director

**Auditors – External**

BDO LLP  
2 City Place  
Beehive Ring Road  
Gatwick  
West Sussex  
RH6 0PA

**Charity's address**

mhs homes  
Broadside  
Leviathan Way  
Chatham  
Kent  
ME4 4LL

**Country of incorporation:** England

**Bankers:** National Westminster Bank Plc

**Legal status**

Private company limited by guarantee without share capital No. 10704997  
Registered charity with the Charity Commission No. 1177565





**Richard Cooper | Chair**

Richard joined the Board on 1 May 2016 and was appointed as Chair in July 2018. He has a track record in the private sector of creating value through organic growth, business turnarounds and managed a number of mergers and acquisitions.

**Ashley Hook | Chief Executive**

Ashley, a chartered surveyor, was appointed Chief Executive of mhs homes in 2009. He has a strong background in housing, having previously worked for various local authorities and housing associations.



**Nigel Hopkins | Board member**

Nigel has over 30 years' experience in finance in a variety of roles including Finance Director for Abbeyfield, a leading charity in the supported housing sector. Nigel is currently a non-executive Director on the board at Places for People, the third largest regulated housing provider in the country, he's also Chair of their Audit Committee.

**Kate Franklin | Board member**

Kate has a combination of housing and retail experience which has drawn on her commitment to customer experience and insight. As an experienced executive director, she has a track record of delivering organisational value through creating a clear line of sight between the customer, operational performance and business results.



**Ray Christopher | Board member**

Ray is a corporate financier and treasurer with more than 30 years of international finance experience across many sectors including energy, high-tech and social housing. His expertise includes capital markets, risk and active asset management.

**Mark Miles Lea | Board member**

Mark has worked in the housing sector for over 25 years, including over 5 years at a senior executive level. He has particular expertise in the development of new homes. He is also a Non-Executive Director for a community-based Housing Association in east London.



**Julie Seager | Board member**

Julie has been a mhs homes tenant for a number of years. She knows first-hand the difference quality; affordable housing makes to people's lives and has many years of experience working in special needs education.

**Lord Roy Kennedy | Board member** Lord Roy Kennedy is the current Shadow Minister for Housing in the Lords. He grew up in social housing in Southwark, is a passionate believer in the sector and understands the need to build more affordable homes.



**Anna Campbell | Board member** Anna is proud to be on the board as it means that she can contribute towards realising mhs' ultimate ambition of ending the housing crisis in North Kent. Currently in the final year of a design degree, her most recent project was working alongside Shelter.

## **Objectives and Activities**

**mhs homes limited ("mhs homes")** is a registered charity with the objectives to provide social housing in Kent and all services linked to this provision to alleviate housing need in Medway and the surrounding areas. These include constructing, improving and managing social housing, along with the sale of shared ownership properties. It was formed on 29 July 1990 when it acquired the entire housing stock of the then Rochester upon Medway City Council. We were one of the first large-scale voluntary transfers and the only one to take place that was not registered with the regulator.

## **Public Benefit Statement**

The Trustees of **mhs homes** ensure that the purpose of the charity is for the public benefit by: -

*Adopting policies that require it to allocate housing, both rented and shared ownership, to applicants that meet with its objectives of acting for the relief of those in need by reason of poverty, age, ill health or disability – all social housing is rented to new customers in conjunction with our partner local authorities with rent levels below 80% of market rent.*

*Developing new affordable housing both rented and shared ownership – by investing our surpluses in building new properties.*

Underneath these broad aims are strategies to ensure the properties we own are managed in a way that provides an excellent customer service through our day to day interactions with our customers and a high-quality home to live in. These strategies are considered in detail in the Strategic Report on page 6 which also considers the difference the charity's work has made to the circumstances of its beneficiaries and the society in which we operate.

The Trustees recognise that a financially successful **mhs homes** is able to provide more new social housing. Therefore, as well as having the objective of financial efficiency, which is described in more detail under the Value for Money statement on page 19, the objectives of **mhs homes** allow for financial investments. These are defined under an Investments Policy agreed by the Trustees and our current strategy limits the investments to the supply of market rented properties and a loan to a subsidiary that owns the head office building.

The level of investment in market rented properties is considered each year as part of the annual budget setting procedure, with the current policy stating that no more than 35% of cash surpluses should be used for financial investments. These properties are purchased with the intention of holding them over the long term, with the returns being reviewed at regular intervals.

**mhs homes limited**  
**Trustees' annual report incorporating directors report**  
**Our structure, governance and management**

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mhs homes limited ("**mhs homes**"), the parent body of the mhs homes group ("**the Group**"), is a registered charity (1177565) and a company limited by guarantee (10704997). It is governed through a Memorandum and Articles of Association. The Board of Trustees of mhs homes, who are also directors of the charity for the purpose of the Companies Act 2006, have overall responsibility for the direction, management and control of the charity.

Whilst mhs **homes** is not registered with the RSH it is fully committed to reinvesting any surpluses back into social housing. It is regulated by the Charity Commission and its disclosures and accounting treatment follow those set out by the Charity Commission. However, as a provider of social housing we have structured this report to be comparable with those provided by the regulated social housing sector. As the parent organisation, **mhs homes** has five subsidiaries: -

- Heart of Medway Limited is registered as a community benefit society under the Co-operative and Community Benefit Societies Act 2014 and is registered with the RSH.
- Chatham Maritime K1 Construction Limited is responsible for delivering elements of the Group development programme.
- Chatham Maritime K1 Developments Limited is a commercial subsidiary whose sole activity is the ownership of the head office for the Group.
- mhs commercial services limited and mhs community charity limited are dormant companies.

**mhs homes** is also the corporate trustee for Lord Kitchener Memorial Homes Trust, an Almshouse in Medway owning six properties and registered with the Charity Commission.

**mhs homes** has adopted and is fully compliant with the National Housing Federation's Code of Governance: promoting board excellence for housing associations (2015 edition). We are currently working towards compliance with the 2020 code and are confident we will be fully compliant by 31<sup>st</sup> March 2022. This code is more relevant to **mhs homes** than the Charity Governance Code. In common with many housing associations, Board members receive a fee and the reimbursement of properly incurred business expenses. Along with the National Housing Federation Code of Governance **mhs homes** has adopted the "Conduct Becoming" standard with respect to conduct and probity. There is a system of open declaration recorded in the minutes of Board meetings and for other matters occurring outside the boardroom there is a Declarations Register. This is accessible to all members of the Board and is systematically scrutinised by the Group Finance, Risk and Audit Committee.

### **Responsibility to Heart of Medway Housing Association**

**mhs homes** acknowledges its responsibility as Parent of Heart of Medway Housing Association Ltd; an entity regulated by the RSH and subject to the regulatory Framework. An Intra Group Agreement exists between Heart of Medway Housing Association and **mhs homes** that recognises the duty of the unregistered parent to provide support or assistance to the registered provider to ensure that it fulfils its regulatory requirements. It further ensures that the social housing assets within Heart of Medway cannot be put at risk through the activities of the Parent.

## **Role of the Board**

As a Parent Charitable Company limited by guarantee the Board can consist of up to ten Trustees, including two tenant Board members who are nominated annually by the tenants of mhs homes. During the year there are at least six meetings, one of which is the Annual General Meeting. The role of the Board is to govern **the Group** to provide accountability, to ensure positive relationships with stakeholders, to give advice to management, to provide strategic direction, and to be collectively responsible for the proper stewardship of the organisation. Moreover, the Board strives for high standards of governance by ensuring effective performance and rigorous compliance in ever-changing environments. As a means of renewal and self-evaluation, the Board holds away days and strategy days to review its own performance and keep updated. The agenda covers strategy, Board development, team building, financial matters, vision and business proposals.

The Board delegate the day-to-day management of the business to the colleagues, within the strategic direction agreed by the Board. Responsibilities of colleagues are defined through Standing Orders, which are reviewed regularly by the Board. Major financial contracts where the charity is committed to expenditure of more than £5 million are agreed by the Board, with smaller amounts delegated to senior colleagues. The Board monitor this expenditure through an agreed budget and long-term financial plan, with management accounts being scrutinised by both the Group Finance Risk and Audit Committee and the Board.

## **Composition of the Board**

Details of membership during the year are shown on page 23. During the year the Board held eight meetings, inclusive of the Annual General Meeting, at which the average attendance rate was 95% (2020: 89%). Applications for membership, except for the tenant Trustees, are invited by open advert. Applicants are shortlisted and interviewed with appointments made according to required skills, competencies and experience. Regular skill audits of the Board are undertaken. Trustee terms are normally limited to two terms of three years, although with the provision of our chosen governance code by exception a Trustee may serve up to a maximum of nine years. The tenant trustees are appointed annually through a ballot of all tenants of **mhs homes** in accordance with the rules of the organisation.

## **Induction and training opportunities for Trustees**

The induction process includes visits to projects, meetings with colleagues and one-to-one sessions with the other Trustees, as a preliminary to attending Trustee Board meetings. All new Trustees, irrespective of experience, are also required to attend an Institute of Directors course on the role of the Director and the Board. A briefing session on the governing documents of the charity is provided by the Secretary, in liaison with the other executives of **mhs homes**. All Trustees undergo an annual appraisal with the Chair, as well as conducting a review of effectiveness of the Board as a whole.

## **Arrangement for remuneration of Trustees**

To ensure transparency and independence the Board has established that the fees of the Non-Executive Directors be reviewed annually using external benchmarking advice.

### **Fair representation**

The Board communicates with and manages the interests of its stakeholders through the full time professional input of the Executive Directors' team. The Board conforms to best practice as defined in standards published by the National Housing Federation. There is an annual governance report which scrutinises and appraises the Board, and to which each member contributes. The report confirms that boardroom conduct meets the highest standards of corporate governance.

### **Group Finance, Risk and Audit Committee**

The Committee met five times last year and is responsible for reviewing the finances, including budget, long term financial plan, stress testing and mitigation plans before recommending to Board, policies and procedures for identifying and assessing business risks, and the on-going management of those risks. The Committee also reviews the effectiveness of internal control systems, considers reports from the internal and external auditors and reviews the annual financial statements prior to Board approval.

### **Customer Scrutiny Panel**

The Customer Scrutiny Panel is an essential part of the governance structure and exists to hold the organisation to account from a customer perspective. The services to be reviewed are decided by the Panel and carried out to ensure a realistic view of strengths and areas of improvement is gained. This process is supported by external consultants so the Panel can call upon independent expertise to assist its work.

### **Remuneration Committee**

The Remuneration Committee is responsible for reviewing the pay and conditions of service of the Executives and has oversight of the Chief Executive's annual appraisal. It met on three occasions in the year and consists of three Non-Executives from the Group Board. Where needed the Remuneration Committee seek independent external advice.

### **Treasury Committee**

The Treasury Committee has met four times during the year. It is responsible for scrutinising treasury activities and recommending policies, strategies and new borrowings to the Boards.

### **Leadership Team**

The Leadership Team during the year consisted of eight members, being the Chief Executive, Executive Directors and Assistant Directors. Together they are responsible for the day-to-day operations of the Group and act within the authority delegated to them by the Board, as set out in Standing Orders and Delegated Arrangements.

### **Modern Slavery and Human Trafficking Act 2015**

We have a Modern Slavery and Human Trafficking statement. It was agreed by the Board and signed by the Chief Executive. Our statement is published on our website and confirms our commitment to ensuring that there is no modern slavery in our business or in our supply chains.

## **Interests of the Employees**

The Board is committed to maintaining a competent and motivated workforce by ensuring that sufficient people with the appropriate skills, knowledge and experience are employed to meet all business objectives. Details on employee numbers are contained in note 11 to the financial statements. Our colleagues are our most valuable resource and we place great emphasis on high levels of colleagues' engagement. We are proud to hold Gold Investors in People accredited status since 2012.

There is an Employee Forum ("Voice") which meets regularly to discuss terms and conditions of service and matters of colleagues' interest and input. The constitution has provision for meetings between the Directors and colleagues' representatives. For purposes of understanding and clear direction, there is a framework of delegation to colleagues set out in Financial Regulations and Procurement Guide. It provides the details of the fundamental rules and procedures by which business is conducted, including the high expectation we have regarding integrity and probity.

Our Equality Diversity and Inclusion Policy covers all aspects of employment practices, from recruitment through to appointments, training, career development and succession planning. **The Group** recognises its legal and social obligations and has a recruitment policy that is inclusive of all protected characteristics.

We aim to attract and retain the most talented people. The Human Resource team ensures that we have effective procedures for employee relations, recruitment, selection, compliance, pay, wellbeing, reward, and learning and development in place. Terms and conditions, including salaries, are set at competitive rates to attract and retain high calibre employees and are regularly benchmarked.

## **Impact on the environment**

**The Group** recognises that it spends substantial amounts on new build projects, repairs and planned maintenance, and there is a strong commitment to our responsibility through business operations to minimise our environmental impacts as far as is reasonably practicable. An Environmental Management System (EMS) is in place that is certified to ISO14001. We are committed to conserving resources, minimising the risk of pollution, reducing waste produced and waste to landfill, and assisting with regeneration. The EMS is regularly reviewed, and all significant impacts are monitored to ensure that adequate measures are in place to reduce our impacts and promote environmental sustainability. Further information is available on page 14 and 35.

## **Health and safety**

The Board is aware of its health and safety responsibilities and receives reports on health and safety issues, including accident statistics and monitoring reports. Detailed health and safety policies and procedures are in place and provide colleagues training and education on matters of health, safety and welfare. The Health and Safety Manager reports to the Board, Leadership Team and Group Finance, Risk and Audit Committee. Besides the duties of compliance testing and evaluation, the Health and Safety Manager serves the interests of colleague reducing the risk of accidents and loss to the business. The British Safety Council audit grading has been in place since 2015 and was a validation of the work taking place organisation wide and the importance given to a safe working culture. Our focus on health and safety ensured the retention of the British Safety Council level 5 award in 2019, one of the highest standards of achievement in the world of health and safety management.

### **Creditor Payment Policy**

It is the policy to agree terms of payment with suppliers at the time of negotiating the transaction and abide by those arrangements conditional on being satisfied that the goods or services are in accordance with the agreed specification.

### **Going concern**

After reviewing the budget of mhs homes for 2021/22 and a period beyond 12 months from the signing of the accounts, and based on normal business planning and control procedures, the Directors have a reasonable expectation that **mhs homes** has adequate resources to continue in operational existence for the foreseeable future. Future plans assume new borrowing of £55 million and **the Group** has available £70 million of funding across two revolving credit facilities, both fully charged and available to draw. The first of these facilities finishes in 2024 though we plan to put in place long term funding over the next 12 months. We also start the year with substantial cash reserves of £37 million in line with our cautious approach to treasury management.

