

A photograph of a modern, multi-story apartment building with a mix of red brick, light blue horizontal siding, and large glass windows. The building has a central entrance with a glass door and a small overhang. The sky is blue with some white clouds. The image is partially covered by a purple diagonal band in the top left and an orange diagonal band in the bottom right.

Annual Report and Financial Statements

Year ended 31 March 2022

mhs homes limited
Private company limited by guarantee | Company number: 10704997
Registered Charity | Registration number: 1177565

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CHAIR'S INTRODUCTION TO THE FINANCIAL STATEMENTS



My involvement with mhs homes, stretching back to 2016, comes to an end this year. As I look back there are many achievements to be proud of, none of which would have happened without the hard work and dedication of colleagues. Not least, we've added almost 1,000 new homes over this time, providing families with an affordable, secure and safe home.

The safety of our customers remains our chief concern and I can think of no better example than our commitment to the "Building a Safer Future Charter", which puts people's safety first during the design, construction, refurbishment and occupation of their homes.

We've started our journey to net zero carbon, with over 65% of our properties already being rated at EPC "C", and we are investing over £15 million to ensure that all properties reach this level before 2030. Our first properties at EPC rating "A", located in Lenham and shown below, were handed over this year. We are piloting low cost solutions that could both reduce the carbon footprint of heating customers' homes whilst reducing energy bills. In this time of significant energy price increases these are meaningful ways that will help support our customers through the "cost of living crisis".



Our commitment to the green agenda is wider than our properties, for example we are introducing electrical vehicles for the first time.

As ever my amazing colleagues continue to embody the values of mhs homes and their continuing response during another difficult year, with support for customers front and centre in their thinking, continues to inspire. The commitment to our community can be seen through such events as "Day for Kent", where everyone spends a day helping in the community, with activities ranging

from helping in food banks to painting community centres. Thanks to support across the whole organisation, we raised £30,000 for our nominated charity, CALM.

We continue to monitor the rise in inflation and with it the impact on our customer. We will balance the necessity for healthy surpluses, which allows us to invest in both new and existing properties, against keeping rents affordable. Looking forward financial strength is a prerequisite when maintaining our properties, not least meeting energy efficiency targets, which will reduce both our carbon footprint and customers energy bills. Whilst building new homes requires new borrowing, and we need strong financial results to support and attract these loans. However, we will always set the rents that underpin this to be affordable and in line with our charitable aims.

I would like to highlight again our thanks to our customers, partners, and colleagues for all that has been achieved over this last year, and I'm especially grateful to our frontline team members for their continuing 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.

A handwritten signature in black ink, appearing to be 'Richard Cooper'.

Richard Cooper
Chair
21 July 2022

mhs homes AT A GLANCE

mhs homes limited ("mhs homes") was established in 1990 following a stock transfer from the local authority. We are the largest independent social landlord, being registered with the Charity Commission rather than the Regulator of Social Housing. Our objectives are to provide social housing in Kent and all services linked to this provision, with all surpluses reinvested into building more new homes, existing properties and supporting local communities. It is the parent body of mhs homes group ("the Group").

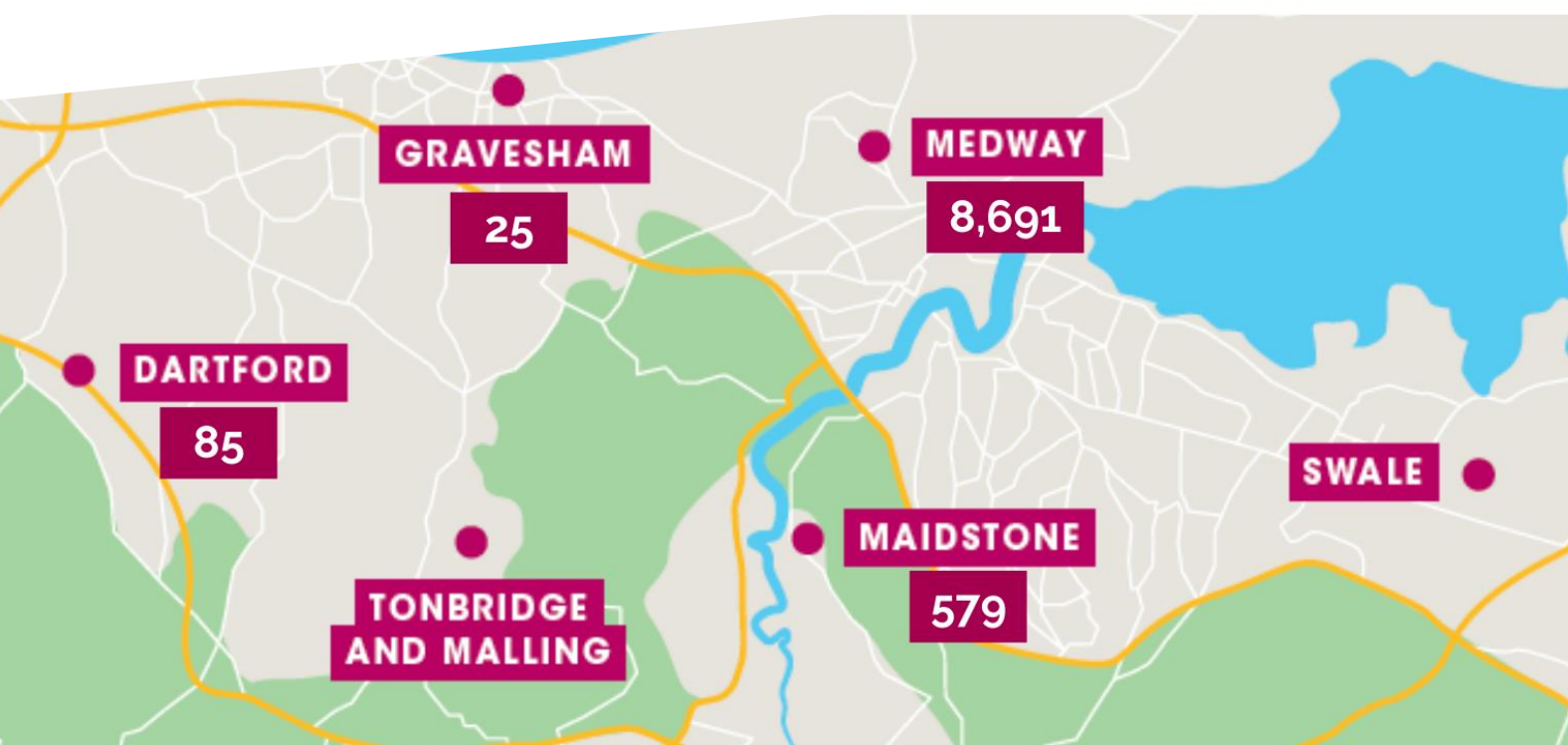
mhs homes continues to be the only housing association of size not to be a registered provider and, although we comply with the ethos and aims of the social housing sector, our status allows us greater control of our own destiny and objectives. We value our relationships with the regulated sector and 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 9,522 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.

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

Our properties are spread over North Kent as shown below.



Financial Highlights

	2021/22	2020/21
Turnover	£64.7 million	£60.1 million
Operating Surplus	£27.8 million	£27.8 million
Surplus	£22.7 million	£20.5 million
EBITDA MRI ¹	£28.1 million	£28.6 million
EBITDA – MRI ¹ Margin to turnover	43%	48%
Net Debt	£254.9 million	£247.6 million
EBITDA - MRI ¹ / Interest Cover	2.4	2.5

¹ EBITDA – MRI: Earnings before interest, tax, depreciation and amortisation, capitalised major repairs expenditure included

Operational Highlights

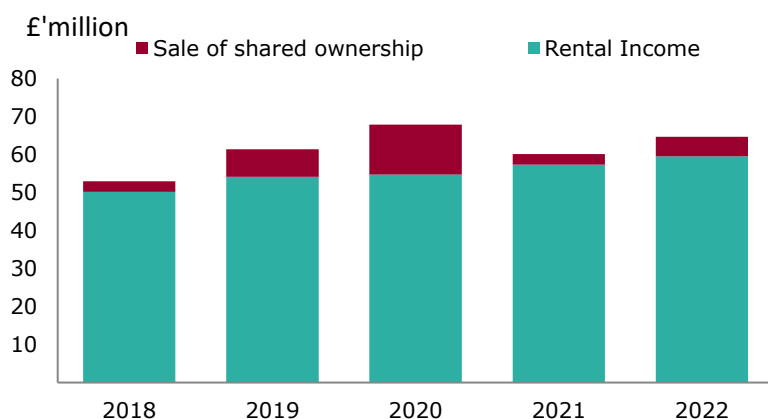
	2021/22	2020/21
Total Stock owned and managed	9,522	9,380
% Homes at Decent Homes Standard	99.1%	99.9%
% Homes at SAP rating C or above	65.2%	60.4%
New Homes brought into management	181	151
New Developments started on site	145	259
Customer Satisfaction	67%	65%
% of staff proud to work for mhs homes	94%	87%



Our new development at Yeoman House - a great example of regeneration. A new 54 supported housing scheme replaced a 22 unit block built in the 1970's.

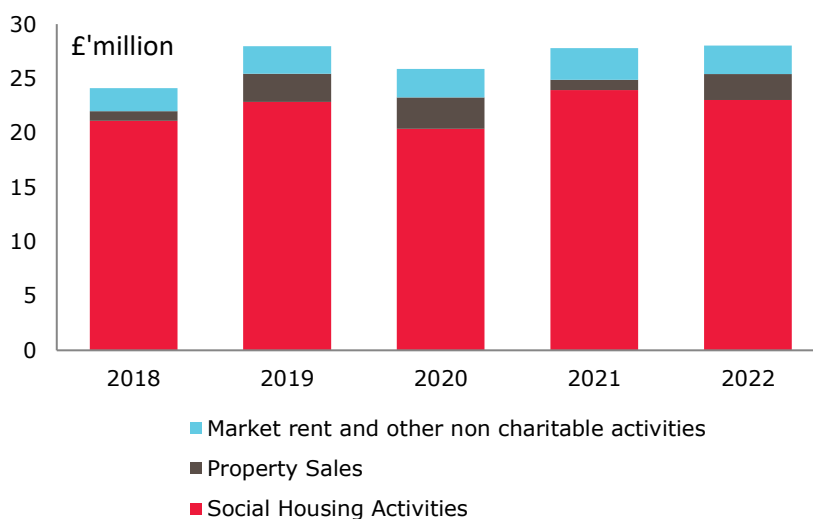
STRATEGIC REVIEW: AN OVERVIEW OF 2021/22 RESULTS

As a charity we have a responsibility to use our resources effectively. Whilst all surpluses are reinvested in existing and new homes, we achieve this whilst keeping our rents affordable, with further detail on page 10 on our rent levels. The financial results for the year highlight the continuing financial strength of **the Group** with a surplus before tax and fair value adjustments of £16.5 million (2021: £16.4 million). This in turn allowed over £28 million to be invested in new homes, resulting in 181 new homes being brought into management and over 400 anticipated over the next three years.



Turnover increased in the year as additional rental income of c£2 million, through a combination of rent increases and new properties, along with a similar increase in sales on first tranche shared ownership properties. During the year we sold 41 new shared ownership properties compared with 26 in the year before. Sales demand remains strong with no completed properties remaining unsold at the year end.

Despite an increase in expenditure in major repairs of over £2 million, the overall operating surplus was slightly higher than in the previous year, helped by the surplus on property sales and sales of first tranche shared ownership being over £1.5 million higher than in 2020/1. The majority of the surplus continues to be derived from low risk social housing activities.



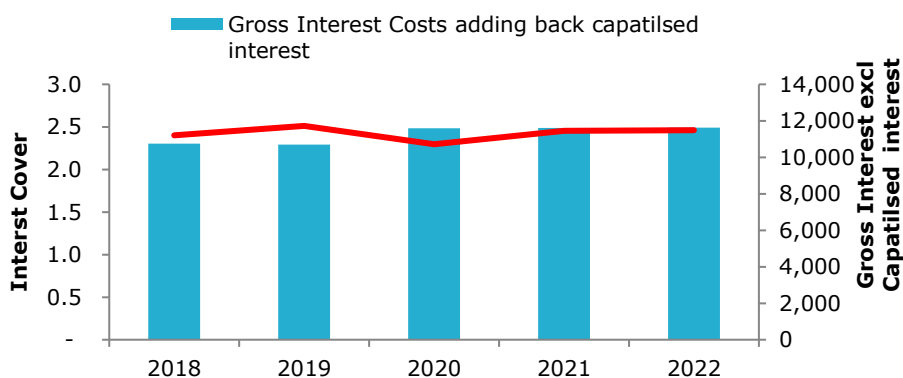
STRATEGIC REVIEW: AN OVERVIEW OF 2021/22 RESULTS

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

	£' million
Increase in income from social housing lettings	2.2
Increase in major repairs expenditure	(2.2)
Increases in depreciation & impairment	(0.1)
Other increases in operating costs	(1.0)
Increase in surplus from first tranche shared ownership sales	0.6
Reduced surplus from social housing activities	(0.5)
Increase in surplus from sale of other fixed assets	0.8
Reduction in surplus from non-charitable activities	(0.3)
Change in operating surplus	-

Investment Properties: Over the years the Group has built up an investment portfolio of 361 properties rented to tenants at market rent. These are a valuable investment and produce a return to our original cost of 4.5% (2021: 4.1%). 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 £49 million in these properties, which are now estimated to be worth £80 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.

Interest payable costs are staying level despite increased long term debt. This has enabled the ratio of surpluses to interest costs ("interest cover") to stay consistently above two even as our debt increases.



STRATEGIC REVIEW: OUR STRATEGIC PLAN 2021 TO 2024

In March 2021 an ambitious new three year strategic plan was approved by the Board. Our strategic priorities meet the challenges of the moment, and these are described below along with some of the key targets, along with our progress after the first year of the plan.

Provide safe and sustainable homes

We will have built 660 new homes.	We have identified 481 homes to complete by March 2024, with a further 109 early in 2024/25.
Have over 65% of homes at EPC C rating or above.	This target is already met and are we well on course to meet the 2030 target in time.
Prioritise our Building Safety Programme.	A programme is in place, with all surveys of properties to be completed by the end of this calendar year.

Be a caring and visible landlord

Offering great digital services that are well used by our customers.	We are ahead of target with over 65% of customers joining our digital offering.
Deliver year on year performance increases in operational areas.	Progress was not as anticipated; however recent changes are showing improvements.

Focus on the customer's voice and community leadership

Deliver our Building Safety Programme around our customers so that they feel safe and informed.	We have a comprehensive customer communication programme to keep customers well informed.
Make sure all major new contracts include social value outputs that benefit our local communities.	All contracts over £100,000 include social values such as apprentices, career days and work experience.
Have in place a Fuel Poverty Action Plan to assist customers who are fuel poor	Good progress was made with a strategy presented to Board in May 2022 that we can take forward in 2022/23.
Increases the number and diversity of customers that actively engage with us	We successfully set up the customer engagement group that helped us to improve services.

Have a talented, digitally enabled and customer focused workforce

90% of colleagues saying that they're proud to work for us.	The most recent survey showed 94% of colleagues were proud to work for mhs homes.
Be a We Invest in Wellbeing 'Gold' and a We Invest in People 'Platinum' organisation.	Excellent progress with every confidence of meeting our targets.
Be an Accredited Living Wage employer	This was achieved in January 2022

Have organisational resilience and agility

Conduct a governance review and adopt the RACE Equality Code 2020.	These were successfully completed with appropriate actions plans in place.
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STRATEGIC REVIEW: TREASURY

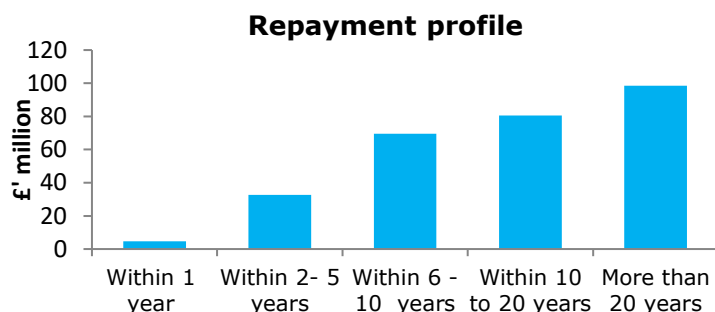
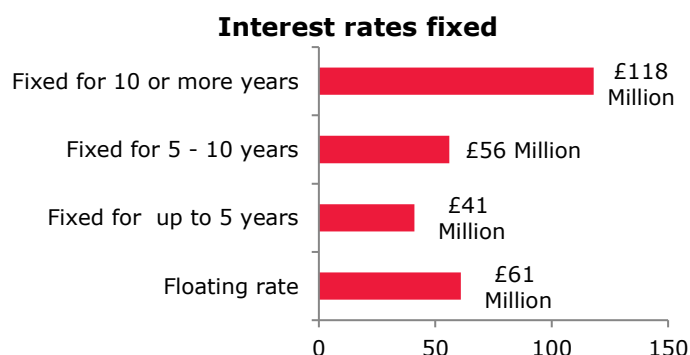
The treasury management for the Group is governed by a policy and strategy regularly reviewed and approved by the Board with the Group Treasury Committee monitoring activities and making recommendations to the Board.

During the year £10 million was borrowed at fixed rates till 2055, whilst £4.7 million of variable rate debt was repaid. At the end of the year the Group had substantial liquidity with: -

- £70 million of revolving credit facilities charged and available to draw
- £10 million of fixed rate long term debt arranged for September 2022
- £3 million of cash

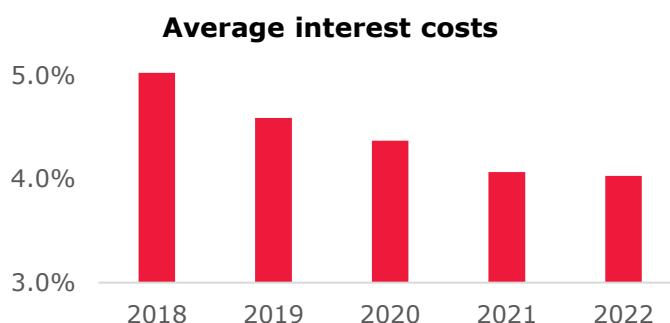
Spare security of £148 million, as calculated under existing use value – social housing is available to the Group.

A key risk is our exposure to interest rate increases, which is mitigated by having only £56 million (19%) of debt floating for less than one year. This compares with £61 million (22%) last year.



The Group has 13%% (2021:13%) of the total debt due for repayment in the next five years.

Our average cost of borrowing continues to fall despite the recent increase in interest rates, as competitively priced long term fixed rate debt is added to our debt portfolio.



STRATEGIC REVIEW: 5 YEAR FINANCIAL REVIEW

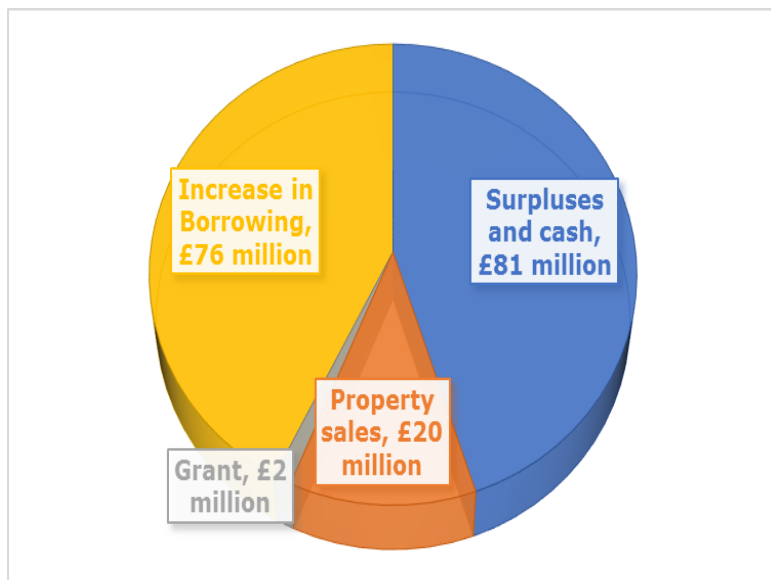
The last 5 years financial performance along with key ratios is summarised below

Year Ending 31 March	2018	2019	2020	2021	2022
	£'m	£'m	£'m	£'m	£'m
<i>Excluding 1st tranche shared ownership sales</i>					
Turnover	50	54	55	57	60
Expenditure	27	28	32	31	34
Surplus on rents	23	26	23	26	26
Surplus on 1 st tranche sales	1	1	2	1	1
Disposal of assets	-	1	1	1	1
Operating surplus	24	28	26	28	28
Net interest cost	13	11	12	11	11
Surplus for the year before tax and fair value	11	17	14	17	17
Net fixed assets *	233	256	285	316	336
Investments	70	74	72	79	87
Net current assets	1	14	39	24	25
	304	344	396	418	448
Social housing grant *	27	29	31	33	34
Creditors: > than one year	215	239	278	279	285
Pension liability	11	8	11	10	9
	253	276	320	322	328
Total reserves less social housing grant	51	68	76	98	120
Financial Performance					
EBITDA-MRI*: Turnover	49%	45%	40%	48%	43%
EBITDA-MRI*: Turnover excluding shared ownership	51%	48%	46%	49%	45%
Ratio of Debt: EBITDA-MRI*	8.1	8.6	8.5	8.7	9.1
Ratio of EBITDA-MRI*: Interest Payable	2.4	2.5	2.3	2.4	2.4
Other Key Ratios					
Voids: net rental income	0.7%	0.6%	0.8%	1.0%	0.8%
Bad Debt: net rental income	0.9%	0.6%	0.8%	1.1%	0.5%

* less revaluation reserve

STRATEGIC REVIEW: FUTURE PLANNING

The Group is forecasting developing over 700 new homes in the next 5 years, with a spend of almost £180 million, funded broadly half and half between new borrowings and surpluses.



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 prudent approach to treasury management.

Our results are stress-tested against a number of different scenarios. These show that our covenants are met, even if interest rates rise over the long term to 8% or rental income is reduced by a quarter.

The financial ratios below show the ongoing financial strength of the Group.

Group Ratio	2023	2023	2024	2025	2026
EBITDA* MRI: Turnover	39%	35%	38%	39%	38%
Ratio of Debt: EBITA-MRI*	12	12	12	12	12
EBITDA-MRI*: Interest Payable %	2.1	1.8	1.8	1.8	1.8

In common with many social landlords, we are continuing to investigate our buildings to ensure that they are safe and meet all current building safety requirements. Despite much of this work having been completed there is a risk that some of these margins may reduce if additional building safety work is required. The Board is clear on the importance of building and customer safety and has been clear that cost will never be a barrier to the work required and therefore we will continue to prioritise our Building Safety Programme. We will also strive to be an exemplar by achieving the "Building A Safe Future Charter 'Champion' status. Our long term financial planning will continue to ensure that there are sufficient resources to proactively manage our assets, so all our homes continue to meet the Decent Homes Standard.