### **Qualifying third part indemnity provisions**

The directors have the benefit of an indemnity which is a qualifying third party indemnity provision. The indemnity was in force throughout the last financial year and is currently in force. The group also purchased and maintained directors and officer's liability insurance in respect of itself and its directors throughout the financial year.

### **Compliance with Governance and Financial Viability Standard**

The Board of **mhs homes** determines and monitors the strategic direction of **the Group** and has voluntarily adopted the National Housing Federation's Code of Governance: promoting board excellence for housing associations [2015 edition]. It is an RSH requirement under the Governance and Financial Viability Standard to adopt an appropriate code and therefore a regulatory requirement for Heart of Medway. Both **mhs homes** and Heart of Medway undertake an annual review of compliance against this code which is certified by the Board. As the unregistered Parent of a registered provider, **mhs homes** is fully committed to maintaining Heart of Medway compliance with the RSH's Governance and Financial Viability Standards. **mhs homes** has formalised the management arrangements in place through an Intra Group Agreement that acknowledges and supports the Registered Provider status of Heart of Medway. We are currently working towards compliance with the 2020 code and are confident we will be fully compliant by 31<sup>st</sup> March 2022

### **Funds held as custodian on behalf of others**

No funds are held as custodians on behalf of others.

### **Exemptions from disclosures**

No exemptions from disclosures have been made in this report

### **Fundraising statement**

Although we do not undertake fundraising from the general public, the legislation defines fund raising as "soliciting or otherwise procuring money or other property for charitable purposes." Such amounts receivable would be presented in our accounts as donations. In relation to the above we confirm that if funds were held, they would be managed internally, without involvement of third parties. The day-to-day management of all income generation is delegated to the Leadership Team, who are accountable to the Trustees. The charity has no undertaking to be bound by any regulatory scheme. We have received no complaints in relation to fundraising activities. Our terms of employment require colleagues to behave reasonably at all times; as we do not approach individuals for funds, we do not consider it necessary to design specific procedures to monitor such activities.

### **Our Reserves Policy**

The amount of reserves held by a registered charity will normally be the amount of unrestricted funds held. However, the past activities of **mhs homes** have been funded through a combination of surpluses and borrowings which means that this methodology is not appropriate and does not reflect the substantial portfolio of properties that is held that allows **mhs homes** to meet its charitable objectives. **mhs homes** is in the position where it has a high degree of certainty over the income from its property portfolio, being able to set rents that it feels are affordable within the boundaries of providing social housing. This allows the long-term financial plans to incorporate: -

- A surplus that exceeds the covenants set by its funders after allowing for management and maintenance costs that ensure our properties are kept at a high standard.
- This surplus being reinvested into new homes that meet the objectives of the charity.

For the purpose of short and medium term financial management the Trustees are concerned more with the management of working capital and consider that a healthy working capital position is in line with a policy of keeping reserves to fund future unrestricted expenditure in the event of a material decline in surpluses. Therefore, **mhs homes** has a robust treasury strategy that ensures: -

- Sufficient cash is available to fund three months of cashflow.
- Sufficient charged loans are available to cover twenty four months of cashflow.
- Sufficient loans are in place to cover three years of cashflow.

**mhs homes** currently exceeds the requirements of the reserves policy and our future planning show us maintaining this position for the foreseeable future.

### **Auditor**

All of the current Board members have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Associations' auditor for the purpose of their audit and to establish that the auditor is aware of that information. The Board members are not aware of any relevant audit information of which the auditor is unaware. BDO LLP have expressed their willingness to continue. A resolution for the re- appointment of BDO LLP as auditors of the Association is to be proposed at the forthcoming Annual General Meeting.



## **Trustees' responsibilities for the financial statements**

The Trustees, who are also Directors of **mhs homes limited** for the purposes of company law, are responsible for preparing the Strategic Report, the Trustees' Report and the Financial Statements in accordance with applicable law and regulations. Company law requires the Trustees to prepare financial statements for each financial year. Under that law the Trustees have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland. Under company law, the Trustees must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the charitable company and **the Group** and of the incoming resources and application of resources, including the income and expenditure, of the charitable company and **the Group** for that period.

In preparing these financial statements, the Trustees are required to:

- Select suitable accounting policies and then apply them consistently.
- Observe the methods and principles in the Charities SORP (FRS 102).
- Make judgements and accounting estimates that are reasonable and prudent.
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Trustees are responsible for keeping adequate accounting records that are sufficient to show and explain the charitable company's and Group's transactions and disclose with reasonable accuracy at any time the financial position of the charitable company and **the Group** and enable them to ensure that the financial statements comply with the Companies Act 2006. The Trustees are also responsible for safeguarding the assets of the charitable company and **the Group** and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Trustees confirm that so far as each Trustee is aware there is no relevant audit information of which the Parent Charitable Company's auditors is unaware and the Trustees have taken all steps that they ought to have taken as Trustees in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information. The Trustees are also responsible for the maintenance and integrity of the corporate and financial information included on the Parent Charitable Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## **How the Board complied with its Section 172 duty**

The Companies Act 2006 (CA2006) sets out a number of general duties which directors owe to the company. Under section 172, directors have a duty to promote the success of the company for the benefit of the members as a whole and, in doing so, they should have regard to (amongst other matters) six specified areas that relate, by-and-large, to wider stakeholder interests. These six areas are discussed below.

### **1. Likely consequence of any decision in the long term**

mhs is a long term business that provides homes and therefore security for our customers whilst generating surpluses that allow us to invest, along with new borrowings, into new social housing. As the building of new social housing is a loss-making activity, we monitor closely the impact of our development aspirations on the long-term financial plan with forecast in place for a minimum of 25 years. This is considered by the Board on an annual basis, or more often if the situation demands, and the impact is considered in detail in the section Future Planning on page 13.

We operate a three year strategic plan, with the most recent one for the period 2021 to 2024 approved by the Board in March 2021.

### **2. Foster business relationships with suppliers, customers and other**

mhs homes works in collaboration with a variety of national, regional and local suppliers, including voluntary and charitable organisations. Our engagement with suppliers promotes fair and open competition, and where appropriate we look to foster long-term relationships. We work closely with the councils in the areas in which we are based and value highly their support.

We engage with our customers in several ways. The workings of the Customer Scrutiny Panel are described on page 28. We measure how our customers feel about their day-to-day interactions with **the Group** by measuring the Net Emotional Value. In 2020 we re-introduced STAR (Survey of Tenants and Residents) surveys which will add a further level of customer feedback and enable more precise sector benchmarking. The STAR surveys cover seven core questions, from satisfaction with the quality of the home, through to value for money.

We aim to deal with complaints promptly so we can learn as a business and resolve the issue for the customer. During the year, 428 complaints were received with 243 being upheld.

### **3. Maintain a reputation for high standards of business conduct**

As a charity our reputation for high standards is essential to how we work. To ensure we meet the highest standards we have policies on fraud and anti-bribery in place which are described in more detail on page 38. The organisation has a whistleblowing policy encouraging colleagues to raise issues of malpractice or irregularities which are investigated independently under the Public Interest Disclosure Act. The Finance Risk and Audit Committee also receives reports if issues are raised.

#### **4. Act fairly as between members of the company**

The disclosure is relevant to joint ventures and associates, and those companies with multiple classes of shares (for example, private-equity owned), minority or dissenting shareholder groups. mhs homes is a company limited by guarantee without share capital and no payment of dividends. In the event of the charity being wound up, the liability in respect of the guarantee is limited to £1 per member.

#### **5. Interests of employees**

This is considered on page 29

#### **6. Impact of operations on the community and the environment**

See pages 14 and 3 for our impact on the environment and community.

## **Streamlined Energy Carbon Report (SECR)**

The SECR framework is a mandatory UK-wide energy and carbon reporting scheme, implemented to create a straightforward carbon reporting framework. SECR seeks to improve transparency and help reduce UK carbon emissions associated with business and industry. Measurement and public disclosure of emissions can lead to an increased awareness of energy cost and carbon emissions and in turn improve the visibility of risks and opportunities through improvements to energy efficiency.

Companies that qualify must measure and report energy and GHG emissions annually within their financial accounts and reports. Organisations are encouraged that all information is aligned to financial years, to aid comparability and consistency of information across reports and organisations.

This report has been compiled in line with the March 2019 BEIS 'Environmental Reporting Guidelines: Including streamlined energy and carbon reporting guidance', and the EMA methodology for SECR Reporting. All measured emissions from activities which the organisation has financial control over are included as required under The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, unless otherwise stated in the exclusions statement. The carbon figures have been calculated using the BEIS 2020 carbon conversion factors for all fuels, other than the market based electricity which has been taken from OPUS and EDF as the UK suppliers. This is based on all invoices and consumption data which is then fed into the reporting tool. The total location based energy consumption is expressed in kWh: kilowatt hours, as this is the unit specified by SECR legislation.

The footprint includes the 'Scope 1' (e.g. combustion of fuel, fugitive and process emissions) and 'Scope 2' (electricity) emissions associated with the activities for which the **Group** are responsible. For the purposes of the report only 'Scope 1' (Direct) and 'Scope 2' (Indirect) emissions sources are required

Pro-rata extrapolation has been used to provide a full year's consumption for electricity and gas. Consumption figures were provided for the period 01/04/2020 to 26/03/2021, the remaining 5 days were estimated based on these figures. Transport mileage for fleet vehicles has been estimated using a direct comparison from the period January 2020 to December 2020 to represent a full years' worth of data.

	tCO2e		Increase \\(Decrease)	kWh: kilowatt hours		Increase \\(Decrease)
	2019/20	2020/21		2019/20	2020/21	
Electricity	678	508	25%	2,654,380	2,178,014	18%
Natural Gas	862	1,080	25%	4,688,583	5,875,329	25%
Direct Transport	263	485	84%	1,074,715	1,121,520	12%
<b>Total</b>	<b>1803</b>	<b>2,073</b>	<b>15%</b>	<b>8,417,678</b>	<b>9,174,863</b>	<b>9%</b>

mhs homes continues to procure 100% Renewable Energy Guarantees of Origin backed renewable electricity resulting in electricity emissions of 0tCO2e.

## **The intensity Ratio**

An intensity ratio is a way of defining your emissions data in relation to an appropriate business metric, such as tonnes of CO<sub>2</sub>e per sales revenue, or tonnes of CO<sub>2</sub>e per total square metres of floor space. This allows comparison of energy efficiency performance over time and with other similar types of organisations. SECR Intensity ratios are calculated by dividing your emissions by your organisation-specific metric. The government's environmental reporting guidelines give plenty of examples of common intensity ratios. While organisations are free to choose their own intensity ratio, these should be most appropriate to your business activity, e.g. tonnes of CO<sub>2</sub>e per total million tonnes of production for the manufacturing sector. They should also be calculated on a consistent basis year on year with the method of calculation disclosed, and meaningful to stakeholders.

The Intensity ratio increased from 26.6 Tco<sub>2</sub>e/£m to 34.5 Tco<sub>2</sub>e/£m. This increase is due both to the increase in emissions and fall in turnover through a planned reduction in shared ownership sales.

## **Year on Year Emissions Changes**

The increase in natural gas consumption has been attributed to higher tenant occupancy at MHS sites during lockdown periods, as well as cold snaps during the 2020/21, leading to higher consumption in communal areas. Transport emissions increased from 2019/20 to 2020/21 attributable to an extra 10 vehicles in the assets team as services were brought in house which would lead to less emissions by third parties. MHS also deployed their fleet vehicles to assist with food parcel delivery during the pandemic.

## **Energy Efficiency Actions taken**

A higher budget on a development scheme of 122 units to increase the sustainability measure was agreed with the extra funds being invested in photovoltaics panels and increased insulation that will result in the finished schemes having a SAP rating level "A" and therefore being net zero carbon. During the year over 90% of new units completed were at SAP rating "B". It was also agreed that all new properties approved would have a SAP rating of at least "B"

Software was purchased in January 2021 to enable **the Group** to understand, analyse and report upon its energy related data with a high level of confidence in order to inform its new Sustainability and Asset Management Strategy. These will be the foundation of our approach to meeting the minimum SAP "C" rating by 2030 and Net Zero Carbon by 2050. Data will be processed in order to identify, down to property level, the required works (and estimated costs) to meet our sustainability targets. In 2020/21 MHS completed a number of planned maintenance programmes. These included: -

- the replacement of 501 gas boilers over 15 years old with more energy efficient models.
- 95 roof replacements with additional insulation.
- replacement of 64 double-glazed windows and 100 existing front doors replaced with insulated composite doors.

Overall, the work increased the average SAP rating on our properties from 68 to 70 ensuring that our average SAP rating is now with level "C" with 4,574 properties being at "C" or above.

## **Statement of Internal Control**

The Board has overall responsibility for establishing and maintaining the whole system of internal control for the organisation and for reviewing its effectiveness. The Board recognises that no system of internal control can provide absolute assurance against material misstatement or loss or eliminate all risk of failure to achieve business objectives. The system of internal control is designed to manage key risks and to provide reasonable assurance that planned business objectives and outcomes are achieved. It also exists to give reasonable assurance about the preparation and reliability of financial and operational information and the safeguarding of **the Group's** assets and interest.

Whilst **mhs homes** is not a registered provider, our subsidiary, Heart of Medway Housing Association, is registered with the Regulator of Social Housing (RSH). In accordance with the RSH regulatory framework, **mhs homes** must ensure Heart of Medway complies with the regulatory requirements. The focus on financial controls extends to the commitment of resources for monitoring operations, compliance testing, reputational risk evaluation and a wide range of risk management activities. This has included stress-testing of different scenarios and the creation of an Assets & Liabilities Register. Self-assessments against the Governance and Viability Standard has found that the Heart of Medway is compliant. In meeting its responsibilities, the Board has adopted a risk-based approach to internal controls which is embedded within the normal management and governance processes. This approach includes the regular evaluation of the nature and extent of risks to which **the Group** is exposed and is consistent with Turnbull guidelines.

**The Group** has adopted the National Housing Federations Code of Governance and is compliant to it.

The process adopted by the Board in reviewing the effectiveness of the system of internal controls, together with some key elements of the controls framework, includes the items listed below:

### **Identification and evaluation of key risks**

Management responsibility has been clearly defined for identification, evaluation and control of significant risks through the Risk Management Strategy. This puts in place a formal and on-going process of management review for all areas of **the Group's** activities. The Leadership Team regularly reviews and receives reports on significant risks facing the organisation and the Chief Executive is responsible for reporting to the Finance Risk and Audit Committee and the Board any significant changes affecting key risks.