STRATEGIC REVIEW: STREAMLINED ENERGY AND CARBON REPORT

The Streamlined Energy and Carbon Report (SECR) framework is a mandatory UK-wide energy and carbon reporting scheme, implemented to create a straightforward carbon reporting framework and our results, which cover our head offices, communal areas in our properties and vehicle fleet, are shown below.

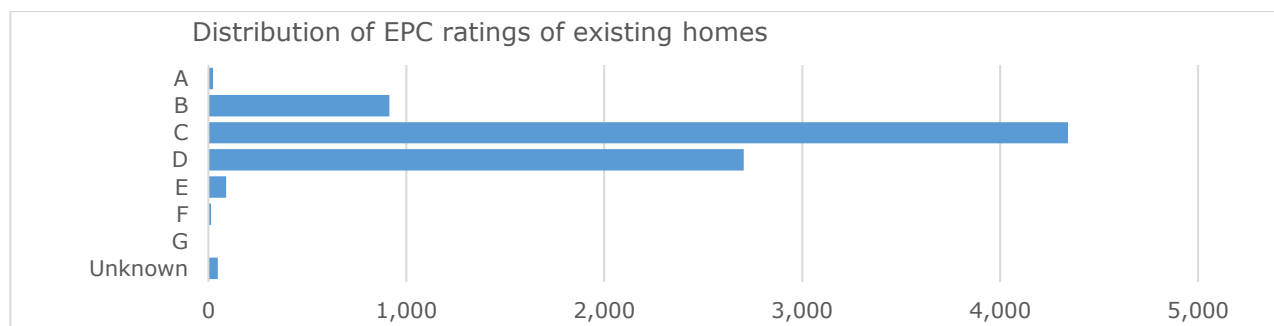
	tCO ₂ e		kWh: kilowatt hours	
	2020/21	2021/22	2020/21	2021/22
Electricity	-	8	2,178,014	2,405,323
Natural Gas	835	792	4,539,536	4,323,898
Direct Transport	254	281	1,057,252	1,186,881
Total	1,089	1,081	9,174,863	8,011,141

The intensity Ratio

The Intensity ratio decreased from 25.6 Tco₂e/£m to 17.03 Tco₂e/£m. This decrease is due both to the decrease in emissions and increase in turnover.

Energy Efficiency Actions taken during the year

mhs homes continues to procure the majority of electricity from renewable and green tariffs, hence the small amount of CO₂ released compared to that from other energy sources. We are focused on having all properties at a minimum EPC rating C by, at the latest, 2030 and are confident of achieving this target.



We are taking the following actions to further reduce our impact on the environment: -

- We continue to invest to increase energy efficiency with over £15 million included in our long term financial projections to upgrade properties.
- All new homes commissioned from April 2021 will be built to a minimum of EPC rating B. During the year we also took handover of 37 properties at EPC rating A.
- Trial retrofit technologies to increase the sustainability of existing homes.
- A new fleet of electrical vehicles will be introduced this year, reducing CO₂ emissions from vehicles by over one quarter and our new gas and water hygiene contracts includes an agreed reduction of 5% of vehicle carbon emissions year on year to 50% by the end of the contract.
- The amount of waste materials from our repairs that is recycled will be increased.
- The impact of sourcing materials and evaluating our contractors supply chains is included in our tender processes.

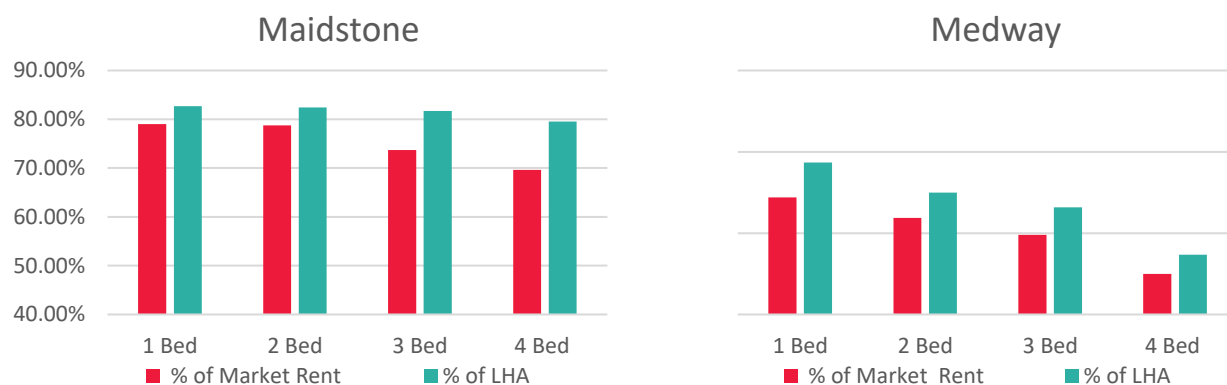
STRATEGIC REVIEW: SOCIAL IMPACT

Social

Our customers' wellbeing remains our greatest priority and therefore we will: -

- Ensure that at least 30% of our lettings will be to homeless households.
- Launch and embed a new Tenancy Support Programme to help customers with the cost of living crisis and 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.
- Implement the RACE Equality Action Plan and undertake the HDN Diversity Network Accreditation to ensure stronger focus and commitment to equality, diversity and inclusion in relation to our customers' community and business.
- Make sure 90% of customers are satisfied that their views are taken into account.
- Have in place a Fuel Poverty Action Plan to assist customers who are fuel poor.
- Social Value is included in all procurement over £100,000 with activities ranging from use of apprentices to painting of community centres.

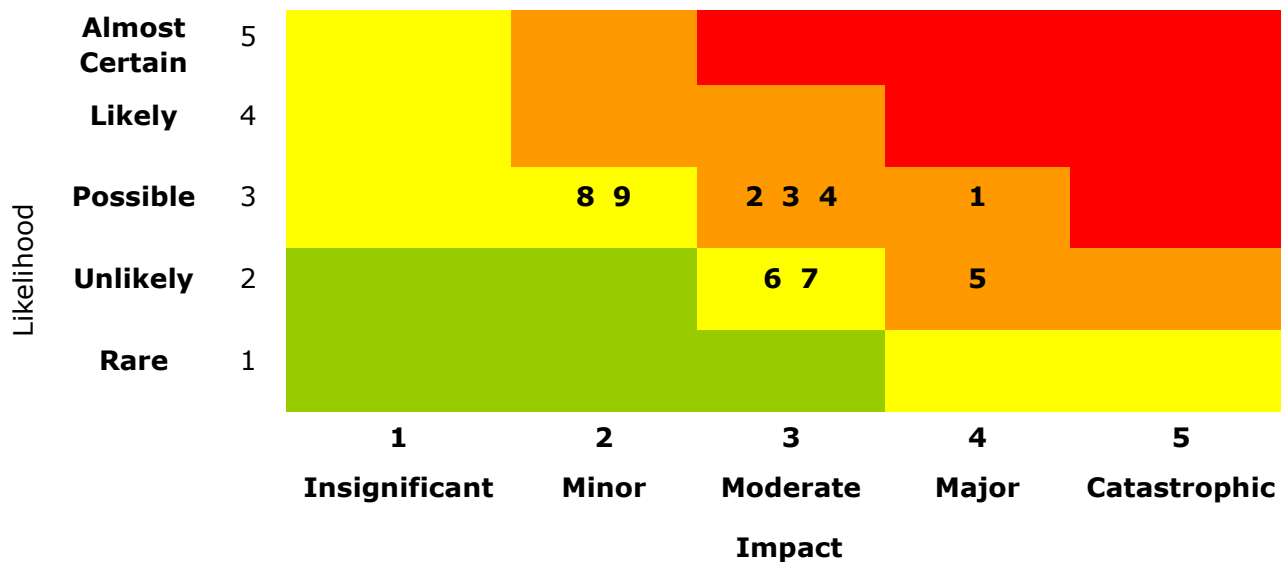
As a charitable social housing provider our properties must be affordable whilst generating sufficient resources to invest in both existing and new properties. We therefore monitor our rents closely against both market rents and local housing allowance (LHA) as summarised in our two main area of operation 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 2,801 (2021: 2,115). The use of Alternative Payment Arrangement (APA) continues to increase, with the percentage of customers on APA's increasing from 27% to 30% of UC claimants.

STRATEGIC REVIEW: RISK MANAGEMENT

The key strategic risks are summarised in the heat map below with the key controls summarised in the table on the next page.



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

STRATEGIC REVIEW: RISK MANAGEMENT

Key Controls

	Risk	Mitigation	Summary
1	Failure to maintain a talented, diverse, engaged workforce:	Salaries are benchmarked regularly but it is recognised that staff retention is more than the salary, there is therefore a strong emphasis on colleague development and wellbeing, with 'We Invest in Wellbeing' Silver accreditation being gained in the year.	In common with many organisations staff turnover has increased over the year, but vacancies have been successfully filled and a recent survey of staff demonstrated that 94% of colleagues were proud to work for us.
2	Failure to ensure tenants are safe at home and colleagues are safe at work	<p>Compliance reports are presented to all Boards, with a strong assurance process on the data accuracy, which is regularly checked by internal audit. We have worked in partnership with Kent Fire and Rescue Service on our high risk buildings.</p> <p>We are also one of first housing associations to be assessed under the Building A Safer Future Charter.</p> <p>Further assurance is supplied through the recent British Safety Council review of our Health and Safety system.</p>	<p>Building safety remains a challenge across the sector, and we continue to work through our stock ensuring issues identified are remedied or suitable mitigations out in.</p> <p>The strong performance on landlord compliance continues with our legal obligations continuing to being met.</p>
3	Failure to invest sufficiently in current properties to ensure our homes are high quality, safe and energy efficient	Our long term asset spend is reviewed on a quarterly basis by senior management Our stock condition data is validated externally so we can have confidence our data is correct with extra resources allocated to ensure the data is of the highest quality.	99% of our properties are compliant with the Decent Homes Standard (DHS). Costs have been included in our long term financial projections to both increase decent homes standard to 100%, meet the EPC C target of 2030 along with estimates to reach net zero by 2050.

STRATEGIC REVIEW: RISK MANAGEMENT

Risk	Mitigation	Summary
4 Failure to maintain an operational performance	Our Customer Team is organised, and supported by technology, to make sure that the appropriate colleague, with the right skills is in place to support our customers. Our Strategic Plan lays out how we will put the voice of the customer at the heart of all we do.	The last two years has been a challenge for many, including ourselves with customer satisfaction lower than we would wish. However, the last few months have shown encouraging improvements.
5 Failure to maintain long-term financial viability and failure to meet existing covenants	Regular economic updates from our Treasury advisors are reported through to the Board along with our financial results and projections. Regular stress testing of our financial projections highlights areas of risk along with a prudent approach to treasury management.	With inflation increasing rapidly the risk is rising however mhs homes is well placed with a number of major contracts let earlier in the year and much of our major repair spend on call off contracts allowing flexibility of planning.
6 Failure of governance leading to a breach of regulation	A robust governance and risk management framework is in place including checklists against NHF Code of Governance. RSH (Regulator of Social Housing) Regulatory Standards and Charity Commission requirements.	An independent governance review during the year was a further assurance on our framework. The Board receive an annual report on governance arrangements.
7 Failure to deliver the development programme including shared ownership sales	The risks, including contractor performance and viability, is reported to Board along with the position on sales. Our Treasury Policy takes account of the impact of reduced sales where calculating the liquidity required.	<p>The demand and value for shared ownership properties remains strong with no completed properties unsold at the year end.</p> <p>Finding sufficient development schemes to meet our aspirations in quality and quality is remains a challenge.</p>

STRATEGIC REVIEW: RISK MANAGEMENT

	Risk	Mitigation	Summary
8	Failure to collect income leading to increased rent arrears	A robust Treasury Policy means that liquid funds are available for unexpected falls in receipts. Use of predictive analytics has targeted tenancy interventions in a more efficient and timely fashion. An active tenancy sustainment programme with advice and support is in place.	This risk has stayed constant through the year as increased numbers of customers moving onto universal credit is offset by use of new systems that target our rent collection in a more efficient and effective manner.
9	Failure of data security	Prevention is our key control with regular training for staff, along with penetration tests on our overall cyber security system being an effective reduction of risk as evidenced by our accreditation with Cyber Essential Plus.	<p>Though cyber risks continue to increase our system remains robust and secure.</p> <p>Our disaster recovery plans were regularly tested successfully and assured by internal audit.</p>

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 21 July 2022.



Richard Cooper
Chair

VALUE FOR MONEY STATEMENT

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

- The Board sets targets, monitors and drives value for money and performance.
- Our performance, cost and customer satisfaction is benchmarked to other similar organisations.
- 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 in our results with a robust framework at the heart of all decision-making. The Board ensure that our strategic plans include challenging targets for efficiency, cost control and customer service. The primary financial control in the 2021 – 2024 Strategic Plan was a minimum ratio of surplus to turnover. Without this level of performance, we would be unable to sustain the development programme in place. The Board carefully monitors progress. Budgets are set within this framework and any decisions made 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.
- 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 and are 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.

VALUE FOR MONEY STATEMENT

Our performance compared to comparable organisations

We have compared **the Group's** results with the sector using the Regulator of Social Housing Summary of Global Accounts for 2021 for Registered Providers in the Southeast of England. The results highlight the financial strength of the organisation with virtually all results being above median or top quartile.

Metric	The Group			Average ¹
	Budget 2023	Actual 2022	2021	
Investment in - new and existing properties	7.6%	5.7%	7.3%	5.4%
New supply delivered – social housing	0.8%	2.1%	1.8%	1.8%
New supply delivered – non-social housing	0.1%	0.0%	0.0%	0.1%
Gearing	44%	47%	48%	54%
EBITDA: interest rate cover	207%	242%	246%	188%
Social housing cost per unit £	3,951	3,310	3,044	3,989
Operating margin – (social housing only)	41%	43%	47%	34%
Operating margin (overall)	40%	41%	46%	31%
Return on capital employed	3.9%	4.2%	4.5%	3.5%

¹ Sourced from 2021 for associations in the southeast

Scores above average are shown in green

Our performance against our targets

Metric	The group 2022	
	Actual	Budget
Investment in properties - new and existing	5.7%	8.7%
New supply delivered – social housing	2.1%	2.1%
New supply delivered – non-social housing	0.0%	0.0%
Gearing	47%	52%
EBITDA: interest rate cover	242%	205%
Operating margin (overall)	41%	41%
Return on capital employed	4.2%	3.7%

The overall development programme was slightly smaller than anticipated leading to less borrowing, resulting in an improved interest cover and gearing.

VALUE FOR MONEY STATEMENT

Our performance against our targets and other key indicators

	Target for 31 March 2022	Actual as at 31 March 2022	Actual as at 31 March 2021
13 week average of gross rent arrears	3.5%	3.9%	4.1%

Rent arrears continue to fall despite the increasing number of customers on universal credit. We have every confidence of reaching our target this year.

Average turnaround days for voids	20	35.9	41.5
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Whilst void turnaround time continues to improve it is still substantially above target. In order to meet this target additional resources have been allocated to this area.

Average days to complete a repair	10	17.7	14.5
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The average days to complete a repair is above target as external market factors impact performance, in terms of a shortage of skilled labour and longer lead in times for materials. An improvement plan is in place to look at how we can improve. The planned investment in our homes over the next two years will also contribute towards reducing the volume of reactive repairs.

Repairs completed right first time	90%	88%	88%
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Whilst slightly below target, the performance was maintained and is close to the median in similar housing associations.

Customer satisfaction	80%	67%	65%
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This is a disappointing result however progress is being made as the last quarter's results were close to 80%. Ensuring this improvement continues is at the centre of all our actions and planning for the upcoming year.

Overall, these results are unsatisfactory; however the Board are committed to achieving year on year improvements, with action plans in place to drive progress.

VALUE FOR MONEY STATEMENT

Return on investment by asset type

		2021/22			2020/21	2019/20
	Net Cost of Asset*	Income	Surplus	Return	Return	Return
	£'m	£'m	£'m	%	%	%
General needs	247.6	51.8	21.8	8.8	10.5	8.8
Shared ownership	50.5	2.7	1.5	2.9	2.6	2.3
Market rented**	42.8	3.3	1.9	4.5	4.1	3.4

*Based on historic cost (less the revaluation reserve) net of depreciation

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

- The return on general need assets was higher in 20/21 because of delays in repair spend due to COVID-19 restrictions.
- **the Group** own 361 market rented properties. These properties are held as an investment 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.
- A greater return would be obtained on our social housing stock if rents were permitted to increase above Local Housing Allowances rates; however, the Board takes the view that it is essential that rents are kept affordable to those in housing need, with social benefit outweighing return on assets.

TRUSTEES' ANNUAL REPORT INCORPORATING DIRECTORS REPORT: GROUP BOARD AND ADMINISTRATIVE DETAILS

The Board can be comprised of up to nine 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, strategic direction and to be responsible for the proper stewardship of the organisation. The Board holds away days and strategy days to review its own performance and long term strategy.

The Board delegate the day-to-day management within the strategic direction agreed 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.

During the year the Board held eight meetings, inclusive of the Annual General Meeting, at which the average attendance rate was 95% (2021: 95%). Applications for membership are invited by open advert. Applicants are shortlisted and interviewed with appointments made according to required skills, competencies and experience. In the case of tenant Trustees annual elections take place. 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.

Trustee

R Cooper

N Hopkins

A Hook

Lord Roy Kennedy

K Franklin

M Miles Lea

R Christopher

J Seager

A Campbell

Position

Chair

Senior Independent Director

Chief Executive

Non-Executive

Non-Executive

Non-Executive

Non-Executive

Tenant Nominee

Tenant Nominee

Auditors

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

TRUSTEES' ANNUAL REPORT INCORPORATING DIRECTORS REPORT: GROUP BOARD AND ADMINISTRATIVE DETAILS

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. Ashley is also a Chartered Director and sits on a number of boards including the BRE Trust.

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. Kate is Chief Executive at Gateway Housing Association and 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 Opposition Chief Whip in the House of 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.

TRUSTEES' ANNUAL REPORT INCORPORATING DIRECTORS REPORT: COMMITTEES AND EXECUTIVE TEAM

Trustee	Position	Changes in year
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Group Finance Risk and Audit Committee

N Hopkins	Chair	
R Oirschot	Member	
S Bate	Member	Resigned 28 January 2022
I Alfon	Member	Appointed 9 February 2022

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. The committee recommends 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

Remuneration Committee

K Franklin	Chair	
R Christopher	Member	
R Cooper	Member	
Sally Ironmonger	Observer from Heart of Medway	

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

R Christopher	Chair	
S Bate	Member	Resigned 28 January 2022
L Barton	Member	
R Cooper	Member	

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.

Executive Team

A Hook	Chief Executive	
B Shelmerdine	Finance Director	
S Goad	Operations Director	Resigned 27 February 2022
E Keough	Interim Operations Director	Appointed 17 January 2022

The Leadership Team during the year consisted of the Chief Executive, Executive Directors, Company Secretary 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.

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 at or below 80% of market rent.
- By investing our surpluses in developing new affordable housing, both rented and shared ownership.

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. Specific examples of practical differences made to our community include: -

- 181 new properties brought into management
- 94 new starts on sites to provide new homes in future years
- 687 new tenancies started in the year
- 30% of new lettings were made to people who were previously homeless
- Over 500 properties upgraded to having an EPC rating of C leading to a reduced carbon footprint and lower bills for our customer
- By becoming an accredited living wage employer ensuring all suppliers we deal with pay a fair wage.

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 16 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.

TRUSTEES' ANNUAL REPORT INCORPORATING DIRECTORS REPORT: OUR STRUCTURE, GOVERNANCE AND MANAGEMENT

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 (2020 edition). 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.

Induction and training opportunities for Trustees

All new trustees receive a structured induction programme which includes visits to projects, a briefing session on governing documents, meetings with colleagues and one-to-one sessions with the executives. 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. 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. The fees were last benchmarked in 2021 and are programmed to be reviewed in 2023.

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.

TRUSTEES' ANNUAL REPORT INCORPORATING DIRECTORS REPORT: OUR STRUCTURE, GOVERNANCE AND MANAGEMENT

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. In the last year, the Panel carried out reviews of the following four services:

- Living and working through Covid
- My Account
- Estate Services
- Tenancy Support

A range of recommendations were made to help improve and shape future service delivery. This process is supported by external consultants so the Panel can call upon independent expertise as required.

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.

Funds held as custodian on behalf of others

No funds are held as custodians on behalf of others.

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. and in the last year also achieved 'We Invest in Wellbeing' Silver accreditation.

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** is committed to having an inclusive and diverse workforce.

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.

Exemptions from disclosures

No exemptions from disclosures have been taken in this report.

TRUSTEES' ANNUAL REPORT INCORPORATING DIRECTORS REPORT: OUR STRUCTURE, GOVERNANCE AND 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 delivered in accordance with the agreed specification.

Impact on the environment

The Group recognises that it spends substantial amounts on new build projects and maintenance, and there is therefore a strong commitment 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 and reducing waste. 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 10.

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 last assessment on health and safety in January 2022 resulted in us achieving British Safety Council level 3 award ('good'). This is an important external validation of our robust approach to health and safety management.

Going concern

After reviewing the budget of mhs homes for 2022/23 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. The Group has available £70 million of funding across two revolving credit facilities, both fully charged and available to draw. We also start the year with substantial cash reserves of £37 million in line with our prudent approach to treasury management.

Compliance with Governance and Financial Viability Standard

The Board of **mhs homes** determines and monitors the strategic direction of **the Group** and has adopted the National Housing Federation's Code of Governance: promoting board excellence for housing associations (2020 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.

TRUSTEES' ANNUAL REPORT INCORPORATING DIRECTORS REPORT: OUR STRUCTURE, GOVERNANCE AND MANAGEMENT

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

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 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 to act as our auditors. A resolution for the re- appointment of BDO LLP as auditors of the Association is to be proposed at the forthcoming Annual General Meeting.

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.

TRUSTEES' ANNUAL REPORT INCORPORATING DIRECTORS REPORT: OUR STRUCTURE, GOVERNANCE AND MANAGEMENT

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.

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 company's and Group's transactions and disclose with reasonable accuracy at any time the financial position of the 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 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.

TRUSTEES' ANNUAL REPORT INCORPORATING DIRECTORS REPORT: S172 STATEMENT

How the Board complied with its Section 172 duty

The Companies Act 2006 (CA2006) sets out a number of 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 also should have regard to (amongst other matters) six specified areas below that relate to wider stakeholder interests.