### **Control environment and control procedures**

The Board retains responsibility for a defined range of matters covering strategic, operational, and financial and compliance issues, including treasury strategy and large new investment projects. The Board has adopted and disseminated to all employees a code of conduct for employees. This sets out **the Group's** policies regarding the quality, integrity and ethics of its employees. It is supported by a framework of policies and procedures with which employees must comply. These cover issues such as delegated authority, segregation of duties, accounting, treasury management, health and safety, data and asset protection, and fraud prevention and detection.

### **Information and financial reporting systems**

The Board approves a long-term financial plan and limits on investment in its various activities on an annual basis that link through to the strategic plan. This is agreed in three year cycles but is updated and reviewed regularly. Financial reporting procedures include detailed budgets for the year ahead, management accounts produced monthly and forecasts for the remainder of the financial year. These are reviewed in various levels of detail by appropriate colleagues and in summary on a quarterly basis by the Board. The Board also regularly reviews progress towards the achievement of key business objectives, targets and outcomes.

### **Fraud**

The Board has a policy on fraud covering prevention, detection and reporting of fraud and the recovery of assets. A register is maintained of any frauds or potential frauds. The Finance, Risk and Audit Committee reviews the fraud register at each meeting and has taken the results of these reviews into account in its report to the Board.

### **Anti-bribery Policy Statement**

We seek to maintain the highest standards of ethics and integrity in the way we conduct our business. We recognise that bribery and corruption, in all forms, are illegal and unacceptable. Our Anti-bribery Policy Statement has been integrated into our code of conduct and our gifts and hospitality policy, adopted by the Board, and made available on our intranet.

### **Audit assurance**

A summary of all internal reports and the resultant actions are reported to the Finance, Risk and Audit Committee during the year. The Business Assurance Manager, has direct access to the Finance, Risk and Audit Committee and presents the Audit Reports.

An audit plan was agreed by the Committee for 2020/21 and was completed in full apart from the audit on Waste Management that is in progress and will be completed in Q1 of 2021/22. Out of the 16 completed audits, none were issued with limited assurance although there have been high priority recommendations to address the control environment.

The internal audit service is co-sourced between the Business Assurance Manager, who is a Chartered Auditor, with the audit contractor, RSM-UK. During the year they have undertaken 3 internal audit reviews on Core Financial Systems, Empty Homes and Rents Income as well supporting the Business Assurance Manager in providing assurance, support and advice to the Organisation.

The Committee met 5 times during the financial year and considered internal control and risk at each of its meetings.

BDO LLP provides external auditing services. This service was tendered in 2019. The Board receives a memorandum from the external auditors identifying any internal control weaknesses that may have come to their attention in the course of their duties. This letter is considered by the Finance Risk and Audit Committee and the Board. The Committee met with the internal and external auditors during the year without the presence of any paid colleagues or executive directors. The Committee conducts an annual review of the effectiveness of the system of internal control and takes account of any changes that may be needed to maintain the effectiveness of the risk management and control process. The Committee makes an annual report to the Board, which the Board has received.

## **Financial Controls**

On behalf of the Board, the Finance Risk and Audit Committee has reviewed the effectiveness of the system of internal control, which operated across the Group for the year ended 31 March 2020. Recognising the importance of this Committee, the membership includes two independent committee members. The Chair is also a non-executive director on the Group Board. The system of internal financial control includes:

- The operation of formal policies and procedures, including the documentation of key systems and processes recorded in Financial Regulations, Standing Orders and Delegated Arrangements which enables the monitoring of controls and restricts the unauthorised use of assets. Regular reviews take place to ensure that procurement takes place in a manner that complies with Financial Regulations and Delegated Arrangements.
- A proactive approach to fraud based on prevention and detection rather than being reactive to frauds that have taken place. An Anti-Fraud and Corruption Policy is in place, which is reviewed and approved by the Group Board. A fraud risk register is incorporated within the Risk Management Framework and controls are monitored regularly. The organisation has a whistleblowing policy encouraging colleagues to raise issues of malpractice or irregularities which are investigated independently under the Public Interest Disclosure Act. The Finance Risk and Audit Committee also receive reports if issues are raised.
- Suitably qualified and experienced colleagues take responsibility for important business functions. Each service receives a Performance Review Board appraisal by the Executive Team every six months to review risk, performance and service delivery. Budgets and forecasts are prepared and reviewed on a systematic basis, which enables the Board and management to monitor the key business risks, financial performance and track progress against targets. All major new initiatives, commitments and investment projects are subject to formal authorisation procedures, through relevant committees comprising Board members and other suitably experienced and qualified executives.

## **Other external sources of advice and evaluation**

The Board has at its disposal a wide range of independent external sources of advice to validate control mechanisms, verify performance and report on findings. Quality assurance is assessed through the regular renewal of ISO and Customer Service Excellence standards. **The Group's** commitment to drive improvement by listening to customers is supported by the use of various methods to measure customer insight and satisfaction including Net Promoter Score and Net Emotional Value, which are subject to annual audit. Ad-hoc advice on legal issues is provided by Trowers & Hamlin, who are leading lawyers in the sector. Other expert professionals are engaged from time to time; for example, Savills and JLL advises on matters of stock valuation.

## **Performance indicators**

Reports are presented to the Board covering key performance indicators across the activities of **the Group**. These are subject to a continuous review to reflect current targets and business priorities. Reports cover progress against the annual business plan, budget performance information, treasury management, equal opportunities, employee sickness and absence, colleagues' turnover, housing statistics, health and safety and customer complaints.

The Board of **mhs homes** confirms there were no material failures in its control environment, and an effective control framework has been in place for the 2020/21 year and up until the adoption of these accounts.



## **Independent Auditor's Report to the Members of mhs homes limited**

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Charitable Company's affairs as at 31 March 2021 and of the Group's incoming resources and application of resources and the Parent Charitable Company's incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of mhs homes limited ("the Parent Charitable Company") and its subsidiaries ("the Group") for year ended 31 March 2021 which comprise the consolidated and Parent Charitable Company statement of financial activities, the consolidated and Parent Charitable Company balance sheet, the consolidated cash flow statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Independence*

We remain independent of the Group and Parent Charitable Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### **Conclusions related to going concern**

In auditing the financial statements, we have concluded that the Trustees' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and the Parent Charitable Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Trustees with respect to going concern are described in the relevant sections of this report.

## **Other information**

The Trustees are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The other information comprises: the Trustees' Report, the Strategic Report, Value for Money and Assessment of the Effectiveness of Internal Controls. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## **Other Companies Act 2006 reporting**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Trustees' Report, which includes the Directors' Report and the Strategic report prepared for the purposes of Company Law, for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' Report, which are included in the Trustees' report, have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Parent Charitable Company and its environment obtained in the course of the audit, we have not identified material misstatement in the Strategic report or the Trustee's report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion;

- adequate accounting records have not been kept by the Parent Charitable Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Charitable Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

## **Responsibilities of Trustees**

As explained more fully in the Trustees' responsibilities statement, the Trustees (who are also the directors of the charitable company for the purposes of company law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Trustees determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustees are responsible for assessing the Group's and the Parent Charitable Company'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 the Trustees either intend to liquidate the Group or the Parent Charitable Company or to cease operations, or have no realistic alternative but to do so.

## **Auditor's responsibilities for the audit of the financial statements**

We have been appointed as auditor under the Companies Act 2006 and report in accordance with the Act and relevant regulations made or having effect thereunder.

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

### *Extent to which the audit was capable of detecting irregularities, including fraud*

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Based on our understanding of the Group and the industry in which it operates, we identified that the principal laws and regulations that directly affect the financial statements to be the Companies Act 2006, Charities Act 2011 and relevant Tax Legislation. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

In addition, 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. We identified the following areas as those most likely to have such an effect: Employment Law, Data Protection and Health and Safety Legislation. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Board and other management and inspection of regulatory and legal correspondence if any.

Audit procedures capable of detecting irregularities including fraud performed by the engagement team included:

- Performing analytical procedures to identify unusual or unexpected relationships that may indicate risks of material misstatement due to fraud. Areas of identified risk are


- then tested substantively;
- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
  - Reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC and relevant regulators to identify any actual or potential frauds or any potential weaknesses in internal control which could result in fraud susceptibility;
  - Reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations;
  - Reviewing items included in the fraud register;
  - Challenging assumptions made by management in their significant accounting estimates, in particular in relation to the recoverable amount of assets and the assumptions used in determining the defined benefit obligation;
  - Carrying out detailed testing, on a sample basis, of transactions and balances agreeing to appropriate documentary evidence to verify the completeness, existence and accuracy of the reported financial statements; and
  - In addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's ("FRC's") website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### **Use of our report**

This report is made solely to the Charitable Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Charitable Company's members those matters we are required to state to them 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 Charitable Company and the Charitable Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:  
  
C7998D5EC4924F4...  
Elizabeth Kulczycki (Senior Statutory Auditor)  
For and on behalf of BDO LLP, statutory auditor  
Gatwick  
28 July 2021

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

**mhs homes limited**  
**Consolidated Statement of Financial Activity**

<b>mhs homes group</b>	<b>Note</b>	<b>Revaluation reserve 2021 £'000</b>	<b>Unrestricted funds 2021 £'000</b>	<b>Restricted funds 2021 £'000</b>	<b>Total funds 2021 £'000</b>	<b>Total funds 2020 £'000</b>
<b>Income from charitable activities</b>						
Social housing lettings	4	-	52,204	-	52,204	49,869
Supporting People	4	-	-	388	388	388
Other income	4	-	439	-	439	348
Sale of fixed assets	12	-	311	-	311	653
First tranche shared ownership sales	4	-	2,764	-	2,764	13,131
<b>Income from non-social housing activities</b>						
Other	4	-	976	-	976	1,012
<b>Income from investment</b>						
Market rented Properties	4	-	3,352	-	3,352	3,123
Investment income	13	-	31	-	31	33
<b>Total income</b>		<b>-</b>	<b>60,077</b>	<b>388</b>	<b>60,465</b>	<b>68,557</b>
<b>Expenditure on charitable activities</b>						
Social housing lettings	4	-	27,745	-	27,745	29,118
Supporting people	4	-	356	388	744	673
Other expenditure	4	-	502	-	502	427
First tranche shared ownership sales	4	-	2,137	-	2,137	10,905
<b>Expenditure on non-social housing activities</b>						
Other	4	-	484	-	484	476
<b>Expenditure on investment activities</b>						
Market rented properties	4	-	1,018	-	1,018	1,058
<b>Interest and financing costs</b>	14	-	11,412	-	11,412	11,527
<b>Total expenditure</b>		<b>-</b>	<b>43,654</b>	<b>388</b>	<b>44,042</b>	<b>54,184</b>
<b>Net income</b>		<b>-</b>	<b>16,423</b>	<b>-</b>	<b>16,423</b>	<b>14,373</b>
<b>Gain/(Loss) in fair value of: -</b>						
Investments	19	13	-	-	13	(1)
Investment properties	18	-	4,085	-	4,085	(3,069)
<b>Actuarial gain/(loss) on defined benefit pension scheme</b>						
	26	-	1,101	-	1,101	(2,207)
<b>Net movement in funds</b>		<b>13</b>	<b>21,609</b>	<b>-</b>	<b>21,622</b>	<b>9,096</b>
Total funds brought forward		212,515	106,538	-	319,053	309,957
<b>Total funds carried forward</b>		<b>212,528</b>	<b>128,147</b>	<b>-</b>	<b>340,675</b>	<b>319,053</b>

All activities relate to continuing operations.

**mhs homes limited**  
**Statements of Comprehensive Income**

<b>mhs homes group</b>	<b>Note</b>	<b>Total 2021 £'000</b>	<b>Total 2020 £'000</b>
Turnover	4	<b>60,123</b>	67,871
Cost of sales	4	<b>(2,137)</b>	(10,905)
Operating costs	4	<b>(30,493)</b>	(31,752)
Surplus on disposal of fixed assets	12	<b>311</b>	653
<b>Operating surplus</b>		<b>27,804</b>	25,867
Other interest receivable and similar income	13	<b>31</b>	33
Interest and financing costs	14	<b>(11,412)</b>	(11,527)
Movement in fair value of investments	19	<b>13</b>	(1)
Movement in fair value of investment properties	18	<b>4,085</b>	(3,069)
<b>Surplus before taxation</b>		<b>20,521</b>	11,303
Taxation on surplus	15	-	-
<b>Surplus for the year</b>		<b>20,521</b>	11,303
<b>Actuarial gain/(loss) on defined benefits pension scheme</b>	26	<b>1,101</b>	(2,207)
<b>Total comprehensive income for the financial year</b>		<b>21,622</b>	9,096

<b>mhs homes limited</b>	<b>Note</b>	<b>Total 2021 £'000</b>	<b>Total 2020 £'000</b>
Turnover	4	<b>52,777</b>	60,912
Cost of sales	4	<b>(2,137)</b>	(10,905)
Operating costs	4	<b>(27,677)</b>	(29,173)
Surplus on disposal of fixed assets	12	<b>4</b>	227
<b>Operating surplus</b>		<b>22,967</b>	21,061
Other interest receivable and similar income	13	<b>555</b>	574
Interest and financing costs	14	<b>(11,208)</b>	(11,159)
Movement in fair value of investment properties	18	<b>3,961</b>	(2,837)
<b>Surplus before taxation</b>		<b>16,275</b>	7,639
Taxation on surplus	15	-	-
<b>Surplus for the year</b>		<b>16,275</b>	7,639
<b>Actuarial gain/(loss) on defined benefits pension scheme</b>	26	<b>1,101</b>	(2,207)
<b>Total comprehensive income for the financial year</b>		<b>17,376</b>	5,432

All activities relate to continuing operations.  
The notes on pages 48 to 78 form part of these financial statements.