1. Likely consequence of any decision in the long term

mhs is a long term business that provides homes and security for our customers whilst generating surpluses that allow us to invest, in new social housing. As this is a loss-making activity, we monitor closely the impact of our developments on the long-term financial plan. This is considered by the Board on an annual basis, or more often if the situation demands, and is considered in detail in the section "Future Planning" on page 9.

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 25.
- We measure how our customers feel about their day-to day interactions with **the Group** by use of the STAR (Survey of Tenants and Residents) surveys.
- We aim to deal with complaints promptly so we can learn as a business and resolve the issue for the customer. During the year, 616 complaints were received with 330 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, whistleblowing and anti-bribery in place which are described in more detail on page 31.

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, 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 25

6. Impact of operations on the community and the environment

See pages 10 and 11 for our impact on the environment and community

ASSESSMENT OF THE EFFECTIVENESS OF INTERNAL CONTROLS

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 support and assist Heart of Medway to comply 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 have found that the Heart of Medway is compliant. In meeting its responsibilities, the Board has adopted a risk-based approach to internal controls. This approach includes the regular evaluation of the nature and extent of risks to which **the Group** is exposed.

The Group has adopted the National Housing Federations Code of Governance (2020) and is compliant. 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 Group 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 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

ASSESSMENT OF THE EFFECTIVENESS OF INTERNAL CONTROLS

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. An audit plan was agreed by the Committee for 2021/22. All recommendations are followed up by Internal Audit to ensure complete implementation. The internal audit service is co-sourced with the audit contractor, RSM-UK.

The Committee met five 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 financial control weaknesses that may have come to their attention in the course of their duties. This letter is considered by the Group 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 staff 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 Group 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 2022. 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

ASSESSMENT OF THE EFFECTIVENESS OF INTERNAL CONTROLS

whistleblowing policy encouraging colleagues to raise issues of malpractice or irregularities which are investigated independently under the Public Interest Disclosure Act. The Group 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 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 and Centrus Financial Advisors Limited act as advisors on treasury management.

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 2021/22 year and up until the adoption of these accounts.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF mhs homes limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MHS HOMES LIMITED

Opinion on the financial statements

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 2022 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 properly 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 the year ended 31 March 2022 which comprise the consolidated statement of financial activity, the consolidated and Parent Charitable Company statement of comprehensive income, the consolidated and Parent Charitable Company statement of financial position, the consolidated statement of cash flows 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 relating to going concern

In auditing the financial statements, we have concluded that the Trustee's 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. Our opinion on the financial statements does not cover the other information we do not express any form of assurance conclusion thereon. Our responsibility is to read the other

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF

mhs homes limited

information including, the Strategic Report, Value for Money and Assessment of the Effectiveness of Internal Controls and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in 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 there is a material misstatement in the financial statements or a material misstatement of the other information. 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 misstatements 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 the 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 determine 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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF mhs homes limited

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.

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;
- 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; 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF mhs homes limited

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: 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:

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Paula Willock (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
Gatwick

Date: 01 August 2022

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

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

Consolidated Statement of Financial Activity

mhs homes group	Note	Revaluation reserve 2022 £'000	Unrestricted funds 2022 £'000	Restricted funds 2022 £'000	Total funds 2022 £'000	Total funds 2021 £'000
Income from charitable activities						
Social housing lettings	4	-	54,446	-	54,446	52,204
Supporting People	4	-	-	388	388	388
Other income	4	-	363	-	363	439
Sale of fixed assets	12	-	1,158	-	1,158	311
First tranche shared ownership sales	4	-	5,142	-	5,142	2,764
Income from non-social housing activities						
Other	4	-	956	-	956	976
Income from investment activities						
Market rented Properties	4	-	3,383	-	3,383	3,352
Investment income	13	-	15	-	15	31
Total income		-	65,463	388	65,851	60,465
Expenditure on charitable activities						
Social housing lettings	4	-	31,165	-	31,165	27,745
Supporting people	4	-	259	388	647	744
Other expenditure	4	-	504	-	504	502
First tranche shared ownership sales	4	-	3,914	-	3,914	2,137
Expenditure on non-social housing activities						
Other	4	-	524	-	524	484
Market rented properties	4	-	1,244	-	1,244	1,018
Interest and financing costs	14	-	11,297	-	11,297	11,412
Total expenditure		-	48,907	388	49,295	44,042
Net income		-	16,556	-	16,556	16,423
Gain in fair value of: -						
Investments	19	6	-	-	6	13
Investment properties	18	-	6,169	-	6,169	4,085
Actuarial gain					-	
Defined benefit pension scheme	26	-	1,756	-	1,756	1,101
Net movement in funds		6	24,481	-	24,487	21,622
Total funds brought forward		212,528	128,147	-	340,675	319,053
Transfer to unrestricted funds on disposal of revalued properties		(1,902)	1,902	-	-	-
Total funds carried forward		210,632	154,530	-	365,162	340,675

All activities relate to continuing operations

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

Statements of Comprehensive Income

mhs homes group	Note	Total 2022 £'000	Total 2021 £'000
Turnover	4	64,678	60,123
Cost of sales	4	(3,914)	(2,137)
Operating costs	4	(34,084)	(30,493)
Surplus on disposal of fixed assets	12	1,158	311
Operating surplus		27,838	27,804
Other interest receivable and similar income	13	15	31
Interest payable and financing costs	14	(11,297)	(11,412)
Movement in fair value of investments	19	6	13
Movement in fair value of investment properties	18	6,169	4,085
Surplus before taxation		22,731	20,521
Taxation on surplus	15	-	-
Surplus for the year		22,731	20,521
Actuarial gain on defined benefits pension scheme	26	1,756	1,101
Total comprehensive income for the financial year		24,487	21,622

mhs homes limited	Note	Total 2022 £'000	Total 2021 £'000
Turnover	4	57,764	52,777
Cost of sales	4	(3,914)	(2,137)
Operating costs	4	(30,582)	(27,677)
Surplus on disposal of fixed assets	12	757	4
Operating surplus		24,025	22,967
Other interest receivable and similar income	13	522	555
Interest payable and financing costs	14	(11,140)	(11,208)
Movement in fair value of investment properties	18	5,973	3,961
Surplus before taxation		19,380	16,275
Taxation on surplus	15	-	-
Surplus for the year		19,380	16,275
Actuarial gain on defined benefits pension scheme	26	1,756	1,101
Total comprehensive income for the financial year		21,136	17,376

All activities relate to continuing operations.

The notes on pages 41 to 71 form part of these financial statements.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

Statements of Financial Position

	Note	Group 2022 £'000	Group 2021 £'000	mhs homes 2022 £'000	mhs homes 2021 £'000
Fixed assets					
Tangible fixed asset - housing	16	538,425	519,868	418,830	417,879
Tangible fixed assets - other	17	7,435	7,715	1,782	1,915
Investment properties	18	87,458	78,904	81,438	73,080
Investments	19	276	270	-	-
		633,594	606,757	502,050	492,874
Current assets					
Stock and work in progress	20	1,750	3,168	1,750	3,168
Debtors – receivable within one	21	3,865	2,875	2,886	2,559
Debtors – receivable after one year	21	-	-	16,201	13,767
Short term deposits		1,864	1,845	1,519	1,583
Cash and cash equivalents		34,331	36,401	34,307	32,320
		41,810	44,289	56,663	53,397
Creditors: amounts falling due within one year	22	(16,690)	(20,622)	(15,454)	(18,205)
Net current assets		25,120	23,667	41,209	35,192
Total assets less current		658,714	630,424	543,259	528,066
Creditors: Amounts falling due after more than one year:					
Loans	23	(284,561)	(279,412)	(265,070)	(269,667)
Net assets excluding pension		374,153	351,012	278,189	258,399
Pension liability	26	(8,991)	(10,337)	(8,991)	(10,337)
Net assets		365,162	340,675	269,198	248,062
Capital and reserves					
Income and expenditure reserve		154,530	128,147	58,599	35,562
Revaluation reserve		210,632	212,528	210,599	212,500
		365,162	340,675	269,198	248,062

These financial statements were approved and authorised for issue by the Board on 21 July 2022 and were signed on its behalf by:



A Hook
Chief Executive



L Humphrey
Company Secretary



R Cooper
Chair

The notes on pages 41 to 71 form part of these financial statements.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

Consolidated Statement of Cashflows

mhs homes group

	Note	2022	2021
Cash flows from operating activities		£'000	£'000
Surplus for the financial year		22,731	20,521
Adjustments for:			
Depreciation of fixed assets - housing properties	16	5,613	5,314
Loss on disposal of replaced components		90	168
Depreciation of fixed assets - other	17	408	426
Grant received in year		(1,491)	(1,915)
Impairment of assets	16	115	208
Interest payable and finance costs		11,297	11,412
Cost element of housing property sales in operating	12	5,888	724
Increase in fair value of investment properties	18	(6,169)	(4,085)
Increase in fair value of investments	19	(6)	(13)
Increase in trade and other debtors		(296)	(144)
Difference between net pension expense and cash		410	338
Decrease in stocks		3,774	1,826
Decrease \ (increase) in trade and other creditors		(4,113)	1,880
Interest received		(15)	(31)
Cash from operations		38,236	36,629
Net cash generated from operating activities		38,236	36,629
Cash flows from investing activities			
Purchase of fixed assets - housing properties	16	(28,459)	(36,660)
Purchase of fixed assets - investment properties	18	(2,824)	(4,605)
Purchases of fixed assets - other	17	(128)	(118)
Major repairs capitalised as components	16	(3,188)	(2,785)
Receipt of grant		797	1,915
Interest received	13	15	31
Net cash from investing activities		(33,787)	(42,222)
Cash flows from financing activities			
Interest paid		(11,800)	(12,248)
New loans	23	10,000	10,000
Repayment of loans	23	(4,700)	(9,000)
Net cash used in financing activities		(6,500)	(11,248)
Net increase in cash and cash equivalents		(2,051)	(16,841)
Cash and cash equivalents at beginning of year		38,246	55,087
Cash and cash equivalents at end of year		36,195	38,246

The notes on page 41 to 71 form part of these financial statements

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

Notes forming part of the Financial Statements

1. Legal status

mhs homes is a 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 2022.

2. Accounting policies

The financial statements have been prepared in accordance with UK accounting standards, including Financial Reporting Standard 102 - The Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS102) and the Charities: Statement of recommended practice (FRS102).

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.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

Notes forming part of the Financial Statements (Continued)

Going Concern

After reviewing the budget of mhs homes for 2022/23 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. The Group has available £70 million of funding across two revolving credit facilities, both fully charged and available to draw. We also start the year with substantial cash reserves of £37 million in line with our prudent 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 and service charges receivable (after deducting lost rent from void properties);
- First and subsequent tranche sales of shared ownership housing properties developed for sale;
- Capital grants;
- Revenue grants;
- 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.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

Notes forming part of the Financial Statements (Continued)

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.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

Notes forming part of the Financial Statements (Continued)

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.

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.

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 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.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

Notes forming part of the Financial Statements (Continued)

The structure and other major components are depreciated over the determined average useful economic life as follows:

Description	Economic useful life (years)
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

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:

Description	Economic useful life (years)
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".

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

Notes forming part of the Financial Statements (Continued)

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.

Stock

Stock represents work in progress and completed 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.

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.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

Notes forming part of the Financial Statements (Continued)

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. These are assessed annually and 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.

Investment Properties (see note 18)

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 house price index based on location and type of property.