**mhs homes limited**  
**Statements of Financial Position**

	Note	Group 2021 £'000	Group 2020 £'000	mhs homes 2021 £'000	mhs homes 2020 £'000
<b>Fixed assets</b>					
Tangible fixed asset - housing properties	16	<b>519,868</b>	486,654	<b>417,879</b>	401,340
Tangible fixed assets - other	17	<b>7,715</b>	8,023	<b>1,915</b>	2,078
Investment properties	18	<b>78,904</b>	72,630	<b>73,080</b>	66,930
Investments	19	<b>270</b>	257	-	-
		<b>606,757</b>	567,564	<b>492,874</b>	470,348
<b>Current assets</b>					
Stock and work in progress	20	<b>3,168</b>	2,800	<b>3,168</b>	2,800
Debtors – receivable within one year	21	<b>2,875</b>	2,731	<b>2,559</b>	2,386
Debtors – receivable after one year	21	-	-	<b>13,767</b>	12,610
Short term deposits		<b>1,845</b>	1,630	<b>1,583</b>	1,432
Cash and cash equivalents		<b>36,401</b>	53,457	<b>32,320</b>	39,517
		<b>44,289</b>	60,618	<b>53,397</b>	58,745
<b>Creditors: amounts falling due within one year</b>	22	<b>(20,622)</b>	(21,144)	<b>(18,205)</b>	(20,190)
<b>Net current assets</b>		<b>23,667</b>	39,474	<b>35,192</b>	38,555
<b>Total assets less current liabilities</b>		<b>630,424</b>	607,038	<b>528,066</b>	508,903
<b>Creditors: Amounts falling due after more than one year:</b>					
Loans	23	<b>(279,412)</b>	(276,886)	<b>(269,667)</b>	(267,118)
<b>Net assets excluding pension liability</b>		<b>351,012</b>	330,152	<b>258,399</b>	241,785
Pension liability	26	<b>(10,337)</b>	(11,099)	<b>(10,337)</b>	(11,099)
<b>Net assets</b>		<b>340,675</b>	319,053	<b>248,062</b>	230,686
<b>Capital and reserves</b>					
Income and expenditure reserve		<b>128,147</b>	106,538	<b>35,562</b>	18,186
Revaluation reserve		<b>212,528</b>	212,515	<b>212,500</b>	212,500
		<b>340,675</b>	319,053	<b>248,062</b>	230,686

These financial statements were approved and authorised for issue by the Board on 22nd July 2021 and were signed on its behalf by:



A Hook  
Chief Executive



L Humphrey  
Company Secretary



R Cooper  
Chair

The notes on pages 48 to 78 form part of these financial statements.

**mhs homes limited**  
**Consolidated Statement of Cash Flows**

**mhs homes group**

	<b>Note</b>	<b>2021 £'000</b>	<b>2020 £'000</b>
<b>Cash flows from operating activities</b>			
<b>Surplus for the financial year</b>		<b>20,521</b>	11,303
Adjustments for:			
Depreciation of fixed assets - housing properties	16	<b>5,314</b>	4,938
Loss on disposal of replaced components		<b>168</b>	139
Depreciation of fixed assets - other	17	<b>426</b>	494
Grant received in year		<b>(1,915)</b>	-
Impairment of assets	16	<b>208</b>	94
Interest payable and finance costs		<b>11,412</b>	11,527
Cost element of housing property sales in operating surplus	12	<b>724</b>	652
Decrease /(increase) in fair value of investment properties	18	<b>(4,085)</b>	3,069
Decrease /(increase) in fair value of investments	19	<b>(13)</b>	1
Decrease /(increase) in trade and other debtors		<b>(144)</b>	1,297
Difference between net pension expense and cash contribution		<b>338</b>	514
Decrease in stocks		<b>1,826</b>	9,448
Increase in trade and other creditors		<b>1,880</b>	2,829
Interest received		<b>(31)</b>	(33)
<b>Cash from operations</b>		<b>36,629</b>	46,273
<b>Net cash generated from operating activities</b>		<b>36,629</b>	46,273
<b>Cash flows from investing activities</b>			
Purchase of fixed assets - housing properties	16	<b>(36,171)</b>	(32,510)
Purchase of fixed assets - investment properties	18	<b>(4,605)</b>	(2,638)
Purchases of fixed assets - other	17	<b>(118)</b>	(468)
Major repairs capitalised as components	16	<b>(2,785)</b>	(2,439)
Receipt of grant		<b>1,915</b>	-
Interest received	13	<b>31</b>	33
<b>Net cash from investing activities</b>		<b>(41,733)</b>	(38,022)
<b>Cash flows from financing activities</b>			
Interest paid		<b>(12,248)</b>	(11,827)
New loans	23	<b>10,000</b>	45,000
Repayment of loans	23	<b>(9,000)</b>	(5,575)
<b>Net cash used in financing activities</b>		<b>(11,248)</b>	27,598
<b>Net increase in cash and cash equivalents</b>		<b>(16,352)</b>	35,849
Cash and cash equivalents at beginning of year		<b>55,087</b>	19,238
<b>Cash and cash equivalents at end of year</b>		<b>38,735</b>	55,087

The notes on page 48 to 78 form part of these financial statements.



## **1 Legal status**

mhs homes is a Parent Charitable Company limited by guarantee incorporated in England and a registered charity. The registered office is Broadside, Leviathan Way, Chatham, Kent ME4 4LL. In the event of the charity being wound up the liability in respect of the guarantee is limited to £1 per member. There were nine members at 31 March 2021.

## **2 Accounting policies**

The financial statements have been prepared in accordance with UK accounting standards, including FRS102 and the Charities SORP (FRS 102), the Housing and Regeneration Act 2008, FRS 102 2018, which includes the amendments as a result of the Triennial Review 2017.

Due to the majority activities of the group being social housing the Parent and Group have also chosen to include information required under the Statement of Recommended Practice (SORP) for Registered Social Housing Providers 2018, "Accounting by registered social housing providers 2018" and the Accounting Direction for Private Registered Providers of Social Housing 2019 where it is judged that this information will aid the user of the accounts. The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in applying **the Group's** accounting policies.

mhs homes is a public benefit entity as defined by FRS 102.

The financial statements are prepared in sterling which is the functional currency of **the Group** and rounded to the nearest thousand.

### ***Parent Charity Company disclosure exemptions***

In preparing the separate financial statements of the Parent Charitable Company, advantage has been taken of the following disclosure exemptions available in FRS 102:

- Only one reconciliation of the number of shares outstanding at the beginning and end of the period has been presented as the reconciliations for the group and the Parent Charitable Company would be identical.
- No cash flow statement has been presented for the Parent Charitable Company.
- No disclosure has been given for the aggregate remuneration of the key management personnel of the parent association as their remuneration is included in the totals for **the Group** as a whole.

The following principal accounting policies have been applied:

### ***Basis of consolidation***

The consolidated financial statements present the results of **mhs homes** limited and its subsidiaries (**mhs commercial services, mhs community charity, Chatham Maritime K1 Construction, K1 Development, Lord Kitchener and Heart of Medway**) as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full, mhs homes is required by statute to prepare the Group accounts.

### ***Going Concern***

After reviewing the budget of mhs homes for 2021/22 and a period beyond 12 months from the signing of the accounts, and based on normal business planning and control procedures, the Directors have a reasonable expectation that **mhs homes** has adequate resources to continue in operational existence for the foreseeable future. Future plans assume new borrowing of £55 million and **the Group** has available £70 million of funding across two revolving credit facilities, both fully charged and available to draw. The first of these facilities finishes in 2024 though we plan to put in place long term funding over the next 12 months. We also start the year with substantial cash reserves of £37 million in line with our cautious approach to treasury management

### ***Income***

Income is measured at the fair value of the consideration received or receivable. The group generates the following material income streams:

- Rental income receivable (after deducting lost rent from void properties).
- First and subsequent tranche sales of shared ownership housing properties developed for sale.
- Service charges receivable.
- Capital grants.
- Revenue grants and
- Proceeds from the sale of land and property.

Rental income is recognised from the point when properties under development reach practical completion and are formally let; income from first tranche sales and other property is recognised at the point of legal completion of the sale. Income from revenue and capital grants is recognised when the conditions of the grant are met.

### ***Supported housing schemes***

**The Group** receives Supporting People grants from Medway Council. The grants receivable in the period as well as costs incurred by **the Group** in the provision of support services have been included in the Income and Expenditure Account.

### ***Social Housing Grant***

Where developments have been financed wholly or partly by social housing grant the amount of grant received has been included as income and recognised in turnover when it becomes receivable. Where social housing grant funded property is sold, the grant become recyclable and is transferred to a recycled capital grant fund until reinvested in a replacement property.

### ***Service charges***

**The Group** operates both the variable and fixed method for calculating and charging service charges to its tenants and leaseholders. Where variable service charges are used expenditure is recorded when a service is provided and charged to the relevant service charge account or to a sinking fund. Income is recorded based on the estimated amounts chargeable.

### ***Management of units owned by others***

Management fees receivable and reimbursed expenses are shown as income and included in other income. Costs of carrying out the management contracts and rechargeable expenses are included in operating costs.

### ***Taxation***

The charge for taxation is based on surpluses arising from non – charitable group companies for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes, to the extent that an asset or liability is expected to be payable or recoverable in the foreseeable future. An amount of taxable profit from the period before charitable status was confirmed was paid over to the subsidiary Heart of Medway and Charity as a qualifying charitable donation.

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company's subsidiaries operate and generate taxable income.

Deferred balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- Where timing differences relate to interests in subsidiaries, associates, branches and joint ventures and **the Group** can control their reversal and such reversal is not considered probable in the foreseeable future.

### ***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 expenditure. The financial statements include VAT to the extent that it is suffered by **the Group** and not recoverable from HM Revenue and Customs. Recoverable VAT arises from partially exempt activities and is credited to the Statement of Comprehensive Income.

### ***Finance costs***

Finance costs are charged to profit or loss over the term of the debt using the effective interest rate method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

### ***Pension costs***

The Group participates in two schemes.

Contributions to **the Group's** defined contribution pension scheme are charged to profit or loss in the year which they become payable. Contributions to the Group's defined benefit pension scheme are determined using actuarial valuations so as to spread the cost of pensions over employees' working lives and are based on triennial valuations. Details of the pension costs are disclosed in Note 26.

The difference between the fair value of the assets held in the group's defined benefit pension scheme and the scheme's liabilities measured on an actuarial basis using the projected unit method are recognised in the group's balance sheet as a pension asset or liability as appropriate. The carrying value of any resulting pension scheme asset is restricted to the extent that **the Group** is able to recover the surplus either through reduced contributions in the future or through refunds from the scheme.

### ***Holiday pay accrual***

A liability is recognised to the extent of any unused holiday pay entitlement which has accrued at the balance sheet date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the balance sheet date.

### **Tangible fixed assets**

#### ***Social housing properties***

Social housing properties constructed or acquired (including land) on the open market since the date of transition to FRS 102 are stated at cost less depreciation and impairment (where applicable). The cost of social housing land and property represents their purchase price and any directly attributable costs of acquisition which may include an appropriate amount for colleagues' costs and other costs of managing development. Directly attributable costs of acquisition include capitalised interest calculated, on a proportional basis. Where housing properties are under construction, finance costs are only capitalised where construction is on-going and has not been interrupted or terminated. Social housing properties in the course of construction, excluding the estimated cost of the element of shared ownership properties expected to be sold in first tranche, are included in properties under construction and held at cost less any impairment, and are transferred to completed properties when ready for letting

#### ***Deemed cost on transition to FRS 102 for Social housing properties***

On transition to FRS 102 **the Group** took the option of carrying out a one-off valuation exercise of selected items of social housing properties and using that amount as deemed cost. To determine the deemed cost at 1 April 2014, **the Group** engaged independent valuation specialist Savills to value social housing properties on a EUV-SH basis. Social housing properties are subsequently measured at cost less depreciation.

Any difference between historic cost depreciation and depreciation calculated on deemed cost is transferred between the revaluation reserve and income and expenditure reserve.

***Depreciation of social housing property***

Social Housing land and property is split between land, structure and other major components that are expected to require replacement over time. Land is not depreciated on account of its indefinite useful economic life. The structure and other major components are depreciated over the determined average useful economic life as follows:

<b>Description</b>	<b>Economic useful life (years)</b>
Structure – houses	100
Structure – flats	65
Kitchen	20
Bathroom and new central heating	30
Roofs	50
Boiler	15
Electrics	30
External windows & cold water mains	30
Fire door external	30
Adaptions	20
Shared ownership – flats	65
Shared ownership – houses	100

The costs of replacement or restoration of these components are capitalised and depreciated over the same average useful economic life. Assets under construction are not depreciated until they are completed and ready for use to ensure that they are depreciated only in periods in which economic benefits are expected to be consumed.

***Shared ownership properties and staircasing***

Under shared ownership arrangements, **the Group** disposes of a long lease to the occupier; the lease premium paid is for between 25% and 75% of the value. The occupier has the right to purchase further proportions up to 100% based on the market valuation of the property at the time each purchase transaction is completed. A shared ownership property comprises two assets: that to be disposed of in the first tranche sale, which is recorded as a current asset and stated at the lower of cost and net realisable value; and that retained by **the Group**, which is recorded as a fixed asset in the same manner as for general needs housing properties. Proceeds of sale for first tranches are accounted for as turnover in the income and expenditure account, with the apportioned cost being shown as cost of sales within operating results. Subsequent tranches sold ("staircasing") are reflected in the statement of comprehensive income as a surplus or deficit on sale of housing properties.

***Allocation of costs for mixed tenure and shared ownership developments***

Costs are allocated to the appropriate tenure where it is possible to specify which tenure the expense relates to. Where it is not possible to relate costs to a specific tenure costs are allocated on a floor area or unit basis depending on the appropriateness for each scheme.

***Tangible fixed assets – other***

Other tangible fixed assets, other than investment properties, are stated at historical cost less accumulated depreciation and any accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

**The Group** adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred if the replacement part is expected to provide incremental future benefits to the group. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

### ***Depreciation of other tangible fixed assets***

Land is not depreciated. Depreciation on other assets is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives range as follows:

<b>Description</b>	<b>Economic useful life (years)</b>
Freehold premises	50
Fixtures and fittings	1-5
Other offices	50

### ***Recycled Capital Grant Fund***

On the occurrence of certain relevant events, primarily the sale of dwellings, Homes England can direct **the Group** to recycle capital grants or to make repayments of the recoverable amount. The Group adopts a policy of recycling, for which a separate fund is maintained. If unused within a three year period, it will be repayable to Homes England with interest. Any unused recycled capital grant held within the recycled capital grant fund, which it is anticipated will not be used within one year is disclosed in the balance sheet under "creditors due after more than one year". The remainder is disclosed under "creditors due within one year".

### ***Investment properties***

Investment properties consist of market rented properties, part of the head office rented to other organisations and other properties not held for social benefit. Investment properties are measured at fair value determined by external valuers in February 2020 and amended during the year based on movement in the Land Registry. No depreciation is provided. Changes in fair value are recognised in the statement of comprehensive income. Investment properties under construction are carried at cost.

### ***Allocation of costs for mixed tenure and shared ownership developments***

Costs are allocated to the appropriate tenure where it is possible to specify which tenure the expense relates to. Where it is not possible to relate costs to a specific tenure costs are allocated on a floor area or unit basis depending on the appropriateness for each scheme.

### ***Stock***

Stock represents work in progress and completed properties, including housing properties developed for transfer to other registered providers and shared ownership properties. For shared ownership properties the value held as stock is the estimated cost to be sold as a first tranche.

Materials are stated at the lower of cost and net realisable value. Cost comprises of materials and direct development overheads. Net realisable value is based on estimated sales proceeds after allowing for all further costs to completion and selling costs.

### ***Debtors and creditors***

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the income statement in other operating expenses.

### ***Recoverable amount of rental and other trade receivables***

**The Group** estimates the recoverable value of rental and other receivables and impairs the debtor by appropriate amounts. When assessing the amount to impair it reviews the age profile of the debt, historical collection rates and the class of debt.

### ***Cash and cash equivalents***

Cash and cash equivalents in the Statement of Financial Position consists of cash at bank, in hand, deposits and short term investments with an original maturity of three months or less.

### ***Loans and short-term deposits***

All loans and short term deposits held by **the Group** are classified as basic financial instruments in accordance with FRS 102. These instruments are initially recorded at the transaction price less any transaction costs (historic cost), FRS 102 requires that basic financial instruments are subsequently measured at amortised cost, however **the Group** determined that the difference between the historic cost and amortised cost is not material and so these financial instruments are stated on the balance sheet at historic cost. Loans and investments which are payable or receivable within one year are not discounted.

### ***Financial liabilities and equity***

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form.

### ***Leased assets: lessee***

All leases are treated as operating leases. Their annual rentals are charged to profit or loss on a straight-line basis over the term of the lease. A review of all leases has been carried out and there are no finance leases.

### ***Leasehold sinking funds***

Unexpended amounts collected from leaseholders for major repairs on leasehold schemes and any interest received are included in creditors.

### ***Reserves***

Income received, and expenditure incurred, for restricted purposes is separately accounted for within restricted funds. Realised and unrealised gains and losses on assets held by these funds are also allocated to the fund. The revaluation reserve is created from surpluses on asset revaluation. Unrestricted reserves are subject to specific conditions imposed by the donors and are within the objectives of the Charity. The funds are transferred to the unrestricted when the specific requirements of the income are satisfied.

## **3 Judgements in applying accounting policies and key sources of estimation uncertainty**

In preparing these financial statements, the key judgements have been made in respect of the following:

Whether there are indicators of impairment of **the Group's** tangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit.

- Whether leases entered into by **the Group** either as a lessor or a lessee are operating or lease or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.
- The categorisation of housing properties as investment properties or property, plant and equipment based on the use of the asset.
- What constitutes a cash generating unit when indicators of impairment require there to be an impairment review.

*Other key sources of estimation uncertainty.*

- *Tangible fixed assets (see note 16 and 17)*

Tangible fixed assets, other than investment properties, 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. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values. For housing property assets, the assets are broken down into components based on management's assessment of the properties. Individual useful economic lives are assigned to these components.

**The Group's** market rented investment properties are measured at cost on initial recognition and subsequently carried at fair value determined by external valuers in February 2020 and amended during the year based on movement in the Land Registry.

The anticipated costs to complete on a development scheme based on anticipated construction cost, effective rate of interest on loans during the construction period, legal costs and other costs. Based on the costs to complete, they then determine the recoverability of the cost of properties developed for outright sale and/or land held for sale. This judgement is also based on the member's best estimate of sales value based on economic conditions within the area of the development.

The appropriate allocation of costs for mixed tenure developments, and furthermore the allocation of costs relating to shared ownership between current and fixed assets.

The Director's considered the measurement basis to determine the recoverable amount of assets where there are indicators of impairment based on EUV-SH or depreciated replacement cost. The members have also considered impairment based on their assumptions to define cash or asset generating units.

- *Rental and other trade receivables (debtors) (see note 21)*

The estimate for receivables relates to the recoverability of the balances outstanding at year end. A review is performed on an individual debtor basis to consider whether each debt is recoverable.

- *Valuation of pension scheme (see note 26)*

The estimates have been informed by an actuary and are presented in note 26. The note sets out the assumptions used by the actuary in determining the assets and liabilities of the pension scheme.

The critical underlying assumptions in relation to the estimate of the pension defined benefit scheme obligation such as standard rates of inflation, mortality, discount rate and anticipated future salary increases. Variations in these assumptions have the ability to significantly influence the value of the liability recorded and annual defined benefit expense.

**4 Particulars of turnover, cost of sales, operating costs and operating surplus**

<b>mhs homes group</b>	<b>Turnover</b>	<b>Cost of sales</b>	<b>Sale of fixed assets</b>	<b>Operating costs</b>	<b>Operating surplus/ (deficit)</b>
	<b>2021</b>	<b>2021</b>	<b>2021</b>	<b>2021</b>	<b>2021</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Social housing lettings (Note 5)</b>	<b>52,204</b>	<b>-</b>	<b>-</b>	<b>(27,745)</b>	<b>24,459</b>
<b>Other social housing activities</b>					
First tranche shared ownership sales	<b>2,764</b>	<b>(2,137)</b>	<b>-</b>	<b>-</b>	<b>627</b>
Development	<b>-</b>	<b>-</b>	<b>-</b>	<b>(220)</b>	<b>(220)</b>
Supporting people	<b>388</b>	<b>-</b>	<b>-</b>	<b>(744)</b>	<b>(356)</b>
Foyers	<b>287</b>	<b>-</b>	<b>-</b>	<b>(203)</b>	<b>84</b>
Managed properties	<b>59</b>	<b>-</b>	<b>-</b>	<b>(79)</b>	<b>(20)</b>
<b>Charitable activities</b>	<b>55,702</b>	<b>(2,137)</b>	<b>-</b>	<b>(28,991)</b>	<b>24,574</b>
<b>Activities other than social housing activities</b>					
Market rented properties	<b>3,352</b>	<b>-</b>	<b>-</b>	<b>(1,018)</b>	<b>2,334</b>
Other income	<b>93</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>93</b>
Other properties and commercial activities	<b>976</b>	<b>-</b>	<b>-</b>	<b>(484)</b>	<b>492</b>
<b>Non charitable activities</b>	<b>4,421</b>	<b>-</b>	<b>-</b>	<b>(1,502)</b>	<b>2,919</b>
<b>Surplus on disposal of Fixed Assets</b>	<b>-</b>	<b>-</b>	<b>311</b>	<b>-</b>	<b>311</b>
	<b>60,123</b>	<b>(2,137)</b>	<b>311</b>	<b>(30,493)</b>	<b>27,804</b>
<b>mhs homes group</b>	<b>Turnover</b>	<b>Cost of sales</b>	<b>Sale of fixed assets</b>	<b>Operating costs</b>	<b>Operating surplus/ (deficit)</b>
	<b>2020</b>	<b>2020</b>	<b>2020</b>	<b>2020</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Social housing lettings (Note 5)</b>	<b>49,869</b>	<b>-</b>	<b>-</b>	<b>(29,118)</b>	<b>20,751</b>
<b>Other social housing activities</b>					
First tranche shared ownership sales	<b>13,131</b>	<b>(10,905)</b>	<b>-</b>	<b>-</b>	<b>2,226</b>
Development	<b>-</b>	<b>-</b>	<b>-</b>	<b>(142)</b>	<b>(142)</b>
Supporting people	<b>388</b>	<b>-</b>	<b>-</b>	<b>(673)</b>	<b>(285)</b>
Foyers	<b>290</b>	<b>-</b>	<b>-</b>	<b>(221)</b>	<b>69</b>
Managed properties	<b>58</b>	<b>-</b>	<b>-</b>	<b>(64)</b>	<b>(6)</b>
<b>Charitable activities</b>	<b>63,736</b>	<b>(10,905)</b>	<b>-</b>	<b>(30,218)</b>	<b>22,613</b>
<b>Activities other than social housing activities</b>					
Market rented properties	<b>3,123</b>	<b>-</b>	<b>-</b>	<b>(1,058)</b>	<b>2,065</b>
Charity projects	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Other properties and commercial activities	<b>1,012</b>	<b>-</b>	<b>-</b>	<b>(476)</b>	<b>536</b>
<b>Non charitable activities</b>	<b>4,135</b>	<b>-</b>	<b>-</b>	<b>(1,534)</b>	<b>2,601</b>
<b>Surplus on disposal of Fixed Assets</b>	<b>-</b>	<b>-</b>	<b>653</b>	<b>-</b>	<b>653</b>
	<b>67,871</b>	<b>(10,905)</b>	<b>653</b>	<b>(31,752)</b>	<b>25,867</b>



**4 Particulars of turnover, cost of sales, operating costs and operating surplus (continued)**

<b>mhs homes limited</b>	<b>Turnover</b>	<b>Cost of Sales</b>	<b>Sale of fixed assets</b>	<b>Operating costs</b>	<b>Operating surplus/ (deficit)</b>
	<b>2021</b>	<b>2021</b>	<b>2021</b>	<b>2021</b>	<b>2021</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Social housing lettings (Note 5)</b>	<b>45,749</b>	<b>-</b>	<b>-</b>	<b>(25,569)</b>	<b>20,180</b>
<b>Other social housing activities</b>					
First tranche shared ownership sales	2,764	(2,137)	-	-	627
Development	-	-	-	(220)	(220)
Supporting people	188	-	-	(420)	(232)
Managed properties	59	-	-	(79)	(20)
<b>Charitable activities</b>	<b>48,760</b>	<b>(2,137)</b>	<b>-</b>	<b>(26,288)</b>	<b>20,335</b>
<b>Activities other than social housing</b>					
Market rented properties	3,184	-	-	(905)	2,279
Other income	83	-	-	-	83
Other properties and commercial	750	-	-	(484)	266
<b>Non charitable activities</b>	<b>4,017</b>	<b>-</b>	<b>-</b>	<b>(1,389)</b>	<b>2,628</b>
<b>Surplus on disposal of Fixed Assets</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>-</b>	<b>4</b>
	<b>52,777</b>	<b>(2,137)</b>	<b>4</b>	<b>(27,677)</b>	<b>22,967</b>

<b>mhs homes limited</b>	<b>Turnover</b>	<b>Cost of Sales</b>	<b>Sale of fixed assets</b>	<b>Operating costs</b>	<b>Operating surplus/ (deficit)</b>
	<b>2020</b>	<b>2020</b>	<b>2020</b>	<b>2020</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Social housing lettings (Note 5)</b>	<b>43,798</b>	<b>-</b>	<b>-</b>	<b>(27,138)</b>	<b>16,660</b>
<b>Other social housing activities</b>					
First tranche shared ownership sales	13,131	(10,905)	-	-	2,226
Development	-	-	-	(142)	(142)
Supporting people	188	-	-	(356)	(168)
Managed properties	58	-	-	(64)	(6)
<b>Charitable activities</b>	<b>57,175</b>	<b>(10,905)</b>	<b>-</b>	<b>(27,700)</b>	<b>18,570</b>
<b>Activities other than social housing</b>					
Market rented properties	2,945	-	-	(997)	1,948
Other properties and commercial	792	-	-	(476)	316
<b>Non charitable activities</b>	<b>3,737</b>	<b>-</b>	<b>-</b>	<b>(1,473)</b>	<b>2,264</b>
<b>Surplus on disposal of Fixed Assets</b>	<b>-</b>	<b>-</b>	<b>227</b>	<b>-</b>	<b>227</b>
	<b>60,912</b>	<b>(10,905)</b>	<b>227</b>	<b>(29,173)</b>	<b>21,061</b>

**Qualifying charitable donations**

A charitable donation was made from K1 Construction to mhs homes of nil (2020: nil).

**5 Income and expenditure from social housing lettings**

<b>mhs homes group</b>	<b>Affordable rent £'000</b>	<b>General needs £'000</b>	<b>Supported housing £'000</b>	<b>Shared ownership £'000</b>	<b>Total 2021 £'000</b>	<b>Total 2020 £'000</b>
<b>Income</b>						
Rents net of identifiable service charges*	<b>4,582</b>	<b>40,493</b>	<b>2,679</b>	<b>2,003</b>	<b>49,757</b>	47,522
Service charge income	<b>119</b>	<b>66</b>	<b>-</b>	<b>262</b>	<b>447</b>	411
Grant received	<b>93</b>	<b>1,802</b>	<b>-</b>	<b>21</b>	<b>1,916</b>	1,826
Other income	<b>-</b>	<b>80</b>	<b>4</b>	<b>-</b>	<b>84</b>	110
<b>Turnover from social housing lettings</b>	<b>4,794</b>	<b>42,441</b>	<b>2,683</b>	<b>2,286</b>	<b>52,204</b>	49,869
<b>Expenditure</b>						
Management	<b>(525)</b>	<b>(4,350)</b>	<b>(608)</b>	<b>(161)</b>	<b>(5,644)</b>	(5,513)
Service charge costs	<b>(188)</b>	<b>(1,577)</b>	<b>(531)</b>	<b>(397)</b>	<b>(2,693)</b>	(2,694)
Routine maintenance	<b>(306)</b>	<b>(4,941)</b>	<b>(271)</b>	<b>(4)</b>	<b>(5,522)</b>	(5,523)
Planned maintenance	<b>(390)</b>	<b>(4,718)</b>	<b>(811)</b>	<b>(1)</b>	<b>(5,920)</b>	(5,527)
Major repairs	<b>(208)</b>	<b>(1,264)</b>	<b>(223)</b>	<b>-</b>	<b>(1,695)</b>	(4,261)
Bad debts	<b>(66)</b>	<b>(467)</b>	<b>(29)</b>	<b>(14)</b>	<b>(576)</b>	(400)
Depreciation of housing properties:						
- annual charge	<b>(656)</b>	<b>(4,248)</b>	<b>-</b>	<b>(415)</b>	<b>(5,319)</b>	(4,967)
- impairment	<b>-</b>	<b>(208)</b>	<b>-</b>	<b>-</b>	<b>(208)</b>	(94)
- accelerated on disposal of components	<b>(3)</b>	<b>(165)</b>	<b>-</b>	<b>-</b>	<b>(168)</b>	(139)
<b>Operating expenditure on social housing lettings</b>	<b>(2,342)</b>	<b>(21,938)</b>	<b>(2,473)</b>	<b>(992)</b>	<b>(27,745)</b>	(29,118)
<b>Operating surplus on social housing lettings</b>	<b>2,452</b>	<b>20,503</b>	<b>210</b>	<b>1,294</b>	<b>24,459</b>	20,751
<b>Void losses</b>	<b>(57)</b>	<b>(333)</b>	<b>(90)</b>	<b>(4)</b>	<b>(484)</b>	(380)

\*Rents disclosed in mhs homes are inclusive of service charges.