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.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

Notes forming part of the Financial Statements (Continued)

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

mhs homes group	Turnover	Cost of sales	Operating costs	Sale of fixed assets	Operating surplus/ (deficit)
	2022	2022	2022	2022	2022
	£'000	£'000	£'000	£'000	£'000
Social housing lettings (Note 5)	54,446	-	(31,165)	-	23,281
Other social housing activities					
First tranche shared ownership sales	5,142	(3,914)	-	-	1,228
Development	-	-	(211)	-	(211)
Supporting people	388	-	(647)	-	(259)
Foyers	291	-	(213)	-	78
Managed properties	63	-	(81)	-	(18)
Charitable activities	60,330	(3,914)	(32,317)	-	24,099
Non-social housing activities					
Market rented properties	3,383	-	(1,243)	-	2,140
Other income	9	-	-	-	9
Other properties & commercial	956	-	(524)	-	432
Non charitable activities	4,348	-	(1,767)	-	2,581
Surplus on disposal of fixed assets	-	-	-	1,158	1,158
	64,678	(3,914)	(34,084)	1,158	27,838

mhs homes group	Turnover	Cost of sales	Operating costs	Sale of fixed assets	Operating surplus/ (deficit)
	2021	2021	2021	2021	2021
	£'000	£'000	£'000	£'000	£'000
Social housing lettings (Note 5)	52,204	-	(27,745)	-	24,459
Other social housing activities					
First tranche shared ownership sales	2,764	(2,137)	-	-	627
Development	-	-	(220)	-	(220)
Supporting people	388	-	(744)	-	(356)
Foyers	287	-	(203)	-	84
Managed properties	59	-	(79)	-	(20)
Charitable activities	55,702	(2,137)	(28,991)	-	24,574
Non-social housing activities					
Market rented properties	3,352	-	(1,018)	-	2,334
Other income	93	-	-	-	93
Other properties & commercial	976	-	(484)	-	492
Non charitable activities	4,421	-	(1,502)	-	2,919
Surplus on disposal of fixed assets	-	-	-	311	311
	60,123	(2,137)	(30,493)	311	27,804

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

Notes forming part of the Financial Statements (Continued)

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

mhs homes limited	Turnover	Cost of Sales	Operating costs	Sale of fixed assets	Operating surplus/ (deficit)
	2022 £'000	2022 £'000	2022 £'000	2022 £'000	2022 £'000
Social housing lettings (Note 5)	48,367	-	(28,249)	-	20,118
Other social housing activities					
First tranche shared ownership sales	5,142	(3,914)	-	-	1,228
Development	-	-	(211)	-	(211)
Supporting people	188	-	(337)	-	(149)
Managed properties	63	-	(81)	-	(18)
Charitable activities	53,760	(3,914)	(28,878)	-	20,968
Non-social housing activities					
Market rented properties	3,263	-	(1,180)	-	2,083
Other income	8	-	-	-	8
Other properties and commercial	733	-	(524)	-	209
Non charitable activities	4,004	-	(1,704)	-	2,300
Surplus on disposal of fixed assets	-	-	-	757	757
	57,764	(3,914)	(30,582)	757	24,025
mhs homes limited	Turnover	Cost of Sales	Operating costs	Sale of fixed assets	Operating surplus/ (deficit)
	2021 £'000	2021 £'000	2021 £'000	2021 £'000	2021 £'000
Social housing lettings (Note 5)	45,749	-	(25,569)	-	20,180
Other social housing activities					
First tranche shared ownership sales	2,764	(2,137)	-	-	627
Development	-	-	(220)	-	(220)
Supporting people	188	-	(420)	-	(232)
Managed properties	59	-	(79)	-	(20)
Charitable activities	48,760	(2,137)	(26,288)	-	20,335
Non-social housing activities					
Market rented properties	3,184	-	(905)	-	2,279
Other income	83	-	-	-	83
Other properties and commercial	750	-	(484)	-	266
Non charitable activities	4,017	-	(1,389)	-	2,628
Surplus on disposal of fixed assets	-	-	-	4	4
	52,777	(2,137)	(27,677)	4	22,967

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022
Notes forming part of the Financial Statements (Continued)

5 Income and expenditure from social housing lettings

mhs homes group	Affordable rent £'000	General needs £'000	Supported housing £'000	Shared ownership £'000	Total 2022 £'000	Total 2021 £'000
Income						
Rents net of identifiable service charges*	5,122	41,496	2,621	2,003	51,242	49,757
Service charge income	315	528	296	414	1,553	447
Amortised government grant	69	1,187	24	211	1,491	1,916
Other income	(1)	118	4	39	160	84
Turnover from social housing lettings	5,505	43,329	2,945	2,667	54,446	52,204
Expenditure						
Management	(542)	(4,597)	(648)	(178)	(5,965)	(5,644)
Service charge costs	(324)	(1,516)	(508)	(414)	(2,762)	(2,693)
Routine maintenance	(423)	(5,534)	(284)	(8)	(6,249)	(5,522)
Planned maintenance	(364)	(5,201)	(549)	(51)	(6,165)	(5,920)
Major repairs	(756)	(2,321)	(741)	(102)	(3,920)	(1,695)
Bad debts	(24)	(225)	(29)	(8)	(286)	(576)
Depreciation of housing properties:						
- annual charge	(766)	(4,038)	(356)	(453)	(5,613)	(5,319)
- impairment	-	(115)	-	-	(115)	(208)
- accelerated on disposal of components	(23)	(67)	-	-	(90)	(168)
Operating expenditure on social housing lettings	(3,222)	(23,614)	(3,115)	(1,214)	(31,165)	(27,745)
Operating surplus on social housing lettings	2,283	19,715	(170)	1,453	23,281	24,459
Void losses	(16)	(336)	(86)	(7)	(445)	(484)

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022
Notes forming part of the Financial Statements (Continued)

5 Income and expenditure from social housing lettings

mhs homes limited	Affordable rent £'000	General needs £'000	Supported housing £'000	Shared ownership £'000	Total 2022 £'000	Total 2021 £'000
Income						
Rents net of identifiable service charges*	2,553	40,721	2,483	1,125	46,882	45,665
Service charge Income	210	464	277	222	1,173	-
Amortised government grant	-	-	-	190	190	-
Other income	-	118	4	-	122	84
Turnover from social housing lettings	2,763	41,303	2,764	1,537	48,367	45,749
Expenditure						
Management	(250)	(4,930)	(637)	(167)	(5,984)	(5,567)
Service charge costs	(210)	(1,439)	(496)	(222)	(2,367)	(2,240)
Routine maintenance	(290)	(5,492)	(278)	(5)	(6,065)	(5,402)
Planned maintenance	(269)	(5,163)	(545)	(22)	(5,999)	(5,729)
Major repairs	(116)	(2,267)	(740)	(4)	(3,127)	(1,540)
Bad debts	-	(215)	(29)	(9)	(253)	(516)
Depreciation of housing properties:						
- annual charge	(10)	(3,776)	(209)	(277)	(4,272)	(4,202)
- impairment	-	(115)	-	-	(115)	(208)
- accelerated on disposal of components	-	(67)	-	-	(67)	(165)
Operating expenditure on social housing lettings	(1,145)	(23,464)	(2,934)	(706)	(28,249)	(25,569)
Operating surplus on social housing lettings	1,618	17,839	(170)	831	20,118	20,180
Void losses	-	(331)	(86)	-	(417)	(432)

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022
Notes forming part of the Financial Statements (Continued)

6 Expenditure on charitable activities

mhs homes group	Depreciation and amortisation		Direct activities		Support and governance costs		Total	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000
General needs	(5,009)	(5,281)	(16,143)	(13,812)	(5,684)	(5,185)	(26,836)	(24,278)
Supported housing	(356)	-	(2,358)	(2,068)	(401)	(408)	(3,115)	(2,476)
Shared ownership	(453)	(415)	(521)	(359)	(240)	(217)	(1,214)	(991)
Social housing lettings	(5,818)	(5,696)	(19,022)	(16,239)	(6,325)	(5,810)	(31,165)	(27,745)
Supporting People	-	-	(647)	(744)	-	-	(647)	(744)
Other expenditure	-	-	(505)	(502)	-	-	(505)	(502)
Total charitable expenditure included in operating costs	(5,818)	(5,696)	(20,174)	(17,485)	(6,325)	(5,810)	(32,317)	(28,991)
First Tranche shared ownership sales	-	-	(3,914)	(2,137)	-	-	(3,914)	(2,137)
Operating surplus on social housing lettings	(5,818)	(5,696)	(24,088)	(19,622)	(6,325)	(5,810)	(36,231)	(31,128)

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022
Notes forming part of the Financial Statements (Continued)

6 Expenditure on charitable activities (continued)

mhs homes limited	Depreciation and amortisation		Direct activities		Support and governance costs		Total	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000
General needs	(3,968)	(4,338)	(14,917)	(13,045)	(5,725)	(5,205)	(24,610)	(22,588)
Supported housing	(209)	-	(2,324)	(2,068)	(401)	(408)	(2,934)	(2,476)
Shared ownership	(277)	(236)	(199)	(90)	(229)	(179)	(705)	(505)
Social housing lettings	(4,454)	(4,574)	(17,440)	(15,203)	(6,355)	(5,792)	(28,249)	(25,569)
Supporting people	-	-	(337)	(420)	-	-	(337)	(420)
Other expenditure	-	-	(292)	(299)	-	-	(292)	(299)
Total Charitable expenditure included in operating costs	(4,454)	(4,574)	(18,069)	(15,922)	(6,355)	(5,792)	(28,878)	(26,288)
First tranche shared ownership sales	-	-	(3,914)	(2,137)	-	-	(3,914)	(2,137)
Operating surplus on social housing lettings	(4,454)	(4,574)	(21,983)	(18,059)	(6,355)	(5,792)	(32,792)	(28,425)

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

Notes forming part of the Financial Statements (Continued)

7 Units of housing stock

Social housing	As at 1 April 2021	Transfers	New Build	Demolished	Disposals	As at 31 March 2022
mhs homes limited						
General needs housing	6,660	36	62	(35)	(5)	6,718
Sheltered schemes	481	(10)	-	-	-	471
Shared ownership	233	-	41	-	(5)	269
Intermediate rent	1	-	-	-	-	1
Social leaseholders	468	-	-	(1)	6	473
Foyers *	36	-	-	-	-	36
	7,879	26	103	(36)	(4)	7,968
Heart of Medway						
General needs housing	522	-	21	-	-	543
Sheltered schemes	-	-	54	-	-	54
Shared ownership	243	-	-	-	(5)	238
Social leaseholders	18	-	-	-	3	21
	783	-	75	-	(2)	856
Lord Kitcheener						
General needs housing	6	-	-	-	-	6
Non – Social housing						
mhs homes limited						
Managed freeholders	177	-	-	-	-	177
Market rent	344	(2)	3	(1)	-	344
Commercial lettings	46	-	-	-	-	46
Heart of Medway						
Market rent	17	-	-	-	-	17
Managed freeholders	4	-	-	-	2	6
Total owned	9,256	24	181	(37)	2	9,420
Accommodation managed for others	84	-	-	-	-	84
by other	42	(24)	-	-	-	18
Total owned or managed	9,382	-	181	(37)	(4)	9,522
Garages	1,449	-	-	(45)	-	1,404

* Properties leased to Heart of Medway between 3 and 16 years

	Group 2022	Group 2021	mhs homes 2022	mhs homes 2021
Units under construction: commitments contracted				
Houses	82	128	39	64
Sheltered	120	54	30	-
Flats	65	112	29	76
Units under development: approved but not contracted				
Houses	36	56	10	30
Sheltered	-	119	-	119
Flats	36	45	12	33
	339	460	120	322

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

Notes forming part of the Financial Statements (Continued)

8 Operating Surplus

	Group 2022 £'000	Group 2021 £'000	mhs homes 2022 £'000	mhs homes 2021 £'000
This is arrived at after charging:				
Depreciation of housing properties:				
- annual charge	5,613	5,319	4,272	4,202
Depreciation of other fixed assets:				
- annual charge	408	426	261	279
Accelerated depreciation on replaced components	367	329	325	326
Operating leases	743	645	743	645
Auditors' remuneration (excluding VAT):				
- fees payable to the group's auditor for the audit of the group's annual accounts	42	34	42	34
- fees for audit of accounts of subsidiary entities	33	14	-	-
- fees for other audit services	4	4	4	4

9 Employees

	Group 2022 £'000	Group 2021 £'000	mhs homes 2022 £'000	mhs homes 2021 £'000
Number of employees	266	275	266	275
Wages and salaries	10,353	9,653	10,353	9,653
Social security costs	959	918	959	918
Cost of defined contribution scheme	379	368	379	368
Cost of defined benefit scheme (see note 26)	256	261	256	261
	11,947	11,216	11,947	11,216

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 266 (2021: 275).