**5 Income and expenditure from social housing lettings**

<b>mhs homes limited</b>	<b>Affordable rent £'000</b>	<b>General needs £'000</b>	<b>Supported housing £'000</b>	<b>Shared ownership £'000</b>	<b>Total 2021 £'000</b>	<b>Total 2020 £'000</b>
<b>Income</b>						
Rents net of identifiable service charges*	<b>2,142</b>	<b>39,735</b>	<b>2,679</b>	<b>1,109</b>	<b>45,665</b>	43,689
Grant	-	-	-	-	-	-
Other income	-	<b>80</b>	<b>4</b>	-	<b>84</b>	109
<b>Turnover from social housing lettings</b>	<b>2,142</b>	<b>39,815</b>	<b>2,683</b>	<b>1,109</b>	<b>45,749</b>	43,798
<b>Expenditure</b>						
Management	<b>(197)</b>	<b>(4,639)</b>	<b>(609)</b>	<b>(122)</b>	<b>(5,567)</b>	(5,549)
Service charge costs	<b>(65)</b>	<b>(1,509)</b>	<b>(531)</b>	<b>(135)</b>	<b>(2,240)</b>	(2,289)
Routine maintenance	<b>(227)</b>	<b>(4,903)</b>	<b>(272)</b>	-	<b>(5,402)</b>	(5,337)
Planned maintenance	<b>(212)</b>	<b>(4,705)</b>	<b>(812)</b>	-	<b>(5,729)</b>	(5,373)
Major repairs	<b>(54)</b>	<b>(1,263)</b>	<b>(223)</b>	-	<b>(1,540)</b>	(4,169)
Bad debts	<b>(17)</b>	<b>(458)</b>	<b>(29)</b>	<b>(12)</b>	<b>(516)</b>	(360)
Depreciation of housing properties:						
- annual charge	-	<b>(3,966)</b>	-	<b>(236)</b>	<b>(4,202)</b>	(3,846)
- impairment	-	<b>(208)</b>	-	-	<b>(208)</b>	(94)
- accelerated on disposal of components	-	<b>(165)</b>	-	-	<b>(165)</b>	(121)
<b>Operating expenditure on social housing lettings</b>	<b>(772)</b>	<b>(21,816)</b>	<b>(2,476)</b>	<b>(505)</b>	<b>(25,569)</b>	(27,138)
<b>Operating surplus on social housing lettings</b>	<b>1,370</b>	<b>17,999</b>	<b>207</b>	<b>604</b>	<b>20,180</b>	16,660
<b>Void losses</b>	<b>(15)</b>	<b>(327)</b>	<b>(90)</b>	-	<b>(432)</b>	(357)

\*Rents charged in mhs homes are inclusive of service charges.

## 6 Expenditure on charitable activities

mhs homes group	Depreciation and amortisation		Direct activities		Support and governance costs		Total	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000
General needs	(5,281)	(4,703)	(13,812)	(14,684)	(5,185)	(5,167)	(24,278)	(24,554)
Supported housing	-	(213)	(2,068)	(3,123)	(408)	(422)	(2,476)	(3,758)
Shared ownership	(415)	(361)	(359)	(235)	(217)	(210)	(991)	(806)
<b>Social housing lettings</b>	<b>(5,696)</b>	<b>(5,277)</b>	<b>(16,239)</b>	<b>(18,042)</b>	<b>(5,810)</b>	<b>(5,799)</b>	<b>(27,745)</b>	<b>(29,118)</b>
Supporting People	-	-	(744)	(673)	-	-	(744)	(673)
Other expenditure	-	-	(502)	(427)	-	-	(502)	(427)
<b>Total charitable expenditure included in operating costs</b>	<b>(5,696)</b>	<b>(5,277)</b>	<b>(17,485)</b>	<b>(19,142)</b>	<b>(5,810)</b>	<b>(5,799)</b>	<b>(28,991)</b>	<b>(30,218)</b>
First Tranche shared ownership sales	-	-	(2,137)	(10,905)	-	-	(2,137)	(10,905)
<b>Operating surplus on social housing lettings</b>	<b>(5,696)</b>	<b>(5,277)</b>	<b>(19,622)</b>	<b>(30,047)</b>	<b>(5,810)</b>	<b>(5,799)</b>	<b>(31,128)</b>	<b>(41,123)</b>

**6 Expenditure on charitable activities (continued)**

mhs homes limited	Depreciation and amortisation		Direct activities		Support and governance costs		Total	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000
General needs	<b>(4,338)</b>	(3,746)	<b>(13,045)</b>	(14,030)	<b>(5,205)</b>	(5,201)	<b>(22,588)</b>	(22,977)
Supported housing	-	(213)	<b>(2,068)</b>	(3,123)	<b>(408)</b>	(422)	<b>(2,476)</b>	(3,758)
Shared ownership	<b>(236)</b>	(179)	<b>(90)</b>	(52)	<b>(179)</b>	(172)	<b>(505)</b>	(403)
<b>Social housing lettings</b>	<b>(4,574)</b>	(4,138)	<b>(15,203)</b>	(17,205)	<b>(5,792)</b>	(5,795)	<b>(25,569)</b>	(27,138)
Supporting people	-	-	<b>(420)</b>	(356)	-	-	<b>(420)</b>	(356)
Other expenditure	-	-	<b>(299)</b>	(206)	-	-	<b>(299)</b>	(206)
<b>Total Charitable expenditure included in operating costs</b>	<b>(4,574)</b>	(4,138)	<b>(15,922)</b>	(17,767)	<b>(5,792)</b>	(5,795)	<b>(26,288)</b>	(27,700)
First tranche shared ownership sales	-	-	<b>(2,137)</b>	(10,905)	-	-	<b>(2,137)</b>	(10,905)
<b>Operating surplus on social housing lettings</b>	<b>(4,574)</b>	(4,138)	<b>(18,059)</b>	(28,672)	<b>(5,792)</b>	(5,795)	<b>(28,425)</b>	(38,605)

## **7 Units of housing stock**

<b>Social housing mhs homes limited</b>	<b>As at 1 April 2020</b>	<b>Transfers</b>	<b>New Build</b>	<b>Demolished</b>	<b>Disposals</b>	<b>As at 31 March 2021</b>
General needs housing	6,519	12	129	-	-	<b>6,660</b>
Sheltered schemes	532	-	-	(51)	-	<b>481</b>
Shared ownership	210	1	22	-	-	<b>233</b>
Intermediate rent	2	(1)	-	-	-	<b>1</b>
Social leaseholders	472	(4)	-	-	-	<b>468</b>
Foyers *	36	-	-	-	-	<b>36</b>
	<b>7,771</b>	<b>8</b>	<b>151</b>	<b>(51)</b>	<b>-</b>	<b>7,879</b>
<b>Heart of Medway</b>						
General needs housing	522	-	-	-	-	<b>522</b>
Shared ownership	250	(5)	-	-	(2)	<b>243</b>
Social leaseholders	14	5	-	-	(1)	<b>18</b>
	<b>786</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3)</b>	<b>783</b>
<b>Lord Kitchener</b>						
General needs housing	6	-	-	-	-	<b>6</b>
<b>Non – Social housing mhs homes limited</b>						
Managed freeholders	177	-	-	-	-	<b>177</b>
Market rent	352	(7)	-	-	(1)	<b>344</b>
Commercial lettings	46	-	-	-	-	<b>46</b>
<b>Heart of Medway</b>						
Market rent	17	-	-	-	-	<b>17</b>
Residential leaseholders	-	-	-	-	-	<b>-</b>
Managed freeholders	2	-	-	-	-	<b>2</b>
<b>Total owned</b>	<b>9,157</b>	<b>1</b>	<b>151</b>	<b>(51)</b>	<b>(4)</b>	<b>9,254</b>
Accommodation managed	84	-	-	-	-	<b>84</b>
<b>Total managed accommodation</b>	<b>9,241</b>	<b>1</b>	<b>151</b>	<b>(51)</b>	<b>(4)</b>	<b>9,338</b>
Units managed by other associations	43	(1)	-	-	-	<b>42</b>
<b>Total owned or managed accommodation</b>	<b>9,284</b>	<b>-</b>	<b>151</b>	<b>(51)</b>	<b>(4)</b>	<b>9,380</b>
<b>Garages</b>	<b>1,449</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,449</b>

### **\* Properties leased to Heart of Medway between 4 and 17 years**

	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
<b>Units under construction: commitments contracted</b>				
Houses	<b>128</b>	70	<b>64</b>	70
Flats	<b>112</b>	203	<b>76</b>	149
<b>Units under development: commitments approved but not contracted</b>				
Houses	<b>56</b>	113	<b>30</b>	49
Sheltered	<b>119</b>	75	<b>119</b>	75
Flats	<b>45</b>	121	<b>33</b>	85
	<b>460</b>	582	<b>322</b>	428

## **8 Operating Surplus**

	<b>Group</b>	<b>Group</b>	<b>mhs</b>	<b>mhs</b>
	<b>2021</b>	<b>2020</b>	<b>homes</b>	<b>homes</b>
	<b>£'000</b>	<b>£'000</b>	<b>2021</b>	<b>2020</b>
			<b>£'000</b>	<b>£'000</b>
This is arrived at after charging:				
Depreciation of housing properties:				
- annual charge	<b>5,319</b>	4,959	<b>4,202</b>	3,838
Depreciation of other fixed assets:				
- annual charge	<b>426</b>	494	<b>279</b>	347
Accelerated depreciation on replaced components	<b>329</b>	374	<b>326</b>	354
Operating leases	<b>645</b>	610	<b>645</b>	610
Auditors' remuneration (excluding VAT):				
- fees payable to the group's auditor for the audit of the group's annual accounts	<b>34</b>	34	<b>34</b>	34
- fees for audit of accounts of subsidiary entities	<b>14</b>	16	<b>14</b>	-
- fees for other audit services	-	-	-	-

## **9 Employees**

	<b>Group</b>	<b>Group</b>	<b>mhs</b>	<b>mhs</b>
	<b>2021</b>	<b>2020</b>	<b>homes</b>	<b>homes</b>
			<b>2021</b>	<b>2020</b>
<b>Number of employees</b>	<b>275</b>	250	<b>275</b>	250
	<b>£'000</b>	£'000	<b>£'000</b>	£'000
Wages and salaries	<b>9,653</b>	9,137	<b>9,653</b>	9,137
Social security costs	<b>918</b>	855	<b>918</b>	855
Cost of defined contribution scheme	<b>368</b>	328	<b>368</b>	328
Cost of defined benefit scheme (see note 26)	<b>277</b>	307	<b>277</b>	307
	<b>11,216</b>	10,627	<b>11,216</b>	10,627

The average number of employees (including Executive Management Team) expressed as full-time equivalents (calculated based on a standard working week of 37 hours) during the year was 275 (2020: 250).

A defined benefit (closed to new members) and a defined contribution pension scheme is operated **by the Group** on behalf of the employees. The assets of the scheme are held separately from those of **the Group** in an independently administered fund. Full details are contained in note 26.

## 10 Trustee remuneration

The trustees are defined as Directors under company law and are defined as the members of the Board of Management as disclosed on page 23.

Trustee	Remuneration £'000	Expenses £'000	Remuneration Committee	Treasury Committee	Group Finance, Risk and Audit Committee
R Cooper	21	-	✓	✓	
N Hopkins	12	-			✓
R Kennedy	6	-			
A Baker	3	-			
K Franklin	9	-	✓		
M Miles Lea	9	-			
R Christopher	9	1	✓	✓	
M Mulligan	3	-			
J Seager	9	-			
A Campbell	6	-			

The articles of association contain the clause "members may receive such reasonable and proper remuneration as the Boards members may from time to time decide having taken advice from an independent remuneration committee"

## 11 Senior executive remuneration

	Group 2021 £'000	Group 2020 £'000
Key Management personnel emoluments	551	521
Amounts paid to non-executive	86	76
Total expenses reimbursed to the directors not chargeable to income tax	-	2
	<b>637</b>	<b>599</b>

The total amount payable to the Chief Executive, who was also the highest paid director in respect of emoluments, was £163,244 (2020: £158,875). Pension contributions of £45,753 (2020: £45,186) were made to Kent County Council Pension Fund on his behalf. As a member of the Kent County Council Pension Fund, the pension entitlement of the Chief Executive is identical to those of other members.

There were two directors (2020: two) in **the Group's** defined contribution pension scheme. Contributions were paid into the scheme on their behalf £26,862 (2020: £26,070).

The remuneration paid to staff (including Leadership Team) earning over £60,000 upwards:

	Group 2021 No.	Group 2020 No.
£60,000 - £69,999	2	1
£70,000 - £79,999	7	3
£110,000 - £119,999	-	-
£120,000 - £129,999	1	1
£130,000 - £139,999	1	1
£200,000 - £209,000	1	1



## 12 Surplus on disposal of fixed assets

	Shared ownership staircasing	Investment properties	Total	Total
GROUP	2021 £'000	2021 £'000	2021 £'000	2020 £'000
Housing properties:				
Disposal proceeds	809	225	1,034	1,311
Cost of disposals	(489)	(235)	(724)	(652)
Legal and other fees	(2)	3	1	(6)
	318	(7)	311	653

	Shared ownership staircasing	Investment properties	Total	Total
mhs homes	2021 £'000	2021 £'000	2021 £'000	2020 £'000
Housing Properties:				
Disposal proceeds	32	225	257	275
Cost of disposals	(21)	(235)	(256)	(46)
Legal and other fees	-	3	3	(2)
	11	(7)	4	227

## 13 Interest receivable and income from investments

	Group	Group	mhs homes	mhs homes
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Interest receivable from group undertakings	-	-	529	541
Interest receivable and similar income	31	33	26	33
	31	33	555	574

## 14 Interest payable and similar charges

	Group	Group	mhs homes	mhs homes
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Bank loans and overdrafts	10,884	10,978	10,517	10,606
Other fees	531	453	523	453
	11,415	11,431	11,040	11,059
Amortisation of issue costs	189	153	175	144
	11,604	11,584	11,215	11,203
Net interest on defined pension liability (note 26)	258	362	258	362
Interest capitalised on construction of housing	(450)	(419)	(265)	(406)
	11,412	11,527	11,208	11,159

## **15 Taxation on surplus on ordinary activities**

The tax assessed for the year differs from the standard rate of corporation tax in the UK applied to surplus before tax. The differences are explained below:

	<b>Group</b>	<b>Group</b>	<b>mhs</b>	<b>mhs</b>
	<b>2021</b>	<b>2020</b>	<b>homes</b>	<b>homes</b>
	<b>£'000</b>	<b>£'000</b>	<b>2021</b>	<b>2020</b>
			<b>£'000</b>	<b>£'000</b>
Surplus on ordinary activities before tax	<b>20,521</b>	11,303	<b>16,275</b>	7,639
Surplus on ordinary activities at the standard rate of corporation tax in the UK of 19% (2020 - 19%)	<b>3,899</b>	2,147	<b>3,092</b>	1,451
Effects of:				
Group relief surrendered	-	(1)	-	-
Net income subject to charitable exemptions	<b>(3,843)</b>	(2,096)	<b>(3,092)</b>	(1,451)
Adjustments in respect of prior years- deferred tax	<b>(56)</b>	14	-	-
Adjust closing deferred tax to average rate of 20%	-	(64)	-	-
Total tax credit for period	-	-	-	-

The aggregate current and deferred tax relating to items recognised in other comprehensive income is a nil charge (2020: nil charge).

**mhs homes limited**  
**Notes forming part of the financial statements (*continued*)**

<b>16 Tangible fixed assets - housing properties</b>	<b>General needs completed</b>	<b>Shared ownership completed</b>	<b>General needs under construction</b>	<b>Shared ownership Under construction</b>	<b>Total</b>
<b>mhs homes group</b>					
<b>Cost or valuation:</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>At 1 April 2020</b>	<b>467,413</b>	<b>46,038</b>	<b>22,349</b>	<b>4,430</b>	<b>540,230</b>
Additions:					
- construction costs	-	-	30,652	3,996	34,648
- replaced components	2,745	40	-	-	2,785
Completed schemes	21,876	2,773	(21,876)	(2,773)	-
Transfer from investment properties	2,181	-	-	-	2,181
Transfer to current assets	-	(221)	-	-	(221)
Staircasing disposals	-	(504)	-	-	(504)
Disposal of replaced components	(497)	-	-	-	(497)
<b>At 31 March 2021</b>	<b>493,718</b>	<b>48,126</b>	<b>31,125</b>	<b>5,653</b>	<b>578,622</b>
<b>Depreciation:</b>					
<b>At 1 April 2020</b>	<b>50,439</b>	<b>1,219</b>	<b>-</b>	<b>-</b>	<b>51,658</b>
Charge for the year	4,932	387	-	-	5,319
Eliminated on transfer to current assets	-	(5)	-	-	(5)
Eliminated on staircasing disposals	-	(15)	-	-	(15)
Disposal of replaced components	(329)	-	-	-	(329)
<b>At 31 March 2021</b>	<b>55,042</b>	<b>1,586</b>	<b>-</b>	<b>-</b>	<b>56,628</b>
<b>Impairment:</b>					
<b>At 1 April 2020</b>	<b>1,685</b>	<b>233</b>	<b>-</b>	<b>-</b>	<b>1,918</b>
Charge for the year	208	-	-	-	208
<b>At 31 March 2021</b>	<b>1,893</b>	<b>233</b>	<b>-</b>	<b>-</b>	<b>2,126</b>
<b>Net book value at 31 March 2021</b>	<b>436,783</b>	<b>46,307</b>	<b>31,125</b>	<b>5,653</b>	<b>519,868</b>
Net book value at 31 March 2020	415,289	44,586	22,349	4,430	486,654

**mhs homes limited**  
**Notes forming part of the financial statements (continued)**

<b>16 Tangible fixed assets - housing properties (continued)</b>	<b>General needs completed</b>	<b>Shared ownership completed</b>	<b>General needs under construction</b>	<b>Shared ownership Under construction</b>	<b>Total</b>
<b>mhs homes limited</b>					
<b>Cost or valuation:</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>At 1 April 2020</b>	<b>400,270</b>	<b>25,370</b>	<b>18,032</b>	<b>4,431</b>	<b>448,103</b>
Additions:					
- construction costs	-	-	12,405	3,996	16,401
- replaced components	2,733	36	-	-	2,769
Completed schemes	21,876	2,773	(21,876)	(2,773)	-
Transfer from investment properties	2,181	-	-	-	2,181
Transfer to current assets	-	(221)	-	-	(221)
Staircasing disposals	-	(21)	-	-	(21)
Disposal of replaced components	(491)	-	-	-	(491)
<b>At 31 March 2021</b>	<b>426,569</b>	<b>27,937</b>	<b>8,561</b>	<b>5,654</b>	<b>468,721</b>
<b>Depreciation:</b>					
<b>At 1 April 2020</b>	<b>45,146</b>	<b>399</b>	<b>-</b>	<b>-</b>	<b>45,545</b>
Charge for the year	3,974	228	-	-	4,202
Eliminated on transfer to current assets	-	(5)	-	-	(5)
Disposal of replaced components	(326)	-	-	-	(326)
<b>At 31 March 2021</b>	<b>48,794</b>	<b>622</b>	<b>-</b>	<b>-</b>	<b>49,416</b>
<b>Impairment:</b>					
<b>At 1 April 2020</b>	<b>1,218</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,218</b>
Charge for the year	208	-	-	-	208
<b>At 31 March 2021</b>	<b>1,426</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,426</b>
<b>Net book value at 31 March 2021</b>	<b>376,349</b>	<b>27,315</b>	<b>8,561</b>	<b>5,654</b>	<b>417,879</b>
Net book value at 31 March 2020	353,906	24,971	18,032	4,431	401,340

## **16 Tangible fixed assets - Housing properties (continued)**

### **Impairment**

**The Group** considers schemes to represent separate cash generating units (CGUs) when assessing for impairment in accordance with the requirements of FRS 102 and SORP 2018.

During the year, a number of schemes were identified for regeneration, and the therefore the value attached to the structure of the buildings was written down to nil and treated as an impairment.

### **Valuation**

On transition to FRS 102 **the Group** took the option of carrying out a one-off valuation exercise of selected items of social housing properties and using that amount as deemed cost. To determine the deemed cost at 1 April 2014, **the Group** engaged independent valuation specialist Savills to value social housing properties at the price at which a property can be sold on the open market assuming that it can only be used for the existing use, for the foreseeable future (EUV-SH) basis. Social Housing properties are subsequently measured at cost less depreciation. Any difference between historic cost depreciation and depreciation calculated on deemed cost is transferred between the revaluation reserve and income and expenditure reserve. The estimated value in use of the social housing stock is estimated as below.

	<b>Group</b>	<b>Group</b>	<b>mhs</b>	<b>mhs</b>
	<b>2021</b>	<b>2020</b>	<b>homes</b>	<b>homes</b>
	<b>£'million</b>	<b>£'million</b>	<b>2021</b>	<b>2020</b>
			<b>£'million</b>	<b>£'million</b>
Estimated total EUV – SH	<b>625</b>	579	<b>567</b>	523
Estimated EUV- SH value of properties charged	<b>510</b>	497	<b>493</b>	480

The net book value of housing properties may be further analysed as:

	<b>Group</b>	<b>Group</b>	<b>mhs</b>	<b>mhs</b>
	<b>2021</b>	<b>2020</b>	<b>homes</b>	<b>homes</b>
	<b>£'000</b>	<b>£'000</b>	<b>2021</b>	<b>2020</b>
			<b>£'000</b>	<b>£'000</b>
Freehold	<b>517,325</b>	485,018	<b>417,009</b>	401,402
Long leasehold	<b>2,751</b>	2,794	<b>1,078</b>	1,096
	<b>520,076</b>	487,812	<b>418,087</b>	402,498

### **Interest capitalisation**

Interest capitalised in the year	<b>450</b>	419	<b>265</b>	406
Cumulative interest capitalised	<b>3,892</b>	3,442	<b>2,089</b>	1,824
Rate used for capitalisation %	<b>3.75</b>	3.7	<b>2.5</b>	3.7

### **Works to properties**

Improvements to existing properties capitalised	<b>2,785</b>	2,439	<b>2,769</b>	2,427
Major repairs expenditure to income and	<b>1,695</b>	4,261	<b>1,540</b>	4,169
	<b>4,480</b>	6,700	<b>4,309</b>	6,596

## **17 Other tangible fixed assets**

<b>mhs homes group</b>	<b>Other offices £'000</b>	<b>Freehold premises £'000</b>	<b>Fixtures &amp; fittings £'000</b>	<b>Total £'000</b>
<b><i>Cost or valuation</i></b>				
<b>At 1 April 2020</b>	<b>7,982</b>	<b>2,882</b>	<b>6,520</b>	<b>17,384</b>
<b><i>Restated</i></b>	<b>7,982</b>	<b>2,120</b>	<b>6,520</b>	<b>16,622</b>
Additions	-	-	118	118
<b>At 31 March 2021</b>	<b>7,982</b>	<b>2,120</b>	<b>6,638</b>	<b>16,740</b>
<b><i>Depreciation</i></b>				
<b>At 1 April 2020</b>	<b>2,035</b>	<b>685</b>	<b>5,940</b>	<b>8,660</b>
<b><i>Restated</i></b>	<b>2,035</b>	<b>624</b>	<b>5,940</b>	<b>8,599</b>
Charge for year	147	29	250	426
<b>At 31 March 2021</b>	<b>2,182</b>	<b>653</b>	<b>6,190</b>	<b>9,025</b>
<b><i>Net book value</i></b>				
<b>At 31 March 2021</b>	<b>5,800</b>	<b>1,467</b>	<b>448</b>	<b>7,715</b>
At 31 March 2020	5,947	1,496	580	8,023
<b>mhs homes limited</b>		<b>Freehold premises £'000</b>	<b>Fixtures &amp; fittings £'000</b>	<b>Total £'000</b>
<b><i>Cost or valuation</i></b>				
<b>At 1 April 2020</b>		<b>2,882</b>	<b>6,522</b>	<b>9,404</b>
<b><i>Restated</i></b>		<b>2,120</b>	<b>6,522</b>	<b>8,642</b>
Additions		-	116	116
<b>At 31 March 2021</b>		<b>2,120</b>	<b>6,638</b>	<b>8,758</b>
<b><i>Depreciation</i></b>				
<b>At 1 April 2020</b>		<b>685</b>	<b>5,940</b>	<b>6,625</b>
<b><i>Restated</i></b>		<b>624</b>	<b>5,940</b>	<b>6,564</b>
Charge for year		29	250	279
<b>At 31 March 2021</b>		<b>653</b>	<b>6,190</b>	<b>6,843</b>
<b><i>Net book value</i></b>				
<b>At 31 March 2021</b>		<b>1,467</b>	<b>448</b>	<b>1,915</b>
<b>At 31 March 2020</b>		1,496	582	2,078

**18 Investment Properties**

<b>mhs homes group</b>	<b>Head Office Buildings</b>	<b>Market Rent completed</b>	<b>Market Rent under construction</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>At 1 April 2020</b>	<b>2,554</b>	<b>69,930</b>	<b>146</b>	<b>72,630</b>
Units converted to social housing	-	(2,181)	-	(2,181)
Property purchased	-	872	(872)	-
Construction costs	-	-	4,605	4,605
Property Disposals	-	(235)	-	(235)
Completed schemes	-	-	-	-
Revaluations	-	4,085	-	4,085
<b>At 31 March 2021</b>	<b>2,554</b>	<b>72,471</b>	<b>3,879</b>	<b>78,904</b>

<b>mhs homes limited</b>	<b>Market Rent completed</b>	<b>Market Rent under construction</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>At 1 April 2020</b>	<b>66,784</b>	<b>146</b>	<b>66,930</b>
Units converted to social housing	(2,181)	-	(2,181)
Property purchased	872	(872)	-
Construction costs	-	4,605	4,605
Property disposals	(235)	-	(235)
Completed schemes	-	-	-
Revaluations	3,961	-	3,961
<b>At 31 March 2021</b>	<b>69,201</b>	<b>3,879</b>	<b>73,080</b>

**The Group's** market rented investment properties are measured at cost on initial recognition. In 2015 the fair value was determined by external valuers and updated based on the Land Registry in the subsequent years. In February 2020 the fair value was again determined by external valuers. No depreciation is provided. Changes in fair value are recognised in the statement of comprehensive income. The gain on revaluation of investment property arising of £4.085m (2020 – a loss of £3.069m) has been debited to the Statement of Comprehensive Income for the year.

Market value is defined as the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion. If investment property had been accounted for under the historic cost accounting rules, the properties would have been measured as follows:

	<b>Group</b>	<b>Group</b>	<b>mhs homes</b>	<b>mhs homes</b>
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Historic cost	<b>46,246</b>	46,481	<b>42,839</b>	43,074
Accumulated depreciation	<b>(5,700)</b>	(5,048)	<b>(4,787)</b>	(4,737)
	<b>40,546</b>	41,433	<b>38,052</b>	38,337

## 19 Fixed asset investment

<b>mhs homes group</b>	<b>Investments £'000</b>	<b>Listed Investment £'000</b>	<b>Other Investment £'000</b>	<b>Total £'000</b>
<b>At 1 April 2020</b>	<b>185</b>	<b>67</b>	<b>5</b>	<b>257</b>
Revaluation	-	13	-	13
<b>At 31 March 2021</b>	<b>185</b>	<b>80</b>	<b>5</b>	<b>270</b>

<b>mhs homes limited</b>	<b>Total 2021 £</b>	<b>Total 2020 £</b>
Heart of Medway Housing Association	1	1
mhs commercial services limited	1,500,000	1,500,000
Chatham Maritime K1 Developments Limited	1	1
Chatham Maritime K1 Construction Limited	1	1
Provision against mhs commercial services limited	(1,500,000)	(1,500,000)
	<b>3</b>	<b>3</b>

### **Details of subsidiary undertakings, associated undertakings and other investments**

The group comprises of the following entities all incorporated in England

<b>Subsidiary undertaking</b>	<b>Nature of business</b>	<b>Registered company number</b>	<b>Registered charity\ society number</b>
<b>Nature of Entities: Company</b>			
<b>Proportion of ordinary share capital 100%</b>			
Chatham Maritime K1 Developments Limited	Ownership of Head Office	03254705	
Chatham Maritime K1 Construction Limited	Development Activity	03254689	
mhs commercial services Limited	Not Active	02751669	
<b>Nature of Entity: Community Benefit Society</b>			
<b>Proportion of voting rights 14%</b>			
Heart of Medway Housing Association	Social Housing	-	31076R
<b>Nature of Entity: Charity</b>			
mhs community charity Limited <sup>2</sup>	Charitable Works	03714658	1080067
<b>Nature of Entity: Trust</b>			
Lord Kitchener Memorial Homes Trust <sup>3</sup>	Social Housing		209751

<sup>1</sup> mhs homes controls Heart of Medway through an inter group agreement.

<sup>2</sup> mhs community charity is a company limited by guarantee with mhs homes defined as the parent charitable company

<sup>3</sup> Lord Kitchener is administered by mhs homes who were appointed a corporate trustee



## **20 Stock and Work in Progress**

	<b>Group</b>	<b>Group</b>	<b>mhs homes</b>	<b>mhs homes</b>
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Materials	<b>34</b>	40	<b>34</b>	40
Shared ownership under construction	<b>3,045</b>	2,339	<b>3,045</b>	2,339
Shared ownership completed properties	<b>89</b>	421	<b>89</b>	421
	<b>3,168</b>	2,800	<b>3,168</b>	2,800

The amount taken to cost of sales in year was £1.8 million Group and £1.8 million mhs homes.