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.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

Notes forming part of the Financial Statements (Continued)

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 20.

Trustee	Remuneration £'000	Remuneration Committee	Treasury Committee	Group Finance, Risk and Audit Committee
R Cooper	20	✓	✓	
N Hopkins	12			✓
R Kennedy	10			
K Franklin	9	✓		
M Miles Lea	9			
R Christopher	11	✓	✓	
J Seager	9			
A Campbell	9			

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" : Expenses paid in 2022 were £392 (2021:£713)

11 Senior executive remuneration

	Group 2022 £'000	Group 2021 £'000
Key Management personnel emoluments	522	551
Amounts paid to non-executive	89	86
Total expenses reimbursed to the directors not chargeable to income tax	-	-
	611	637

The total amount payable to the Chief Executive, who was also the highest paid director in respect of emoluments, was £183,769 (2021: £187,944). Pension contributions of £44,681 (2021: £45,753) 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 was one director (2021: two) in **the Group's** defined contribution pension scheme. Contributions were paid into the scheme on their behalf £25,209 (2021: £26,862). The remuneration paid to staff (including Leadership Team) earning over £60,000 upwards:

	Group 2022 No.	Group 2021 No.
£60,000 - £69,999	2	2
£70,000 - £79,999	2	7
£80,000 - £89,999	5	-
£120,000 - £129,999	-	1
£130,000 - £139,999	1	1
£200,000 - £209,999	-	1
£210,000 - £219,999	1	-

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

Notes forming part of the Financial Statements (Continued)

12 Surplus on disposal of fixed assets

GROUP	Shared ownership Staircasing 2022 £'000	Right to Buy Sales 2022 £'000	Sale of Land 2022 £'000	Total 2022 £'000	Total 2021 £'000
Housing properties:					
Disposal proceeds	1,644	673	-	2,317	1,034
Cost of disposals	(1,112)	(38)	-	(1,150)	(724)
Legal and other fees	(4)	(5)	-	(9)	1
	528	630	-	1,158	311

mhs homes	2022 £'000	2022 £'000	2022 £'000	2022 £'000	2021 £'000
Housing Properties:					
Disposal proceeds	703	673	4,738	6,114	257
Cost of disposals	(574)	(38)	(4,738)	(5,350)	(256)
Legal and other fees	(2)	(5)	-	(7)	3
	127	630	-	757	4

13 Interest receivable and income from investments

	Group 2022 £'000	Group 2021 £'000	mhs homes 2022 £'000	mhs homes 2021 £'000
Interest receivable from group undertakings	-	-	513	529
Interest receivable and similar income	15	31	9	26
	15	31	522	555

14 Interest payable and similar charges

	Group 2022 £'000	Group 2021 £'000	mhs homes 2022 £'000	mhs homes 2021 £'000
Bank loans and overdrafts	10,909	10,884	10,469	10,517
Other fees	495	531	493	523
	11,404	11,415	10,962	11,040
Amortisation of issue costs	222	189	206	175
	11,626	11,604	11,168	11,215
Net interest on defined pension liability (note 26)	204	258	204	258
Interest capitalised on construction of housing properties	(533)	(450)	(232)	(265)
	11,297	11,412	11,140	11,208

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

Notes forming part of the Financial Statements (Continued)

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:

	Group	Group	mhs	mhs
	2022	2021	homes	homes
	£'000	£'000	2022	2021
			£'000	£'000
Surplus on ordinary activities before tax	22,731	20,521	19,380	16,275
Surplus on ordinary activities at the standard rate of corporation tax in the UK of 19% (2021 - 19%)	4,319	3,899	3,682	3,092
Effects of:				
Group relief surrendered		-	-	-
Net income subject to charitable exemptions	(4,239)	(3,843)	(3,682)	(3,092)
Adjustments in respect of prior years-deferred tax	(80)	(56)	-	-
Total tax credit for period	-	-	-	-

The aggregate current and deferred tax relating to items recognised in other comprehensive income is a nil charge (2021: nil charge).

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022
Notes forming part of the Financial Statements (Continued)

16 Tangible fixed assets - housing properties

mhs homes group	General needs completed	Shared ownership completed	General needs under construction	Shared ownership Under construction	Total
Cost or valuation:	£'000	£'000	£'000	£'000	£'000
At 1 April 2021	493,718	48,126	31,125	5,653	578,622
Additions - construction costs	24	56	23,298	3,568	26,946
Additions - works to replaced components	3,115	-	-	-	3,115
Completed schemes	27,989	6,021	(27,989)	(6,021)	-
Net transfer from investment properties	512	-	-	-	512
Transfer to current assets	-	(312)	-	-	(312)
Staircasing disposals	-	(1,141)	-	-	(1,141)
Property disposals	(4,906)	-	-	-	(4,906)
Disposal of replaced components	(436)	-	-	-	(436)
At 31 March 2022	520,016	52,750	26,434	3,200	602,400
Depreciation:					
At 1 April 2021	55,042	1,586	-	-	56,628
Charge for the year	5,188	425	-	-	5,613
Eliminated on transfer to current assets	-	(2)	-	-	(2)
Eliminated on staircasing disposals	-	(30)	-	-	(30)
Eliminated on property disposals	(129)	-	-	-	(129)
Disposal of replaced components	(346)	-	-	-	(346)
At 31 March 2022	59,755	1,979	-	-	61,734
Impairment:					
At 1 April 2021	1,893	233	-	-	2,126
Charge for the year	115	-	-	-	115
At 31 March 2022	2,008	233	-	-	2,241
Net book value at 31 March 2022	458,253	50,538	26,434	3,200	538,425
Net book value at 31 March 2021	436,783	46,307	31,125	5,653	519,868

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022
Notes forming part of the Financial Statements (Continued)

16 Tangible fixed assets - housing properties (continued)

mhs homes limited	General needs completed	Shared ownership completed	General needs under construction	Shared ownership Under construction	Total
Cost or valuation:	£'000	£'000	£'000	£'000	£'000
At 1 April 2021	426,569	27,937	8,561	5,654	468,721
Additions - construction costs	22	56	3,842	3,568	7,488
Additions - works to replaced components	3,066	-	-	-	3,066
Completed schemes	11,198	6,021	(11,198)	(6,021)	-
Transfer from investment properties	512	-	-	-	512
Transfer to current assets	-	(312)	-	-	(312)
Staircasing disposals	-	(589)	-	-	(589)
Property disposals	(4,906)	-	-	-	(4,906)
Disposal of replaced components	(392)	-	-	-	(392)
At 31 March 2022	436,069	33,113	1,205	3,201	473,588
Depreciation:					
At 1 April 2021	48,794	622	-	-	49,416
Charge for the year	4,002	270	-	-	4,272
Eliminated on transfer to current assets	-	(2)	-	-	(2)
Eliminated on staircasing	-	(15)	-	-	(15)
Eliminated on property disposals	(129)	-	-	-	(129)
Disposal of replaced components	(325)	-	-	-	(325)
At 31 March 2022	52,342	875	-	-	53,217
Impairment:					
At 1 April 2021	1,426	-	-	-	1,426
Charge for the year	115	-	-	-	115
At 31 March 2022	1,541	-	-	-	1,541
Net book value at 31 March 2022	382,186	32,238	1,205	3,201	418,830
Net book value at 31 March 2021	376,349	27,315	8,561	5,654	417,879

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

Notes forming part of the Financial Statements (Continued)

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.

	Group 2022 £'million	Group 2021 £'million	mhs homes 2022 £'million	mhs homes 2021 £'million
Estimated total EUV – SH	661	625	585	567
Estimated EUV- SH value of properties charged	513	510	497	493

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

	Group 2022 £'000	Group 2021 £'000	mhs homes 2022 £'000	mhs homes 2021 £'000
Freehold	535,725	517,117	417,772	416,801
Long leasehold	2,700	2,751	1,058	1,078
	538,425	519,868	418,830	417,879

Interest capitalisation

Interest capitalised in the year	533	450	232	265
Cumulative interest capitalised	4,426	3,892	2,321	2,089
Rate used for capitalisation %	3.0	3.7	2.5	2.5

Works to properties

Improvements to existing properties capitalised	3,188	2,785	3,148	2,769
Major repairs expenditure to income and	4,088	1,695	3,398	1,540
	7,276	4,480	6,546	4,309

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

Notes forming part of the Financial Statements (Continued)

17 Other tangible fixed assets

mhs homes group	Other offices £'000	Freehold premises £'000	Fixtures & fittings £'000	Total £'000
Cost or valuation				
At 1 April 2021	7,982	2,120	6,638	16,740
Additions	-	-	128	128
At 31 March 2022	7,982	2,120	6,766	16,868
Depreciation				
At 1 April 2021	2,182	653	6,190	9,025
Charge for year	147	27	234	408
At 31 March 2022	2,329	680	6,424	9,433
Net book value				
At 31 March 2022	5,653	1,440	342	7,435
At 31 March 2021	5,800	1,467	448	7,715
mhs homes limited		Freehold premises £'000	Fixtures & fittings £'000	Total £'000
Cost or valuation				
At 1 April 2021		2,120	6,638	8,758
Additions		-	128	128
At 31 March 2022		2,120	6,766	8,886
Depreciation				
At 1 April 2021		653	6,190	6,843
Charge for year		27	234	261
At 31 March 2022		680	6,424	7,104
Net book value				
At 31 March 2022		1,440	342	1,782
At 31 March 2021		1,467	448	1,915

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

Notes forming part of the Financial Statements (Continued)

18 Investment Properties

	Head Office Buildings	Market Rent completed	Market Rent under construction	Total
mhs homes group	£'000	£'000	£'000	£'000
At 1 April 2021	2,554	72,471	3,879	78,904
Units converted to social housing	-	(512)	-	(512)
Construction costs	-	9	2,866	2,875
Works to existing properties	-	22	-	22
Completed schemes	-	1,701	(1,701)	-
Fair value adjustment	-	6,169	-	6,169
At 31 March 2022	2,554	79,860	5,044	87,458

mhs homes limited	£'000	£'000	£'000
At 1 April 2021	69,201	3,879	73,080
Units converted to social housing	(512)	-	(512)
Construction costs	9	2,866	2,875
Works to existing properties	22	-	22
Completed schemes	1,701	(1,701)	-
Fair value adjustment	5,973	-	5,973
At 31 March 2022	76,394	5,044	81,438

The Group's market rented investment properties are measured at cost on initial recognition. In 2020 the fair value was determined by external valuers and in subsequent years updated based on the Land Registry. Changes in fair value are recognised in the statement of comprehensive income. The gain on revaluation of investment property arising of £6.169m (2021 – a gain of £4.085m) 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:

	Group 2022 £'000	Group 2021 £'000	mhs homes 2022 £'000	mhs homes 2021 £'000
Historic cost	48,768	46,246	45,361	42,839
Accumulated depreciation	(5,933)	(5,700)	(5,643)	(4,787)
	42,835	40,546	39,718	38,052

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

Notes forming part of the Financial Statements (Continued)

19 Fixed asset investments

mhs homes group	Investments £'000	Listed Investments £'000	Other Investments £'000	Total £'000
At 1 April 2021	185	80	5	270
Revaluation	-	6	-	6
At 31 March 2022	185	86	5	276

mhs homes limited	Total 2022 £	Total 2021 £
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)
	3	3

Details of subsidiary undertakings, associated undertakings and other investments

The group comprises of the following entities all incorporated in England

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

¹ mhs homes controls Heart of Medway through an inter group agreement.