## **21 Debtors**

	<b>Group</b>	<b>Group</b>	<b>mhs homes</b>	<b>mhs homes</b>
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Due within one year</b>				
Rent and service charge arrears	<b>3,127</b>	1,972	<b>2,826</b>	1,778
Less: provision for doubtful debts	<b>(900)</b>	(625)	<b>(800)</b>	(586)
	<b>2,227</b>	1,347	<b>2,026</b>	1,192
Prepayments	<b>303</b>	452	<b>303</b>	453
Taxes and social security	<b>41</b>	41	-	-
Other debtors	<b>280</b>	855	<b>206</b>	705
Loans to employees	<b>24</b>	36	<b>24</b>	36
	<b>2,875</b>	2,731	<b>2,559</b>	2,386
<b>Due after one year</b>				
Loan to Heart of Medway	-	-	<b>1,659</b>	232
Loan to Chatham Maritime K1 Development	-	-	<b>11,916</b>	12,378
Loan to Lord Kitchener	-	-	<b>192</b>	-
	-	-	<b>13,767</b>	12,610

## **22 Creditors: amounts falling due within one year**

	<b>Group</b>	<b>Group</b>	<b>mhs homes</b>	<b>mhs homes</b>
	<b>2020</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Bank overdrafts (unsecured)	-	-	-	-
Loans and borrowings (note 24)	<b>4,700</b>	6,498	<b>4,700</b>	6,498
Trade creditors	<b>790</b>	1,760	<b>791</b>	1,281
Rent in advance	<b>1,131</b>	788	<b>1,017</b>	548
Taxation and social security	<b>48</b>	209	<b>48</b>	209
Other creditors	<b>566</b>	557	<b>559</b>	551
Amounts due to subsidiaries	-	-	<b>83</b>	550
Accruals	<b>9,909</b>	7,935	<b>7,832</b>	7,397
Loan interest and fees due	<b>1,675</b>	1,790	<b>1,635</b>	1,748
Sinking fund balances	<b>1,803</b>	1,607	<b>1,540</b>	1,408
	<b>20,622</b>	21,144	<b>18,205</b>	20,190

## 23 Creditors: amounts falling due after more than one year

	Group	Restated Group	mhs homes	Restated mhs homes
	2021	2020	2021	2020
	£'000	£'000	£'000	£'000
Loans (Note 24)	285,839	284,839	275,839	274,839
Less repayable within one year	(4,700)	(6,498)	(4,700)	(6,498)
Less issue costs	(1,727)	(1,455)	(1,472)	(1,223)
Loans and borrowings	279,412	276,886	269,667	267,118

## 24 Loans and borrowings: Maturity of Debt

	Group	Group	mhs homes	mhs homes
	2021	2020	2021	2020
	£'000	£'000	£'000	£'000
Less than one year	4,700	6,498	4,700	6,498
Between two and five years	32,600	45,791	32,600	45,791
In five years or more	248,539	232,550	238,539	222,550
Loans and borrowings	285,839	284,839	275,839	274,839

During the year, £10 million was borrowed and £4 million of term debt and £5 million on a revolving credit facility were repaid. The debt is comprised of £176 million of bank loans, which are repaid by instalments up to 2039, and four private placements. Three of the private placements are in mhs homes and are due as noted below.

- £40 million due 2051
- £30 million due 2044
- £40 million amortising from 2030 to 2056

One private placement of £10 million is in Heart of Medway (repayable in 2038). Interest rates are fixed for more than one year on 79% of our debt, with the amounts spread across different funders and periods of time. At 31 March 2021 **the Group** had unused facilities of £70 million all of which is charged and available to draw. This covers all our funding requirements to a minimum of 2025.

## 25 Financial instruments

Information regarding the group's exposure to and management of credit risk liquidity risk, market risk, cashflow interest rate risk, and foreign exchange risk is included in the Directors' report. The carrying values of **the Group** and Association's financial assets and liabilities measured at fair value through profit or loss are summarised by category below:

	Group	Group	mhs homes	mhs homes
	2021	2020	2021	2020
	£'000	£'000	£'000	£'000
<b>Financial assets</b>				
Financial assets measured at fair value				
- Investments	270	257	-	-
<b>Total financial assets</b>	270	257	-	-
<b>Financial liabilities</b>				
Financial liabilities measured at amortised cost				
- Loans payable	279,412	276,886	269,667	267,118
<b>Total financial liabilities</b>	279,412	276,886	269,667	267,118

Financial assets measured at fair value comprise of fixed asset investments.

Financial liabilities measured at amortised cost comprise of bank loans.

## **26 Pensions**

### **Defined benefit pension scheme**

**mhs homes limited** participates in the Kent County Council Local Government Superannuation Scheme. It provides benefits based on final pensionable pay with contributions being charged to the income and expenditure account so as to spread the cost of pensions over employees working lives with **mhs homes limited**. The employer contributions are determined by a qualified actuary whilst the employee contributions are fixed by regulations governing the scheme. The most recently completed full actuarial valuation was in November 2019 with the next formal valuation due in 2022. The contribution rate for **the Group** was 25.7% (2020:25.7%) for employer contributions and 5.5% to 11.4% (2020:5.5% to 11.4%) for employee contributions. The most recent actuarial valuation confirmed that the employer contribution would stay at 25.7% till 2022. The pension contribution for the year for the Kent County Council Local Government Superannuation Scheme amounted to £363,231 (2020: £399,437). The scheme was withdrawn from new staff in 2005 and a defined contribution scheme offered in its place.

Pension benefits depend upon age, length of service and salary level.

A valuation for the purposes of the accounts is provided annually by a qualified independent actuary.

There were no changes to the scheme during the year and no amounts owing to the scheme at the year end.

	<b>31 March 2021 £'000</b>	<b>31 March 2020 £'000</b>
<b><i>Reconciliation of present value of plan liabilities</i></b>		
<b>At the beginning of the year</b>	<b>49,087</b>	50,775
Current service cost	<b>372</b>	471
Interest cost	<b>1,136</b>	1,199
Change in financial assumptions	<b>10,550</b>	(3,882)
Change in demographic assumptions	<b>(560)</b>	(469)
Experience loss	<b>(739)</b>	2,428
Benefits paid net of transfers in	<b>(1,606)</b>	(1,676)
Past service costs, including curtailments	-	184
Contributions by scheme participants	<b>88</b>	97
Unfunded pension payments	<b>(41)</b>	(40)
<b>At the end of the year</b>	<b>58,287</b>	49,087

	<b>31 March 2021</b>	<b>31 March 2020</b>
<b><i>Reconciliation of fair value of plan assets</i></b>		
<b>At the beginning of the year</b>	<b>37,988</b>	42,397
Interest on assets	<b>878</b>	1,003
Return on assets less interest	<b>10,352</b>	(4,109)
Other actuarial losses	-	(21)
Administration expenses	<b>(31)</b>	(25)
Contributions by employer excluding unfunded	<b>322</b>	362
Contributions by members	<b>88</b>	97
Benefits paid	<b>(1,647)</b>	(1,716)
<b>At the end of the year</b>	<b>47,950</b>	37,988

**26 Pensions (continued)**

	<b>31 March 2021 £'000</b>	<b>31 March 2020 £'000</b>
Fair value of plan assets	<b>47,950</b>	37,988
Present value of plan liabilities	<b>57,674</b>	48,492
Deficit	<b>9,724</b>	10,504
Present value of unfunded obligation	<b>613</b>	595
Net pension scheme liability	<b>10,337</b>	11,099

<b>Amounts recognised in other comprehensive income are as follows:</b>	<b>31 March 2021 £'000</b>	<b>31 March 2020 £'000</b>
Included in administrative expenses:		
Service cost	<b>372</b>	655
Net interest on the defined liability	<b>258</b>	196
Administration expenses	<b>31</b>	25
	<b>661</b>	876

<b>Analysis of actuarial gain recognised in other comprehensive income</b>	<b>31 March 2021 £'000</b>	<b>31 March 2020 £'000</b>
Actual return less expected return on fund assets	<b>10,352</b>	(4,109)
Experience gains on defined benefit obligation	<b>739</b>	(2,428)
Change in demographic assumptions	<b>560</b>	469
Other actuarial gains on assets	-	(21)
Changes in financial assumptions	<b>(10,550)</b>	3,882
	<b>1,101</b>	(2,207)

	<b>31 March 2021</b>		<b>31 March 2020</b>	
	<b>£'000</b>	<b>%</b>	<b>£'000</b>	<b>%</b>
<i>Composition of plan assets</i>				
Equities	<b>30,876</b>	<b>64</b>	23,371	61
Gilts	<b>285</b>	<b>1</b>	295	1
Other bonds	<b>5,988</b>	<b>13</b>	4,951	13
Property	<b>4,963</b>	<b>10</b>	5,169	14
Cash	<b>2,378</b>	<b>5</b>	994	3
Target return portfolio	<b>3,460</b>	<b>7</b>	3,208	8
Total plan assets	<b>47,950</b>	<b>100</b>	37,988	100

## 26 Pensions (continued)

*Principal actuarial assumptions used at the balance sheet date*

	31 March 2021	31 March 2020	31 March 2019	31 March 2018
	%	%	%	%
Discount rates	2.00	2.35	2.40	2.55
Future salary increases	3.85	3.00	3.95	3.85
Future pension increases	2.85	2.00	2.45	2.35
Inflation assumption	-	2.00	2.45	2.35

### Defined Contribution Scheme

**mhs homes limited** also operates a defined contribution scheme administered by Aviva. The employer's contributions, at a rate of between 1% to 10%, were £368,352 (2020: £328,521). At 31 March 2021 the number of staff participating in the scheme was 303 (2020: 270). There were no contributions outstanding or prepaid as at 31 March 2021.

## 27 Contingent liabilities

mhs homes has guaranteed construction contracts for Heart of Medway and K1 Construction. At the year end the liabilities covered by these guarantees are £23,216,000 (2020: £23,216,000).

**The Group** receives grant from Homes England, which is used to fund the acquisition and development of housing properties and their components. **The Group** has a future obligation to recycle such grant once the properties are disposed of. At 31 March 2021, the value of grant received in respect of these properties that had not been disposed of was £32,777,000 (2020: £30,723,000).

As the timing of any future disposal is uncertain, no provision has been recognised in these financial statements.

Total Social Housing Grant received or receivable to date is as follows:	Group 2021 £'000	Group 2020 £'000	mhs homes 2021 £'000	mhs homes 2020 £'000
Recycled Capital Grant	46	183	-	51
Capital Grant	32,743	30,723	16,214	16,195
Total Grant	32,789	30,906	16,214	16,246

## 28 Operating leases

**The Group** and the Association had minimum lease payments under non-cancellable operating leases as set out below:

<b>Amounts payable as Lessee</b>	<b>Group</b>	<b>Group</b>	<b>mhs homes</b>	<b>mhs homes</b>
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Not later than one year	<b>76</b>	354	<b>76</b>	354
Later than one year and not later than five	<b>569</b>	256	<b>569</b>	256
Later than five years	-	-	-	-
<b>Total</b>	<b>645</b>	610	<b>645</b>	610

### Amounts receivable under operating leases as lessor

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
Not later than one year	<b>224</b>	224
Later than one year not later than five years	<b>392</b>	617
	<b>616</b>	841

## 29 Capital commitments

	<b>Group</b>	<b>Group</b>	<b>mhs</b>	<b>mhs</b>
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Commitments contracted				
New build	<b>33,189</b>	28,661	<b>15,596</b>	21,797
Commitments approved by the board but not contracted				
New build	<b>53,048</b>	62,020	<b>42,880</b>	34,534
	<b>86,237</b>	90,681	<b>58,476</b>	56,331

Capital commitments for **the Group** and Association will be funded as follows:

	<b>Group</b>	<b>Group</b>	<b>mhs homes</b>	<b>mhs homes</b>
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Social Housing Grant	<b>6,591</b>	3,351	<b>3,711</b>	190
New loans	<b>17,200</b>	17,127	<b>4,200</b>	10,000
Sales of properties	<b>10,683</b>	9,534	<b>10,683</b>	9,534
Existing reserves	<b>51,763</b>	60,669	<b>39,882</b>	36,607
	<b>86,237</b>	90,681	<b>58,476</b>	56,331

### 30 Related party disclosures

The Board includes two tenant members who hold a tenancy agreement on normal terms and cannot use their position to their advantage. The rent charged for the year was £10,926.16 (2020: £10,487) and the tenants had arrears balances of nil at the 31 March 2021 (31 March 2020: arrears balance nil).

The Association provides management services, other services and loans to its subsidiaries. The Association also receives charges from its subsidiaries. The quantum and basis of those charges is set out below.

Payable to mhs homes by subsidiaries:	Management charges		Interest charges	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Heart of Medway	461	451	-	-
K1 Development	-	-	529	541
	<b>461</b>	<b>451</b>	<b>529</b>	<b>541</b>

Intra-group management fees are receivable by the Association from subsidiaries to cover the running costs that the Association incurs on behalf of managing its subsidiaries. The management fee is calculated on a department basis, with varying methods of allocation. The costs are calculated by reference to the Housemark Benchmarking report. Intra-group interest is charged by the Association to its subsidiaries at the rates incurred by the Association on its bank loans.

Entity granting loan	Entity receiving loan	Interest Rate**	Opening balance £'000	Movement £'000	Closing balance £'000
mhs homes	Heart of Medway*	-	231	1,428	1,659
mhs homes	K1 Development*	4.36%	12,520	(304)	12,216
			<b>12,751</b>	<b>1,124</b>	<b>13,875</b>

#### Key Terms of repayment

\* Repayable by 2040

\*\* Average rate charged across the year

mhs homes provided parent guarantees as disclosed in note 30. Kent County Council Pension Scheme is a related party, refer to note 26 for transactions posted during the year.

### 31 Capital and reserves

The revaluation reserve contains the unrealised gains of £212.5 million (2020: £212.5 million) in respect of fixed assets for which the deemed cost option was taken.

### 32 Net debt reconciliation

Group	At 1 April 2020 £'000	Cash flows £'000	Non-cash movement £'000	At 31 March 2021 £'000
Bank overdraft	-	-	-	-
Short term deposits	1,630	216	-	1,846
Cash at bank	53,457	(17,056)	-	36,401
<b>Cash and cash equivalents</b>	<b>55,087</b>	<b>(16,840)</b>	<b>-</b>	<b>38,247</b>
Loans and borrowings	(284,839)	(1,000)	-	(285,839)
<b>Net debt</b>	<b>(229,752)</b>	<b>(17,840)</b>	<b>-</b>	<b>(247,592)</b>