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

³ Lord Kitchener is administered by mhs homes who were appointed a corporate trustee

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

Notes forming part of the Financial Statements (Continued)

20 Stock and Work in Progress

	Group	Group	mhs homes	mhs homes
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Materials	26	34	26	34
Shared ownership under construction	1,724	3,045	1,724	3,045
Shared ownership completed properties	-	89	-	89
	1,750	3,168	1,750	3,168

The amount taken to cost of sales in year was £3.456 million in Group and mhs homes.

21 Debtors

	Group	Group	mhs homes	mhs homes
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Due within one year				
Rent and service charge arrears	3,070	3,127	2,727	2,826
Less: provision for doubtful debts	(985)	(900)	(858)	(800)
	2,085	2,227	1,869	2,026
Prepayments	1,428	303	735	303
Taxes and social security	33	41	-	-
Other debtors	315	280	278	206
Loans to employees	4	24	4	24
	3,865	2,875	2,886	2,559
Due after one year				
Loan to Heart of Medway	-	-	4,535	1,659
Loan to Chatham Maritime K1 Development	-	-	11,666	11,916
Loan to Lord Kitchener	-	-	-	192
	-	-	16,201	13,767

22 Creditors: amounts falling due within one year

	Group	Group	mhs homes	mhs homes
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Loans and borrowings (note 24)	4,800	4,700	4,800	4,700
Trade creditors	1,391	790	1,372	791
Rent in advance	1,230	1,131	1,117	1,017
Taxation and social security	-	48	17	48
Other creditors	543	566	537	559
Amounts due to subsidiaries	-	-	247	83
Accruals	5,107	9,909	4,202	7,832
Loan interest and fees due	1,756	1,675	1,643	1,635
Sinking fund balances	1,863	1,803	1,519	1,540
	16,690	20,622	15,454	18,205

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

Notes forming part of the Financial Statements (Continued)

23 Creditors: amounts falling due after more than one year

	Group	Group	mhs homes	mhs homes
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Loans (Note 24)	291,139	285,839	271,139	275,839
Less repayable within one year	(4,800)	(4,700)	(4,800)	(4,700)
Less issue costs	(1,778)	(1,727)	(1,269)	(1,472)
Loans and borrowings	284,561	279,412	265,070	269,667

24 Loans and borrowings: Maturity of Debt

	Group	Group	mhs homes	mhs homes
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Less than one year	4,800	4,700	4,800	4,700
Between two and five years	34,600	32,600	34,600	32,600
In five years or more	251,739	248,539	231,739	238,539
Loans and borrowings	291,139	285,839	271,139	275,839

During the year, £10 million was borrowed and £4.7 million of term debt repaid. The debt is comprised of £166 million of bank loans, which are repaid by instalments up to 2039, and five 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

Two private placements are in Heart of Medway, £10 million due in 2038 and £10 million due in 2055.

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 from 2023 to 2055. At 31 March 2022 **the Group** had unused facilities of £70 million all of which is charged and available to draw and a pre-arranged private placement of £10 million due in 2022.

Following the discontinuation of London Interbank Offered Rates ("LIBOR"), all interest rates that were calculated in this manner were converted to "Sterling Overnight Index Average" (SONIA) during the year.

25 Financial instruments

Information regarding the group's exposure to and management of credit risk liquidity risk, market risk, cashflow and interest rate 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
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Financial assets measured at fair value:	276	270	-	-
Total financial assets	276	270	-	-

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

Notes forming part of the Financial Statements (Continued)

26 Pensions

Defined benefit pension scheme

mhs homes limited is an community admission body 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 2019 with the next formal valuation due in 2022. The contribution rate for **the Group** was 25.7% (2021:25.7%) for employer contributions and 5.5% to 11.4% (2021:5.5% 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 £343,428 (2021: £363,231). 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.

	31 March 2022 £'000	31 March 2021 £'000
Reconciliation of present value of plan liabilities		
At the beginning of the year	58,287	49,087
Current service cost	482	372
Interest cost	1,151	1,136
Change in financial assumptions	(1,828)	10,550
Change in demographic assumptions	-	(560)
Experience loss	119	(739)
Benefits paid net of transfers in	(1,515)	(1,606)
Contributions by scheme participants	80	88
Unfunded pension payments	(40)	(41)
At the end of the year	56,736	58,287

	31 March 2022 £'000	31 March 2021 £'000
Reconciliation of fair value of plan assets		
At the beginning of the year	47,950	37,988
Interest on assets	947	878
Return on assets less interest	47	10,352
Administration expenses	(29)	(31)
Contributions by employer excluding unfunded	305	322
Contributions by members	80	88
Benefits paid	(1,555)	(1,647)
At the end of the year	47,745	47,950

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

Notes forming part of the Financial Statements (Continued)

26 Pensions (continued)

	31 March 2022 £'000	31 March 2021 £'000
Fair value of plan assets	47,745	47,950
Present value of plan liabilities	56,161	57,674
Deficit	8,416	9,724
Present value of unfunded obligation	575	613
Net pension scheme liability	8,991	10,337
Amounts recognised in other comprehensive income are as follows:	31 March 2022 £'000	31 March 2021 £'000
Included in administrative expenses:		
Service cost	482	372
Net interest on the defined liability	204	258
Administration expenses	29	31
	715	661
Analysis of actuarial gain recognised in other comprehensive income	31 March 2022 £'000	31 March 2021 £'000
Actual return less expected return on fund assets	47	10,352
Experience gains on defined benefit obligation	(119)	739
Change in demographic assumptions	-	560
Changes in financial assumptions	1,828	(10,550)
	1,756	1,101
	31 March 2022 £'000	31 March 2021 £'000
<i>Composition of plan assets</i>	%	%
Equities	30,736	64
Gilts	291	1
Other bonds	6,592	14
Property	5,608	12
Cash	986	2
Target return portfolio	3,532	7
Total plan assets	47,745	100
Return on plan assets	2.10%	30.02%

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

Notes forming part of the Financial Statements (Continued)

26 Pensions (continued)

Principal actuarial assumptions used at the balance sheet date

	31 March 2022	31 March 2021
Discount rates	2.60%	2.00%
Future salary increases	4.30%	3.85%
Future pension increases (CPI)	3.30%	2.85%
Life expectancy from age 65 years : Males (years)	21.6	21.6
Life expectancy from age 65 years : Females (years)	23.7	23.6

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 £378,805 (2021: £368,352). At 31 March 2022 the number of staff participating in the scheme was 291 (2021: 303). There were no contributions outstanding or prepaid as at 31 March 2022.

27 Contingent liabilities

Parent Guarantees

mhs homes has guaranteed construction contracts for Heart of Medway and K1 Construction. At the year end the liabilities covered by these guarantees are £3,410,000 (2021: £23,216,000).

Social Housing Grant

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 2022, the value of grant received in respect of these properties that had not been disposed of was £34,146,000 (2021: £32,777,000). 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 2022 £'000	Group 2021 £'000	mhs homes 2022 £'000	mhs homes 2021 £'000
Recycled Capital Grant	138	46	-	-
Capital Grant	34,146	32,743	16,405	16,214
Total Grant	34,284	32,789	16,405	16,214

Building Safety Costs

In common with many social landlords, we are continuing to investigate our buildings to confirm that they are safe places to live. During these checks we have identified a block of flats which does not meet Building Regulations and as such additional work is required to achieve compliance. We have taken steps to reduce the risk to residents whilst we put in place a schedule of works to bring the building up to the required standard and we currently estimate the final cost of the works to be between £2.5 million and £3 million (of which £1.4 million to £1 million relates to Heart of Medway). The corrective work is currently anticipated to take place over the following two years. At present it is not clear whether the obligation resides with the developer, warranty provider or **The Group**, with the objective of minimising the financial impact on residents or leaseholders. In view of the uncertainties involved no provision has been made in respect of these costs.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

Notes forming part of the Financial Statements (Continued)

28 Operating Lease

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

Amounts payable as Lessee	Group 2022 £'000	Group 2021 £'000	mhs homes 2022 £'000	mhs homes 2021 £'000
Not later than one year	356	76	356	76
Later than one year and not later than five years	388	569	388	569
Total	743	645	743	645

Amounts receivable under operating leases as lessor

	2022 £'000	2021 £'000
Not later than one year	201	224
Later than one year not later than five years	268	392
	469	616

29 Capital Commitments

	Group 2022 £'000	Group 2021 £'000	mhs homes 2022 £'000	mhs homes 2021 £'000
Commitments contracted				
New build developments	31,951	33,189	7,693	15,596
Commitments approved by the board but not contracted				
New build developments	21,966	53,048	8,917	42,880
	53,917	86,237	16,610	58,476

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

	Group 2022 £'000	Group 2021 £'000	mhs homes 2022 £'000	mhs homes 2021 £'000
Social Housing Grant	3,553	6,591	296	3,711
New loans	10,000	17,200	-	4,200
Sales of properties	7,544	10,683	7,544	10,683
Existing reserves	32,820	51,763	8,770	39,882
	53,917	86,237	16,610	58,476

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

Notes forming part of the Financial Statements (Continued)

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 £18,089 (2021: £10,926) and the tenants had arrears balances of £1,193 at the 31 March 2022 (31 March 2021: nil). The Association provides management services, other services and loans to its subsidiaries. The Association also receives charges from its subsidiaries. The charges are set out below.

Payable to mhs homes by subsidiaries:	Management charges		Interest charges	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Heart of Medway	442	461	-	-
Chatham Maritime K1 Development Limited	-	-	513	529
	442	461	513	529

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. 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**	At 1 April £'000	Movement £'000	At 31 March £'000
mhs homes	Heart of Medway*	-	1,659	2,876	4,535
mhs homes	Chatham Maritime K1 Development Limited*	4.36%	12,216	(250)	11,966
			13,875	2,626	16,501

Key	Terms of repayment
*	Repayable by 2040
**	Average rate charged across the year

mhs homes provided parent guarantees as disclosed in note 27. 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 £210.6 million (2021: £212.5 million) in respect of fixed assets for which the deemed cost option was taken.

32 Net debt reconciliation

Group	At 1 April 2021 £'000	Cash flows £'000	Non-cash movement £'000	At 31 March 2022 £'000
Short term deposits	1,846	18	-	1,864
Cash at bank	36,401	(2,070)	-	34,331
Cash and cash equivalents	38,247	(2,052)	-	36,195
Loans and borrowings	(285,839)	(5,300)	-	(291,139)
Net debt	(247,592)	(7,352)	-	(254,944)